

"Sustainable Development through the Islamic Economic System."

## SECONS2013

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## "Sustainable Development Through the Islamic Economic System"

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Editors: Siti Nurazira Mohd Daud, Zurina Kefeli, Safeza Mohd Sapian, Amir Shaharuddin, Norailis Ab Wahab, Nursilah Ahmad

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### PEMERKASAAN WAKAF DI MALAYSIA: SATU SOROTAN (EMPOWERING WAQF IN MALAYSIA: A REVIEW)

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#### **ABSTRAK**

Wakaf merupakan antara salah satu daripada institusi Islam yang wujud sejak dari zaman Rasullullah SAW lagi yang berfungsi sebagai pemangkin ekonomi dan pembangunan umat Islam. Institusi ini juga merupakan tunjang kepada kejayaan jaminan sosial Islam, selain zakat, sedekah dan lain-lain. Oleh itu, adalah menjadi keperluan mendesak kita pada hari ini untuk mengetahui sejauh mana perjalanan institusi wakaf di Malaysia sama ada ia berjalan seiring dengan perkembangan semasa atau tidak. Perananwakaf bukan hanya sekadar untuk tujuan ibadah pada Allah SWT, akan tetapi ia turut meliputi dalam memberi impak kebaikan kepada orang Melayu khususnya dan umat Islam amnya. Namun, sehingga kini, ia tidak berfungsi sebagaimana diharapkan oleh kerana terdapat kekangan dan halangan tertentu selain taraf kesedaran masyarakat yang masih cetek. Wakaf ternyata merupakan salah satu sumber ekonomi dan pembangunan umat Islam. Ia mampu memberi pulangan yang lumayan jika ditadbir dengan cukup efisien. Tugas memperkasakan zakat seperti membangunkan bon-bon dan saham wakaf, penambahbaikan konsep wakaf, penubuhan pentadbiran wakaf pusat, wakaf dalam pendidikan perlu dilaksanakan dan dihayati agar ia menjadi anjakan paradigma berterusan sekaligus membangunkan taraf hidup masyarakat dan merancakkan lagi ekonomi umat Islam seluruhnya.

#### **ABSTRACT**

"Waqf" is one of the important Islamic finance institution that exists since the ages of Prophet Muhammad SAW. "Waqf" institution is functions as the catalyst to the economy and ummah development. This institution also held as backbone that leading to the success of social warranty system in Malaysia besides "zakat", "sadaqah" and others. Therefore, it has been our desperate needs to know on how the "waqf" institution in Malaysia works, whether it works alongside the globalisation of the world or drown under. The role of "waqf" is not only as "ibadah" to Allah SWT, but it also have a wide meaning and overwhelm as an agent to the growth of all Muslims. But nowadays, it seems like the "waqf" institution in Malaysia is not well function, cause by the certain constraints and problems besides the low awareness rate of "waqf" and it's edges. So, the Malaysia government must overcome this constraints, increase the "waqf" awareness among citizens and also make a brand new concepts to see the "waqf" institution in Malaysia thrive through around the globe. This is because "waqf" is really has a great potential to the growth of Islamic economy if it well organise. "Waqf" can be empower and comersialize especially by develops a brand new concepts of 'waqf" in Malaysia like increase the corporate "waqf" bonds and share unit, multiply "waqf" on education and build a special "waqf" bureau to monitor the

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running of waaf institution of Malaysia so it can be well functions to the growth and development of all Muslims.

#### 1. **PENDAHULUAN**

Wakaf merupakan apa-apa harta yang ditahan hak pewakaf ke atas harta tersebut daripada sebarang urusan jual beli, pewarisan, hibah dan wasiat di samping mengekalkan sumber fizikalnya<sup>5</sup>. Manfaat harta yang diwakafkan adalah untuk kebajikan umum atau khusus (yang ditetapkan) dengan niat untuk mendekatkan diri pewakaf kepada Allah s.w.t. Pendapatan, perolehan atau manfaat daripada harta wakaf itu perlu dibelanjakan untuk kebajkan dan kebajikan sebagai usaha pendampingan diri pewakaf kepada Allah s.w.t. Dengan sebab itu, harta tersebut tidak lagi menjadi milik pewakaf, tidak boleh diambil kembali dan tidak boleh dimiliki oleh sesiapa. Ianya hak milik mutlak Allah s.w.t. <sup>6</sup>

Wakaf juga merupakan satu amalan sedekah yang merupakan sebahagian daripada amalan soleh yang diamalkan oleh umat Islam seiring dengan perkembangan Islam itu sendiri. Amalan wakaf sememangnya mempunyai ganjaran besar di sisi Allah s.w.t. Ganjaran yang berterusan dan berlipat kali ganda menanti pewakaf di dunia dan di akhirat. Ini jelas sebagaimana sabda Nabi s.a.w,

Dari Abi Hurairah r.a: Sesungguhnya Rasullullah s.a.w bersabda, "Apabila mati seorang anak Adam, terputus segala amalannya kecuali tiga benda, sedekah jariah, ilmu yang memberi manfaat kepada orang lain, dan anak soleh yang sentiasa mendoakan kepadanya."<sup>7</sup>

Wakaf merupakan ejen pembangunan ekonomi umat Islam. Ia merupakan salah satu daripada kontrak tabarru'at dalam sistem muamalat Islam. Tujuannya ialah memberikan ruang kepada umat Islam untuk menginfaqkan harta pada jalan kebajikan menuju redha Allah s.w.t. Bahkan, wakaf juga mampu membantu golongan tertentu bagi meningkatkan taraf hidup mereka di samping menjana aset kekayaan umat Islam.<sup>8</sup> Firman Allah s.w.t,

"Kamu tidak sekali-kali akan dapat mencapai (hakikat) kebajikan dan kebaktian (yang sempurna) sebelum kamu dermakan sebahagian dari apa yang kamu sayangi. dan sesuatu apa jua yang kamu dermakan. Maka sesungguhnya Allah s.w.t lebih mengetahuinya."

Para ulama juga telah menyatakan bahawa para sahabat r.a telah berijma' dari segi kesahihan wakaf dan kepentingannya, ini dinyatakan oleh pengarang kitab Al-Mughni bahawa Jabir r.a telah berkata:

"Sekiranya semua sahabat Nabi s.a.w ada kemampuan, (nescaya) pasti mereka akan mewakafkan (sebahagian daripada) harta mereka (pada jalan fi sabilillah)."

<sup>&</sup>lt;sup>5</sup> al-Svarbini, Muhammad Ibn al-Khatib (1997), Mughni al-Muhtaj Ila Ma'rifat Ma'ani Alfaz al-Minhaj, Beirut: Dar al-Ma'rifah, j. 2, h. 485. <sup>6</sup> Lihat Syahnaz Binti Sulaiman, *Hukum Pembangunan Tanah Wakaf Khas Menurut Perspektif Syarak*, h. 49.

<sup>&</sup>lt;sup>7</sup>Hadith riwayat Abu Dawud dalam [باب ما جاء في الصدقة عن الميت], [كتاب الوصايا] Lihat Abu Dawud al-Sajistani, Sunan Abi Dawud, Riyad: Bait al-Afkar al-Dauliyyah lil Nashar wa al-Tauzi', h. 512, no. 2880.

<sup>&</sup>lt;sup>8</sup>Lihat Manual Pengurusan Istibdal Wakaf (2010), Kuala Lumpur: Jabatan Wakaf, Zakat dan Haji (JAWHAR), h. 6.

<sup>&</sup>lt;sup>9</sup>Lihat Surah Ali Imran (3): 92.

Ini jelas menunjukkan kesedaran dan tahap sensitiviti yang tinggi dalam diri para sahabat r.a terhadap ibadah wakaf ini. Justeru, untuk memperkasakan institusi wakaf ini dalam pembangunan umat Islam, semua pihak perlu memainkan peranan masing-masing dengan lebih efektif. Manfaat wakaf adalah sangat luas dan amat berfaedah kepada masyarakat. Harta wakaf ini perlu digunakan, diuruskan dan dibangunkan dengan cekap supaya matlamat wakaf yang ditetapkan oleh pewakaf tercapai. Bukan itu sahaja, pihak pengurusan wakaf juga perlu bertangungjawab dalam memastikan kemaslahatan harta-harta tersebut. Tidak cukup sekadar itu, harta-harta wakaf juga perlu dikekalkan faedah hartanya agar ia berpotensi untuk "hidup". Islam melarang sebarang pembaziran dan tinggalan harta wakaf yang tidak bermanfaat.

#### 2. WAKAF DI MALAYSIA

Perkembangan wakaf di seluruh dunia turut mempengaruhi perkembangan wakaf di Malaysia. Ini jelas menunjukkan kesedaran dan keprihatinan masyarakat Malaysia terhadap ibadah wakaf ini. boleh dilihat dengan meneliti fakta-fakta berikut:

i. Malaysia sebenarnya memiliki rizab tanah wakaf yang amat besar. Pembangunan tanah-tanah wakaf ini pastinya akan dapat menjana ekonomi umat Islam. Keluasan tanah wakaf di Malaysia ialah sebanyak 11, 091.82 hektar di mana sebanyak 4, 836.50 adalah tanah wakaf am dan tanah wakaf khas adalah sebanyak 6, 225.32. 10 negeri Johor merupakan negeri yang mempunyai paling banyak diikuti oleh negeri Terengganu dan Sabah. Jabatan Wakaf, Zakat dan Haji (JAWHAR) telah mengumpulkan data-data jumlah tanah wakaf di Malaysia seperti berikut:



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Lihat lebih lanjut Data Tanah Wakaf Terkini di laman sesawang Jabatan Wakaf, Zakat dan Haji (JAWHAR)http://202.75.4.234/spmwj/, akses pada 12 Jun 2013.

Negeri	AM		KHAS			KESELURUHAN			
	BIL	LURS (HEKTAR)	NSLAS(RM)	BIL	LURS (HEXTRR)	nount(RM)	BIL	LURS (HEKTAR)	nolao(RM)
Johor	0	1,422.80	0	0	1,729.50	0	0	3,152.30	7,000,500
Kedah	164	158.62	164.00	1833	1,086.25	1,833.00	1997	1,244.88	1,997.
Kelantan	77	16.01	5,690,274.00	276	157.63	51,013,099.00	353	173.65	56,703,373
Melaka	24	11.65	25.50	41	21.50	41.00	65	33.25	66.
Negeri Sembilan	10	1.01	10.00	26	14.49	26.00	36	15.50	36
Pahang	0	0.00	0	0	723.82	0	0	723.82	18,000,000
Perak	383	116.12	383.00	0	0.00	0.00	383	116.12	383.
Perlis	0	2.74	0	0	14.49	0	0	17.23	1,337,998
Pulau Pinang	0	220.03	0	0	559.23	0	0	779.26	850,000,000
Sarawak	0	6.86	0	0	4.04	0	0	10.90	1,415,781
Sabah	41	2,052.88	41.00	62	32.28	62.00	103	2,095.16	103.
Selangor	0	235.63	0	0	31.82	0	0	267.45	200,000,000
Terengganu	311	581.66	13,591,985.51	1260	1,878.58	29,031,210.68	1571	2,460.24	42,623,195
Wilayah Persekutuan	2	0.49	2.00	14	1.59	14.00	15	2.08	16.

ii. Selain itu, terdapat banyak pusat pengajian Islam di Malaysia berteraskan wakaf yang terus memberi pendidikan terbaik kepada golongan muda. Antaranya ialah seperti Madrasah Al-Attas di Pekan, Pahang, Maktab Mahmud di Alor Setar, Kedah, Maahad Al-Yahyawiah di Padang Rengas, Perak, Kolej Islam Sultan Alam Shah di Klang, Selangor dan lain-lain. <sup>11</sup>

Namun, di sebalik data-data di atas, masih banyak masalah yang timbul dalam perkembangan harta wakaf. Jika dilihat kepada sorotan sejarah sistem dan perlaksanaan wakaf di Malaysia, terdapat beberapa isu-isu dan masalah yang sering diperkatakan saban kali apabila menyebut mengenai pembangunan harta wakaf. Antara lainnya ialah:

**Pertama**: Meskipun negara Malaysia kian membangun dan sedang berkembang pesat seiring dengan era globalisasi dunia, tahap kesedaran dan pengetahuan (*marhalah al-Thaqafah*) masyarakat tentang wakaf dan kepentingannya masih lagi kurang. Seruan kepada wakaf ini juga pernah dissentuh oleh cendiakawan agung Melayu, Prof Diraja Ungku Aziz, beliau menyatakan,

"Kalaulah semua umat Islam menyimpan seringgit seorang sebulan (untuk tujuan wakaf), dan bayangkan jika umat Islam berjumlah enam juta orang, maka modal terkumpul sebulan (bagi umat Islam) ialah sebanyak enam juta ringgit."

Akan tetapi, program wakaf ini sepertimana yang pernah cuba dilaksanakan pihak Bank<sup>12</sup> ternyata masih gagal mendapat sambutan masyarakat. Persepsi masyarakat terhadap beberapa aspek dalam ibadah seperti wakaf masih lagi cetek dan ia belum lagi menjadi isu yang sensitif seperti ibadah umrah, korban yang acap kali disentuh dan diperbincangkan kelebihan-kelebihannya saban kali dalam sesi-sesi kuliah dan pengajian.

**Kedua**: Masalah perundangan iaitu ketidakseragaman undang-undang wakaf antara negeri-negeri yang mewujudkan perbezaan dalam pemahaman, tafsiran, tatacara pengeluaran fatwa dan hukum. Ini berpunca daripada kedudukan harta wakaf sepertimana perkara-perkara agama lain terletak di bawah bidangkuasa

<sup>11</sup>Syed Mohd Ghazali Wafa Bin Syed Adwam Wafa, *Pembangunan Wakaf Pendidikan di Malaysia*, h. 139. Kertas kerja ini telah dibentangkan di Seventh International Conference-*The Tawhidi Epistemology: Zakat and Waqf Economy*, Bangi 2010.

<sup>&</sup>lt;sup>12</sup>Lihat Hj. Mohd Nazri Chik, *Wakaf Dan Peranannya Dalam Pembangunan Ummah*, Kuala Lumpur: Institut Kefahaman Islam Malaysia (IKIM), h. 3.

negeri (Perlembagaan Persekutuan, Jadual Kesembilan, Senarai 2 (1)) dan tiada enakmen khusus berkaitan pengurusan dan pentadbiran wakaf di negeri-negeri kecuali Selangor (Enakmen Wakaf (Negeri Selangor) 7/1999). Jadi, enakmen dan akta tentang wakaf kelihatan sempit dan tidak fleksibel (mudah ubah). Isu kritikal berkaitan wakaf sebenarnya bertitik tolak dari polisi kerajaan dan perlembagaan Malaysia itu sendiri yang telah menjurangkan pengurusan wakaf kepada institusi agama negeri-negeri. 13

**Ketiga**: Kebanyakkan harta wakaf terletak di lokasi yang kurang strategik dan tidak mempunyai nilai pembangunan. Manakala, tanah wakaf di kawasan pedalaman pula tidak dapat digunakan oleh kerana tiada keperluan dan tiada nilai komersial selain jauh untuk pembangunan<sup>14</sup>.

Keempat: Tanah-tanah wakaf turut diceroboh dan digunakan oleh pihak yang tidak bertanggungjawab dengan dibina penempatan dan premis-premis perniagaan. Adapun bagi premis perniagaan yang berada di atas tanah wakaf, tarif sewa yang dikenakan pihak Majlis Agama Islam Negeri (MAIN) terhadap peniaga adalah sangat rendah daripada harga semasa. Ini menyebabkan institusi agama negeri-negeri tidak mempunyai kedudukan kewangan yang kukuh untuk digunakan bagi menyalurkan bantuan.

**Kelima**: Masih terdapat waris-waris yang belum mendaftarkan tanah-tanah wakaf di pejabat agama negeri. Ini menyebabkan ketiadaan rekod yang menyebabkan kawasan wakaf tidak boleh dibangunkan.

**Keenam**: Perkembangan dan pembangunan aplikasi wakaf dalam konteks kewangan masih belum lagi dapat dilaksanakan secara komersial sepenuhnya di institusi kewangan seperti di bank-bank memandangkan ia memerlukan sokongan wakaf daripada orang ramai. Konsep dan produk berasaskan wakaf sebenarnya boleh dibangunkan dalam bentuk kewangan serta boleh mendatangkan keuntungan kepada semua pihak. Pada masa kini, institusi kewangan seperti bank-bank sedang berusaha untuk membangunkan wakaf secara lebih meluas seperti saham (unit) dan bon-bon wakaf sesuai dengan status Malaysia sebagai *hub perbankan Islam Antarabangsa*.

**Ketujuh**: Tiada lagi satu bentuk pentadbiran wakaf yang menjadi "*ibu*" bagi semua operasi wakaf negeri. Perbadanan wakaf berpusat dan jawatankuasa khusus wakaf perlu untuk menjamin kelancaran dan kelicinan perlaksanaan operasi wakaf di Malaysia. Perbadanan wakaf berpusat ini juga perlu bertanggungjawab mengawal selia semua operasi wakaf negeri-negeri di seluruh Malaysia.

Namun begitu, meskipun pengurusan dan perlaksanaan wakaf di Malaysia menghadapi banyak masalah yang mampu menganggu gugat, namun Malaysiamasih mampu mencari jalah keluar dari masalah yang menghimpit bagi membangunkan harta wakaf agar tidak terbiar begitu sahaja.

#### 3. PEMERKASAAN WAKAF DI MALAYSIA

Wakaf sememangnya amat penting dalam muamalah seharian umat Islam. Wakaf yang dahulunya dianggap sebagai ibadah sampingan yang terpencil semata-mata, kini telah berkembang pesat di seluruh dunia. Negara-negara luar seperti Amerika dan England sebenarnya telah lama mencedok idea sistem muamalah wakaf ini. If Jadi. Malaysia yang dikenali sebagai hub perbankan Islam tidak sewajarnya tercicir dari negara Barat yang lain. Antara cadangan untuk pemerkasaan industri wakaf di Malaysia ialah,

<sup>1</sup> 

Ahmad Ibrahim (1999), "Wakaf dan Pelaksanaannya di Malaysia", dalam *Undang-undang Keluarga Islam di Malaysia*,
 Malayan Law Journal Sdn. Bhd., h.299. Takrif wakaf sebagai amanah yang diperuntukkan dalam Enakmen Wakaf Selangor (No.7 tahun 1999) telah membezakan tafsiran amanah terdapat di dalam Akta Pemegang Amanah 1949.
 <sup>14</sup>Zulkifli Hasan & Muhammad Najib Abdullah, *The Investment of Waqf Land as a Instrument of Muslims' Economic*

<sup>&</sup>lt;sup>14</sup>Zulkifli Hasan & Muhammad Najib Abdullah, *The Investment of Waqf Land as a Instrument of Muslims' Economic Development in Malaysia*, hh. 18-19. Kertas kerja ini dibentangkan di Dubai International Conference on Endowments' Investment, Dubai, 4-6 Februari 2008.

Dengan saham-saham dan bon wakaf ini, orang ramai akan mampu berwakaf dengan cara yang baru dan sekaligus dapat berkonsi modal dalam membeli bangunan dan tanah untuk kebaikan ummah. Majlis Agama Islam Johor dan Majlis Agama Islam Pulau Pinang telah pun melaksanakan hal ini. Lihat: Nik Mustapha Nik Hassan (1998), "Sumbangan Institusi Wakaf Kepada Pembangunan Ekonomi", dalam Nik Mustapha Nik Hassan et. (ed), Konsep dan Pelaksanaan Wakaf di Malaysia, Kuala Lumpur: Institut Kefahaman Islam Malaysia (IKIM), h. 6 dan 8.

<sup>&</sup>lt;sup>16</sup>Syed Mohd Ghazali Wafa Bin Syed Adwam Wafa, *Pembangunan Wakaf Pendidikan di Malaysia*, h. 140. Kertas kerja ini telah dibentangkan di Seventh International Conference-*The Tawhidi Epistemology: Zakat and Waqf Economy*, Bangi 2010.

**Pertama**: Langkah pertama yang perlu diatur ialah dengan menambahkan lagi kesedaran masyarakat terhadap wakaf. Para ustaz, pensyarah dan guru agama di pusat pengajian agama contohnya, perlu merombak *syllabus* pengajian dan kuliah-kuliah di masjid-masjid dan surau-surau. Mereka perlu sering mengetengahkan dan menerapkan *mawdu'-mawdu'* (tajuk) berkaitan dengan wakaf dalam setiap pengajian mereka (*majal al-ta'lim*) agar dapat memberi maklumat berterusan terhadap kepentingan ibadah wakaf kepada umat Islam. Hal ini kerana, untuk membentuk kesedaran tinggi masyarakat terhadap wakaf, ia memerlukan usaha dan kerjasama yang berterusan dari pelbagai pihak.

Bahkan, kesedaran masyarakat kini tentang kepentingan dan kelebihan ibadah sunat lain seperti umrah dan korban sehingga mereka berlumba-lumba mengerjakannya juga hasil daripada penerapan dan penekanan yang dilakukan para ilmuwan terdahulu. Jadi, kaedah dan metode yang sama juga perlu dilakukan untuk menarik masyarakat agar cenderung kepada ibadah wakaf.

Sebenarnya, sejak 55 tahun yang lalu sebelum merdeka sehingga kini, konsep wakaf telah berkembang dan diterima pakai oleh orang ramai termasuk oleh golongan non muslim untuk pelbagai tujuan, misalnya penerimaan konsep wakaf untuk tujuan pendidikan dan korporat. Tuntutan dan kesedaran masyarakat terhadap wakaf sebenarnya semakin meningkat dari tahun ke tahun, namun akibat dominasi statut parlimen kerajaan Malaysia, ia sedikit sebanyak telah memperlahan dan mengekang kerancakan dan perkembangan wakaf di Malaysia.

**Kedua**: Pentadbiran adalah perkara tunjang dalam memastikan kejayaan sesuatu rancangan. Dari segi pentadbiran, wakaf perlu diperbangun dan diperkembangkan lagi akan segala fungsi, produk dan kepentingannya dalam meningkatkan taraf hidup umat Islam. Pengurusan dan perlaksanaan wakaf di Malaysia juga harus cekap dan telus dalam menjamin kejayaan untuk memartabatkan peranan maksimum wakaf dalam kehidupan negara umat Islam seluruhnya.

Kini, dengan penubuhan Jabatan Wakaf, Zakat dan Haji (JAWHAR) di bawah seliaan Jabatan Perdana Menteri pada 27 Mac 2004 lalu bagi membantu Majlis Agama Islam Negeri melaksanakan pembangunan harta wakaf adalah bagus. Majlis Agama Islam Negeri (MAIN) masih tetap bertindak selaku pemegang amanah tunggal harta wakaf di setiap negeri sambil dibantu oleh Jabatan Wakaf, Zakat dan Haji (JAWHAR).

Semua projek pembangunan tanah wakaf perlu mendapat persetujuan Majlis Agama Islam Negeri (MAIN) dan Jabatan Wakaf, Zakat dan Haji (JAWHAR) terlebih dahulu. Jabatan Wakaf, Zakat dan Haji (JAWHAR) juga bertindak sebagai penyelaras dan mempertemukan antara Majlis Agama Islam Negeri (MAIN) dengan pihak yang berhasrat memajukan tanah wakaf. Keputusannya, hasil kerjasama antara Jabatan Wakaf, Zakat dan Haji (JAWHAR) dan Majlis Agama Islam Negeri (MAIN), sebahagian daripada 11,019.82 hektar tanah wakaf iaitu 4,836.5 hektar tanah wakaf am dan 6,255.55 hektar tanah wakaf khas sudah dibangunkan pada tahun 2012.<sup>17</sup>

Jadi, kerjasama antara Jabatan Wakaf, Zakat dan Haji (JAWHAR) dan Majlis Agama Islam Negeri (MAIN) cuma perlu diperkemaskan dan diperhebatkan lagi. Kedua-dua pihak juga mesti "turun padang" melancarkan kempen-kempen, kursus-kursus kesedaran kepada seluruh anggota masyarakat tentang wakaf, membentuk jawatankuasa khas wakaf, dan mencari dana wakaf melalui syarikat-syarikat besar yang berminat untuk membangunkan harta wakafdi Malaysia. Selain itu usaha untuk menyelaraskan

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<sup>&</sup>lt;sup>17</sup>Lihat Berita Harian bertarikh 25 Oktober 2012.

pengurusan wakaf diseluruh negeri di Malaysia juga perlu dilakukan, ia dilihat mampu untuk mempertingkatkankualiti pengurusan harta wakaf di Malaysia <sup>18</sup>.

**Ketiga**: Sebenarnya, sebelum tahun 1952, tiada satu undang-undang bertulis yang diguna pakai Majlis Agama Islam Negeri (MAIN) untuk pelaksanaan pengurusan harta wakaf. Kebanyakan wakaf dulu diserahkan kepada mereka yang berpengaruh di dalam masyarakat seperti imam masjid, nazir masjid dan ketua kampung. Proses penyerahan harta wakaf adalah atas dasar percaya mempercayai dan amanah. Pewakaf akan mengamanahkan harta yang diwakafkan kepada mereka yang berpengaruh dalam masyarakat untuk menguruskan harta wakaf tersebut.

Selepas tahun 1952, barulah pengurusan wakaf menjadi sistematik kerana mempunyai sandaran undangundang yang digariskan di dalam enakmen sebagaimana yang dinyatakan di dalam enakmen pentadbiran Islam negeri masing-masing. <sup>19</sup>Namun begitu, perundangan berkaitan hal ehwal wakaf masih perlu diselaraskan bagi setiap negeri yang kelihatan berbeza-beza fatwa dalam hal ehwal wakaf bagi setiap negeri. Justeru, perlu diwujudkan satu kaedah dan fatwa khas berkaitan wakaf di peringkat nasional agar ia tidak mengelirukan orang ramai yang berminat untuk berwakaf.

Keempat:Kalau dilihat akan tahap perkembangan wakaf di Malaysia, dahulunya ia hanya dianggap sebagai ibadah semata-mata, namun dari sudut perspektif institusi kewangan Islam, apabila jawatankuasa penasihat syariah membuat penilaian terhadap produk-produk aplikasi wakaf, dilihat produk-produk aplikasi wakaf ini mampu menyerap segala elemen muamalah dan fahaman dangkal bahawa aplikasi wakaf akan menyebabkan penyusutan dan kejatuhan ekonomi.

Jadi, dengan memperkenalkan konsep baru dan penambaikan konsep dalam wakaf, ia membuka peluang yang lebih luas kepada institusi kewangan di Malaysia. Bentuk-bentuk pelaburan wakaf yang boleh diusahakan dan dibangunkan institusi kewangan di Malaysia adalah banyak. Hal ini seperti melakukan penambahbaikan terhadap harta wakaf yang terbiar atau kurang berkembang, menggabungkan harta wakaf yang sedia ada untuk menjana hasil yang sama atau lebih, memberi pinjaman untuk keperluan operasi wakaf dan kos untuk meningkatkan fungsi harta wakaf serta memajakkan harta wakaf.

Secara umumnya, banyak bentuk pelaburan wakaf yang boleh dilakukan, dan ia memerlukan penambahbaikan konsep. Dengan cara ini, akhirnya kita boleh melihat peranan wakaf dalam meningkatkan fungsi harta secara maksimum sesuai dengan niat murni orang yang telah mewakafkan harta untuk kemaslahatan ummah sejagat. Hasilnya, pasti akan melahirkan pelbagai produk-produk wakaf lain seperti aset-aset, bon-bon dan saham-saham korporat wakaf yang berpotensi untuk pasaran.

**Kelima**:Akta dan enakmen wakaf yang diwujudkan perlu lebih terbuka dan dapat dirombak pada bila-bila masa sesuai dengan perkembangan semasa dan mengikut keperluan dan kepentingannya. Di samping itu, majlis agama Islam negeri (MAIN) juga perlu memudahkan proses berhubung dengan harta wakaf agar semua orang tertarik untuk melaksanakan ibadah wakaf meskipun ia berkaitan dengan harta benda, yang sedia maklum agak banyak urusan dan proses dokumentasinya.<sup>20</sup>Contohnya seperti di negeri Kelantan sendiri, terdapat banyak harta-harta wakaf yang seakan "beku", dibiarkan dan tidak bernilai ekonomi.

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<sup>&</sup>lt;sup>18</sup>Zuraidah Mohamed Isa, Norhidayah Ali & Rabitah Harun, *A Comparative Study of Waqf Management in Malaysia*, h. 563. Kertas kerja ini dibentangkan di International Conference on Sociology and Economics Development, Singapura, 2011.

<sup>&</sup>lt;sup>19</sup>Mohd Afandi Bin Mat Rani (2008), *Pengambilan Tanah Wakaf Oleh Pihak Berkuasa Negeri: Analisis Menurut Hukum Syarak dan Aplikasinya di Malaysia*, Tesis Ph.D, Universiti Malaya, h. 129.

<sup>&</sup>lt;sup>20</sup>Akta Kerajaan Tempatan 1960 (Akta 171), Seksyen.134. Lihat juga Akta Kanun Tanah Negara 1965 (Akta 56), Seksyen.196 (1) (a).

Ianya juga tidak dapat digunakan untuk pembangunan oleh kerana ketiadaan akta dan undang-undang yang fleksibel tentang harta wakaf.

Jadi, fatwa berkenaan kaedah istibdal<sup>21</sup> dalam menangani harta wakaf yang tidak berkembang diwujudkan agar harta wakaf dapat dikembangkan untuk kegunaan lain.Undang-undang berkaitan proses mewakafkan tanah oleh kerajaan Persekutuan juga perlu dikaji semula agar segala proses pewakafan hak milik harta wakaf menjadi lebih mudah dan cekap.<sup>22</sup>

**Keenam**: Oleh kerana terdapat banyak situasi di mana harta wakaf tidak dapat dibangunkan kerana permasalahan seperti kedudukan yang kurang strategik, penguatkuasaan undang-undang dan sebagainya, amalan konsep istibdaladalah jalan keluar terbaik untuk membangunkan semula harta wakaf berkenaan.

Konsep dan perlaksanaan istibdal ini sebenarnya telah diputuskan oleh Muzakarah Jawatankuasa Fatwa Kebangsaan pada tahun 1982. Namun begitu, setelah sekian lama, pembangunan harta wakaf dan perkembangannya di Malaysia masih lagi kurang maju jika dibandingkan dengan negara Timur Tengah seperti Mesir, Kuwait, Emiriah Arab Bersatu dan Turki.<sup>23</sup>

Konsep dan perlaksanaan istibdal ini seharusnya perlu lebih efisien. Antara agenda pembangunan yang boleh diketengahkan melalui kaedah ini ialah seperti mendirikan institusi masjid, institusi pendidikan, pusat tanggungjawab sosial (rumah anak yatim), penternakan, pertanian, pusat khidmat komuniti dan pusat perniagaan. Cara ini sekaligus boleh meningkatkan pendapatan dan ekonomi umat Islam dengan pulangan keuntungan dan peluang pekerjaan yang tersedia dengan pembangunan harta wakaf ini.

**Ketujuh**: Penggunaan khidmat Nazir Khas Dilantik (*mutawalli*) oleh Majlis Agama Islam Negeri (MAIN) dalam perihal harta wakaf juga perlu diwujudkan. Nazir yang dilantik khas ini perlu dari kalangan orang dalam kalangan satu-satu kawasan kariah dan daerah agar beliau senang dirujuk jika berlaku masalah dan urusan wakaf. Nazir ini akan berkuasa dan dapat mengatasi (mengubah) niat (*shighah asal*) yang telah ditulis orang yang ingin mewakafkan sesuatu harta. Nazir ini bertanggungjawab dan berhak mengkaji dan memutuskan manfaat yang terbaik bagi pembangunan harta wakaf meskipun ia berlawanan dengan niat asal orang yang ingin mewakafkan harta. Nazir ini juga yang akan berurusan lebih lanjut dengan pihak Majlis Agama Negeri (MAIN). Dengan cara ini, harta wakaf akan kekal membangun dan boleh memberi manfaat untuk kemaslahatan umat Islam seluruhnya. Ini sekaligus dapat memberi limpahan pahala kepada dermawan yang telah mewakafkan harta.

**Kelapan**: Selain itu, pembangunan harta wakaf juga boleh dilaksanakan dengan lebih efisien dengan penggunaan sistem maklumat tanah berasaskan GIS. Pengenalan Sistem Maklumat Wakaf Berasaskan Sistem Maklumat Geografi (GISWAQF) yang mengambil manfaat daripada Geographic Information

Terdapat dua istilah yang perlu difahami dalam proses istibdal mawquf iaitu istilah *ibdal* dan *istibdal*. Istilah *ibdal* bermaksud mengeluar atau menukar sesuatu mawquf (daripada konsep asalnya yang tidak boleh dijual, dihibah atau diwarisi) dengan menjual harta itu. Manakala istilah *istibdal* bermaksud membeli sesuatu harta yang lain dengan hasil jualan untuk dijadikan sebagai mawquf bagi menggantikan harta yang dijual meliputi apa-apa harta yang diperolehi menerusi cara gantian dengan harta yang sama ataupun harta yang lebih baik nilai dan manfaatnya. Harta ini dikenali sebagai *harta badal* atau *amwal al-badal*. Istibdal juga bermaksud menjual apa yang kurang atau telah hilang hasil atau pendapatan dan membeli apa yang lebih baik daripadanya serta menjadikannya sebagai ganti. Istibdal*mawquf* mempunyai matlamat dan objektif tertentu, antaranya ialah: i. mengekalkan *mawquf* umat Islam supaya manfaat dan kegunaannya dapat dinikmati secara berterusan. ii. menjamin pembangunan *mawquf* mengikut arus pembangunan dan perkembangan ekonomi semasa negara. iii. menjaga dan memelihara tujuan/ niat pewakaf bagi mendapat ganjaran secara berkekalan sebagai sedekah jariah. iv. mengelak pembekuan *mawquf* yang tidak ekonomik dan menjadi terbiar. dan v. meningkatkan hasil dan pendapatan dana wakaf negeri-negeri untuk pembangunan ummah. Rujuk *Manual Pengurusan Istibdal Wakaf* (2010), Kuala Lumpur: Jabatan Wakaf, Zakat dan Haji (JAWHAR), h. 11-12.

Hal ini telah diutarakan oleh Y.B S.S Dato' Muhammad Shukri Mohamad, Mufti Kerajaan Kelantan Darul Naim dalam forum mengenai wakaf di Universiti Islam Malaysia (UIM) pada 2012.

<sup>&</sup>lt;sup>23</sup> Syahnaz Binti Sulaiman, Hukum Pembangunan Tanah Wakaf Khas Menurut Perspektif Syarak, h. 46.

System (GIS) sebagaimana dicadangkan oleh sekumpulan penyelidik daripada Pusat Kajian Harta Tanah (CRES), Universiti Teknologi Malaysia adalah baik. Usaha ini adalah untuk membolehkan tanah-tanah wakaf dapat diuruskan dengan lebih efisien dan teratur oleh pihak-pihak berkuasa berkaitan. Hal ini seterusnya akan memperlihatkan penglibatan tanah wakaf dalam pembangunan dan perancangan dan pembangunan negeri, wilayah dan kerajaan tempatan.<sup>24</sup>

**Kesembilan**: Konsep amanah (*trust*) yang diperkenalkan dalam aplikasi wakaf, contohnya seperti amalan wakaf dalam institusi kewangan semasa, perlu turut diserapkan sekali dengan amanah (*trust*) dalam perlaksanaan wakaf. Hal ini bukan disebabkan untuk mengikut rentak suasana rangka kerja ekonomi semasa yang mengikut cara Barat. Akan tetapi, ini dilakukan sebagai rancangan dan persediaan awal agar dapat mencari jalan keluar paling strategik daripada masalah mendatang. Sehubungan dengan itu, institusi *baitulmal* juga boleh memainkan peranan dan bergandingan dalam membentuk konsep *trust* dan wakaf dalam hal ini.

Sekiranya dilihat keboleh terimaan konsep amanah dalam perlaksanaan wakaf, maka benda-benda ini akan dititik beratkan, iaitu hak kepentingan pemegang saham (*stake holders*) akan dipelihara. Pengurusan juga akan dilantik dan diselia oleh pemegang saham sekiranya ada bentuk-bentuk saham yang diwakafkan serta pemantauan yang telus secara "*check and balance*" berdasarkan pemantauan berkala secara audit.<sup>25</sup>

Sehubungan dengan itu, apabila konsep amanah (*trust*) ini diterima pakai dalam operasi dan pentadbiran wakaf<sup>26</sup>, maka di dalam amanah (*trust*), perlu digunakan "*trust deed*", iaitu manfaat kepada penerima hak/benefisian sebagai *instrumen*. Kepentingan "*trust deed*" ini akan memberikan lebih keinginan dan keyakinan kepada selain umat Islam di Malaysia untuk bergiat dengan harta wakaf. Ia juga dapat menarik minat dan memperbanyakkan lagi pelaburan-pelaburan, wang tunai, stok, dan instrumen kewangan bernilai seperti tanah dan lain-lain. Di samping itu, ia juga mengandungi perlindungan daripada pemiutang ke atas harta amanah. Dengan cara ini, pemiutang tidak boleh membuat tuntutan terus terhadap harta zakat dan wakaf, tetapi hanya boleh membuat tuntutan ke atas keuntungan hasil pelaburan yang diperolehi dari harta amanah tersebut.

**Kesepuluh**: Wakaf juga boleh dibangunkan bersama elemen Islam lain seperti zakat untuk tujuan manfaat seperti untuk program pendidikan. Negara-negara Barat seperti Amerika Syarikat dan Great Britain sudah mula menjalankan dan membangunkan serta memaksimumkan aplikasi wakaf dalam urusan muamalah seharian mereka. Ternyata, ia dapat memberi keuntungan dan kemudahan terbaik dalam segenap lapangan untuk kesejahteraan hidup rakyatnya.<sup>27</sup>

Wakaf pendidikan yang dilaksanakan oleh negara lain sudah pun membuahkan hasil dengan lahirdan berkembangnya pusat pengajian ulung seperti universiti Oxford, universiti al-Azhar al-Syarif, al-Jamiah

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<sup>&</sup>lt;sup>24</sup>Hj. Mohd Nazri Chik, *Wakaf Dan Peranannya Dalam Pembangunan Ummah*, Kuala Lumpur: Institut Kefahaman Islam Malaysia (IKIM), h. 6.

<sup>&</sup>lt;sup>25</sup> Dengan konsep "*Islamic Trust*" ini, semua orang boleh berwakaf dan menyumbang wang mengikut kadar kemampuan masing-masing. Ha ini kerana bukan semua orang mempunyai asset seperti bangunan dan tanah untuk diwakafkan. Mohd Daud Bakar (1999), "Amalan Institusi Wakaf di Beberapa Negara Islam: Satu Perbandingan", dalam Nik Mustapha Nik Hassan et. (ed), *Konsep dan Pelaksanaan Wakaf di Malaysia*, Kuala Lumpur: Institut Kefahaman Islam Malaysia (IKIM), h.182.

<sup>&</sup>lt;sup>26</sup> Konsep amanah (*trust*) bermaksud harta akan dipindahkan kepada para pemegang hak dan dikormesialkan.

<sup>&</sup>lt;sup>27</sup>Rujuk lebih lanjut "*The Sutton Trust Report*". Syed Mohd Ghazali Wafa Bin Syed Adwam Wafa, Pembangunan Wakaf Pendidikan di Malaysia, h. 143. Kertas kerja ini telah dibentangkan di Seventh International Conference-*The Tawhidi Epistemology: Zakat and Waqf Economy*, Bangi 2010.

al-Islamiyyah di Madinah, universiti Cordoba di Andalus dan sebagainya<sup>28</sup>.Universiti-universiti ini kesemuanya terus maju dengan hasil dan sumbangan wakaf. Universiti al-Azhar sebagai contoh telah membangun dan berkembang hasil sumbangan harta wakaf. Sehingga kini, pembiayaan universiti al-Azhar yang dibina sejal 1000 tahun dahulu telah memberi khidmat pengajian percuma kepada pelajar Islam di seluruh dunia.

Mengambil manfaat daripada negara lain, kini, Malaysia telahmenubuhkan Universiti Islam Malaysia (UIM)yang berteraskan wakaf selain sekolah-sekolah agama yang telah sedia ada. Wakaf pendidikan yang besar seperti pusat pengajian tinggi ini perlu diperbanyakkan dan diperhebatkan lagi. Hal ini kerana ia cukup berpotensi untuk memperkasakan lagi sektor ketiga ekonomi Islam, memperkasakan aktiviti ekonomi melalui pelbagai projek pembangunan, pelaburan dan perniagaan, dan seterusnya dapat menjadi pelengkap kepada skim bantuan dan kebajikan pelajaran oleh kerajaan serta akhirnya menyatupadukan rakyat berbilang bangsa atas dasar wakaf pendidikan nasional.<sup>29</sup>

#### 4. KESIMPULAN

Di Malaysia didapati masih banyak harta wakaf yang berpotensi untuk dibangunkan, akan tetapi sehingga kini masih belum dimajukan sewajarnya. Malahan, banyak harta wakaf yang tidak ada rekod dan maklumat sistematik. <sup>30</sup>Hal ini tidak sewajarnya berlaku. Oleh itu, penubuhan pemusatan institusi wakaf dan penambahbaikan konsep wakaf perlu dilaksanakan. Tanpa pendekatan ini, institusi wakaf tidak mungkin berkembang maju dan dapat dikendalikan secara tersusun dan menyeluruh. Pentadbiran dan pelaksanaan institusi dan produk wakaf memerlukan perubahan yang drastik untuk ia berperanan secara lebih efektif dan perkasa.

Institusi wakaf perlulah stabil, lestari dan fleksibel dalam menghadapi apa jua kemungkinan dan halangan yang ada serta tidak terbantut dalam apa-apa noktah. Perlu diingati bahawa wakaf merupakan aset tetap dan penting bagi umat Islam. Ia merupakan satu aset harta yang tidak mudah dimanipulasi dan dibinasakan berbanding sistem-sistem kehartaan lain<sup>31</sup>. Oleh itu,dengan cadangan pemerkasaan ini, adalah lebih menjadi tanggungjawab umat Islam berusaha meletakkan kembali wakaf ke taraf yang sebenar dan menjadikannya satu ibadah yang disegani dalam pembangunan masyarakat dan negara.

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<sup>&</sup>lt;sup>28</sup>Antara contoh-contoh lain adalah seperti universiti-universiti di England seperti Boston University, Brandies University dan Harvard University, lihat: Center for Social Philanthropy (2010), Educational Endowments and The Financial Crisis: Social Costs and Systematic Risks in The Shadow Banking System, Boston: Tellus Institute, h. 13.
<sup>29</sup>Syed Mohd Ghazali Wafa Bin Syed Adwam Wafa, Pembangunan Wakaf Pendidikan di Malaysia, h. 152. Kertas kerja ini telah dibentangkan di Seventh International Conference-The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi 2010.

<sup>&</sup>lt;sup>30</sup>Megat Mohd Ghazali Megat Abd Rahman, Asiah Othman (2006), "Pembangunan Tanah Wakaf: Isu, Prospek dan Stategi", (Konvensyen Wakaf Kebangsaan 2006, Anjuran Jabatan Wakaf Zakat dan Haji, di Hotel Legend Kuala Lumpur, Pada 12-14 September 2006), h. 3. Lihat juga Mohd Zain Haji Othman (1998), "Wakaf Dari Perspektif Undang-undang Islam, Amalan dan Permasalahannya di Malaysia", dalam Ahmad Ibrahim et al. (ed), Undang-undang Keluarga dan Harta Wakaf, Al-Ahkam, cet.1. jld.6. Kuala Lumpur: Dewan Bahasa dan Pustaka, h.193.

<sup>&</sup>lt;sup>31</sup>Andrew White (2006), The Role of The Islamic Waqf in Strengthening South Asian Civil Society: Pakistan as Case Study, *International Journal Of Civil Society Law*, 4(2), h. 32.

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#### REVIVAL OF WAQF PROPERTIES IN MALAYSIA

Dahlia Ibrahim<sup>1</sup> Haslindar Ibrahim<sup>2</sup>

#### **ABSTRACT**

Waqf has become a big concept within the Muslim society. Issues pertaining to waqf are famously discussed and debated among fiqh scholars and academician. Most Muslims are familiar with the concept but do not really understand the definition and meaning of waqf along with its process, law, administration and management of it. Waqf is standardly known as benevolence instruments where the profit is used to improve the welfare of the unfortunate society. Beyond the mentioned belief, many Muslims do not take effort in advancing their knowledge on waqf. Undoubtedly, this ignorant attitude among the Muslim- specifically in Malaysia- concerning waqf has largely added to the many visible issues and problems in waqf matters, majorly the administration and management of it. Added to this scenario is the slow progression in developing the many idle and nonproductive waqf properties in all Malaysian states. Hence, there is the need to revive the development of waqf properties in Malaysia. This paper covers brief introduction to waqf, waqf scenario in Malaysia and issues pertaining to its waqf management. Some innovative mechanisms in revitalizing waqf system in Malaysia are also presented with a brief outlook into Jabatan Wakaf, Zakat dan Haji (JAWHAR) dan Yayasan Wakaf Malaysia (YWM).

**Keywords**: waqf institution, management, issues

#### 1. INTRODUCTION

The concept of waqf is in existence long before the emergence of Islam. It was not clearly identified as waqf then but the concept was evidenced through the construction of mosques and surau where donation from the society funded the maintenance cost of the mosques and suraus. Many Muslims believe that waqf is solely for religious matters. Little do majority of the them know that waqf can benefit all level of society. As to rid away this misconstrued understanding of waqf, it is imperative to understand what waqf means in this new era of modern world.

Waqf is standardly known as benevolence instruments where the profit is used to improve the welfare of the unfortunate society. Beyond the mentioned belief, many Muslims do not take effort in advancing their knowledge on waqf. Undoubtedly, this ignorant attitude among the Muslim- specifically in Malaysia-concerning waqf has largely added to the many visible issues and problems in waqf matters, majorly the administration and management of it. On top of this situation, progression on waqf properties is slow in coming although efforts have been taken to step up the development. This paper is intended to give some comprehension of waqf, specifically, covering those areas such as waqf and management of waqf properties.

It will cover brief introduction to waqf, waqf scenario in Malaysia and issues pertaining to its waqf management. Some innovative mechanism's models in revitalizing waqf system in Malaysia are also

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presented with a brief outlook into Jabatan Wakaf, Zakat dan Haji (JAWHAR) dan Yayasan Wakaf Malaysia (YWM).

#### 2. WAQF IN ISLAM

There are a few hadiths that support the concept of waqf. One was mentioned by the Prophet (p.b.u.h): whence a child of Adam dies, his/her deed comes to an end except for three things; running and continouos sadaqah, knowledge that benefits (others) and a righteous child who pray for him or her. Second, when Umar bin Al-Khattab went to the Prophet (p.b.u.h) and said "Messenger of Allah! I got a land in Khaibar. I never got a property more precious to me than this. What do you advise me?" The Prophet (p.b.u.h) said, "If you want you can make habs on (bequeath) it, and give it as sadaqah (charity); provided that it should not be sold, bought, given as a gift or inherited". Then, Umar gave it as charity for the poor, relatives, slaves, wayfarers and guests. There is no harm for the person responsible for it to feed himself or a friend from it for free, without profiting. Third is when All the Prophet's (p.b.u.h) companions proclaimed their land as waqf. This evidenced through narrations and report by Thabit Bin Anas Jabir Bin Abdullah and Ibn Hazm (Ibrahim & Ibrahim, 2013; Zahrah, 2007).

Even Karim (n.d), as cited in Ibrahim and Ibrahim (2013) stated that Allah (SWT) says in the Holy Quran: 'those who spend their wealth (in Allah's cause) by night and day, in secret and in public, they shall have their reward with their lord. On them, shall be no fear, nor shall they grieve' (Sura: Al-imran, verse: 274); 'By no means shall you attain Al Birr (piety, righteousness-here it means Allah's reward, i.e. paradise), unless you spend (in Allah's cause) of that which you love; and whatever of good you spend, Allah knows it well.' (Sura: Al-Imran, Verse: 92); and 'Verify those who give sadaqat (i.e. zakat and alms), men and women, and lend a goodly loan, it shall be increased manifold (to their credit), and theirs shall be an honourable good reward (i.e. paradise).' (Sura: Al Hadid, Verse:18).

Evidently from the above, sharing wealth in the form of giving out donations is most encouraged in Islam. And, the one instrument to achieve this is through waqf.

#### 3. WAQF CONCEPT

In laymen perspectives, waqf is a form of donation mostly in term of land and properties. Once a person proclaims his/her property as waqf, it is expected that someone who is entrusted with the waqf will distribute the benefits to the intended beneficiaries as specified by the donor according to the shariah principle. To understand the concept of waqf, first its structure-types, characteristics and participants - needs to be laid down.

#### 3.1 Type of waqf

Standardly there are two types of waqf; specific waqf and general waqf. Specific waqf also known as waqf khas is where the donor declare beforehand what is the purpose of the waqf, for example, build of a mosque or school or for any other purpose he specifies. The purpose will then be specified in a waqf deed and the manager (mutawalli) who is entrusted to administer the waqf as specified by the deed. General waqf or waqf am, on the other hand, is an open ended waqf where the manager of the waqf may use the waqf properties for whatever purpose as long as it benefits the public and the purpose is not against the shariah principles.

#### 3.2 Characteristics of Waqf

Waqf is a mean to protect and preserve a property from belonging to unintended persons. Many jurists believe it is a concept of holding, confining, detaining or restraining the proclaimed property from misuse. For many years, many Muslims believe that only fixed assets can be donated as waqf as interpreted by the Islamic law where the property proclaimed as waqf must be immovable as characterized by the need for waqf to be perpetual. This inherited definition of waqf is due to the nature of the benefit of immovable property where it is utilized without having to use up the property itself (Osman, 2012; Kahf, 2007b). Nowadays, this backward interpretation is no longer valid since the new ruling on waqf includes all movable properties such as cash, shares, books and other things as deemed beneficial (Osman, 2012; Cajee, 2007; Hasan, 2007; Nik Hassan, 1999; Sait and Lim, 2006). In spite of this, the acceptance of other forms of properties as waqf, immovable properties (land and building) still make up the majority of waqf property as evidenced by the value they acquired (Osman, 2012; Sait and Lim, 2006).

But the most acceptable and preferred definition of waqf is by Abu Yusof from Hanafi school where the meaning of waqf is rephrased by jurists such as Imam Muhammad and other Jurists in Shafie, Hanbali and Imami schools. The rephrased waqf definition leans towards the irrevocability, perpetuity and alienability of the donated property- which goes without saying- the proclaimed properties are prohibited from being transferred to other people.

#### 3.3 Waqf Participants

The common parties involved for waqf to be valid are: founder (Waqif), beneficiary (Maukuf Alaihi) and donated property (Maukuf).

First, the founder must be mature and has a sound mind. He must donate on his will and he owns the property he wants to donate. Second, the founder must specify in the waqf deed who shall benefits from his proclaimed waqf. The beneficiary can be specified as individual or general philanthropy to the society. Third, the donated property must be something that can be donated where its ownership rightfully belongs to the founder. Lastly, a lafaz is undertaken to validate the waqf agreement<sup>3</sup>.

#### 4. WAQF IN MALAYSIA

Malaysia has 14 states and ruled by a King. Each state subsequently is under the power of the Sultan who is given full authority by the Federal Government to manage all religious matters which include zakat, baitulmal, waqf and others. The Sultan, then, passed on the power to the State Islamic Religious Council (SIRC) of each state in Malaysia to oversee all religious matters.

#### 4.1 State Religious Council Responsibility

Mohammad and Iman (2006) agreed with fiqh opinions that the management of waqf should not have government interference since waqf properties will be subjected to liabilities and thus can have negative effect on the waqf properties in the future. This argument is further apparent with the appointment of SIRC as the trustee, problems in relation to waqf properties still prevail due to imbalance treatment of waqf property by the individual SIRC especially there is a big argument over the usage of istibdal in the administration waqf properties. In spite of this, however, the management of waqf properties in Malaysia has improved tremendously. This is largely due to the clauses included in the regulation pertinent to the waqf properties.

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<sup>&</sup>lt;sup>3</sup> www.jawhar.gov.my

Among the responsibilities of the SIRC as set forth in the clause are<sup>4</sup>:

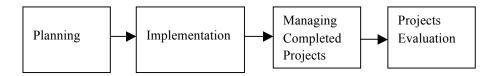
- 1. All wagf properties are solely trusted under the council of Islamic religion
- 2. The council must keep all the documents related to waqf properties
- 3. Ownership of waqf properties must be transferred to the council
- 4. The council must use all monies from specific waqf properties for the intended purpose of the founder
- 5. The council must keep all the monies from general waqf properties in the general fund of the council or the baitul mal

#### 4.2 Department of Waqf, Zakat and Haj (JAWHAR)

According to Mohd Salleh and Muhammad (2008), the Malaysian Federal Government does not have any land to its name because all pieces of land in Malaysia are rightfully owned by the states. Hence, it becomes very taxing for the Malaysian Government to administer and develop waqf properties especially land. Due to this reason, there are many idle and nonproductive waqf lands in Malaysia. The need to develop the idle and unproductive waqf land had prompted the Former Malaysian Prime Minister; Tun Abdullah Haji Badawi announced the establishment of Department of Waqf, Zakat and Haj (JAWHAR) in 2004. JAWHAR is expected to make progression on waqf properties in an organized, systematic and effective way. However, JAWHAR has no jurisdiction in practicing its power and rights on the management of waqf properties because the sole trustee on waqf is still vested under each SIRC.

JAWHAR main function is to establish liaison with the individual SIRC and coordinate all information from the SIRCs to develop waqf properties in each state via the fund from the Federal Government<sup>5</sup>. Holistically, under the 9<sup>th</sup> Malaysian Plan with an allocation of RM250 million, JAWHAR and SIRCs boosted the development of waqf land by applying the waqf land development model as depicted below.

Figure 1: Waqf Land Development model



Source: Mohd Salleh and Muhammad (2008)

At the planning stage, SIRCs need to identify the waqf land to be proposed for development to JAWHAR. The proposed waqf land must be strategic in location and must be unrestricted. SIRCs will still hold the title to the waqf land to maintain the perpetuity aspect of the waqf. During the implementation process, the Federal Government needs to lease waqf land through the Federal Land Commission (FLC) since Federal Fund can only be used on Federal Government lands. As all lands belong to SIRC, this leasing agreement is imperative before proceeding to the implementation process. While the JAWHAR provides the fund, the Work Department is to monitor and manage the proposed projects. Once the project is completed, it will be transferred back to JAWHAR. Next, JAWHAR will pass on the completed social project such as orphanage shelter to SIRCs to manage on their own. For economic project, the SIRCs and Yayasan Wakaf Malaysia (YWM) will jointly be given the authority to manage it where the profits will be deposited into SIRCs and YWM waqf fund for future waqf land development. Lastly, JAWHAR needs to evaluate whether the projects undertaken meets its objective. If it does not, JAWHAR needs to make report on it and find solution to rectify the failure (Mohd Salleh and Muhammad, 2008).

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<sup>&</sup>lt;sup>4</sup> Alhabshi (1991)

<sup>&</sup>lt;sup>5</sup> Interview with JAWHAR

#### 4.3 Yayasan Wakaf Malaysia (YWM)

On 25<sup>th</sup> March, 2006, a committee led by the National Baitulmal Coordination Committee or Jawatankuasa Penyelarasan Baitulmal Kebangsaan (JPBK) had agreed to establish a national entity to manage waqf related matters. Although JAWHAR is already in operation to conduct the monitoring and coordination on waqf properties, this national entity- which later launched in 2008 and named as Foundation Waqf Malaysia or Yayasan Wakaf Malaysia (YWM)-is to work along JAWHAR and SIRCs. YWM main idea is to unite and collect all waqf resources as a highly potential economic source in maximizing the benefits to the society. The core purpose of YWM is 1) to collect waqf fund by conducting fundraising programs, 2) to develop and progress waqf properties, 3) to invest YWM fund as allowed by shariah, 4) to organize beneficial activities such giving assistance to the impoverish and to best carry the intention of the founder and 5) to promote conferences/seminars and to publish brochures as a tool to expand YWM's objective (Ahmad, 2008). YWM is also actively promoting its cash waqf programs by distributing flyers and brochures to the public.

#### 5.0 WAQF ISSUES IN MALAYSIA

Previously, before the SIRC is given the authority to manage waqf properties, the manager (mutawalli) to manage the waqf property is chosen by the waqif or donor himself. The mutawalli can be the village leader, trusted individuals or the mosque committees. There is no existence of formal agreement between the waqif and the mutawalli. As a result, mismanagement and corruption surrounds the administration of waqf properties. Most often than not, waqf properties are not managed in accordance to the original intention of the waqf.

One may think that with the appointment of SIRCs as the waqf properties trustee, abovementioned problem can be tackled. But, it is sad to say that such problem still exist when SIRCs are unable to manage waqf properties efficiently. Below are some of the issues.

#### 5.1 Work Force

The persons in charge to manage the waqf properties are not qualified, knowledgeable and professional in the Islamic principles and the laws governing them resulting in difficulty attaining the performance and objectives of the waqf system. To add salt to the wound, SIRCs are also facing shortages of personnel to run waqf properties. Additionally, there are also involvements of the non-muslims in managing the waqf properties. Having no in depth knowledge of the principles and beliefs in Islam, the waqf properties are managed by those who are not supposed to be managing them in the first place. It is not too hush to say that waqf properties should be managed solely by qualified Muslims as to ensure that the objectives of the waqf system is upheld (Chowdury, Ghazali & Ibrahim, 2011).

#### 5.2 Land

The wealthy Malaysian prefers to perform waqf by giving away their lands. However, most often, this donated property is very isolated and have no proper infrastructure which deems valueless. In addition, some of the land has features that are not conducive to develop into productive progression. At other times, there also exists illegal occupation of waqf land by the society. All these along with the improper recordkeeping of ownership registration and minimal waqf data base system have hindered SIRCs intention in developing waqf aggressively (Mohd Salleh and Muhammad, 2008).

#### 5.3 Monetary

The Federal Government through the 9<sup>th</sup> Malaysian Plan had allocated RM250 million for reforming the waqf system in Malaysia (Mohd Salleh and Muhammad, 2008). This amount is actually not sufficient to develop enormous amount of waqf land in Malaysia. As such, many SIRC have formed cooperation with private businesses to develop their waqf land. From the outset, this effort can be fruitful to SIRCs. But it is not apparently so since the private businesses will acquire more benefits compared to the SIRCs. Mohd Salleh and Muhammad (2008) further mentioned that private businesses get 70% while SIRCs only get 30% share from the developed waqf properties. This can be negative to the welfare of the ummah.

#### 5.4 Waqf Enactment

The fact that each SIRC has its own law in managing waqf contributes to the slow progress in reviving waqf properties in Malaysia. The SIRCs have State Islamic Administration Enactment or 'Enakmen Islam Pentadbiran Islam Negeri (EIPIN)' but many do not have specific regulation on waqf, namely Waqf Enacment or Enakmen Wakaf. Only a few SIRCs have Waqf Enacment. These SIRCs include Melaka, Negeri Sembilan and Selangor. The Waqf Enactment defines aspects of waqf which include the type, SIRCs power, administration of waqf, to name a few<sup>6</sup>. Without the presence of this specific Waqf Enactment, it will be very difficult for waqf institutions to uphold and develop waqf properties.

In short, all issues above coupled with the unavailability to form a standard system for waqf management restrict waqf institutions to progressively and actively develop waqf properties.

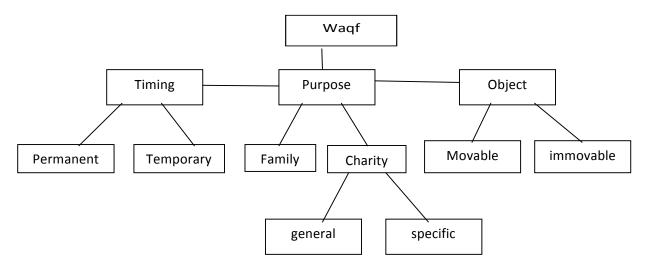
#### **6.0 WAQF NEW MECHANISM**

New measures have become intense issues in waqf development not only in Malaysia but also in most Muslim countries as to revive the waqf system. In all the above discussion, waqf is categorized into various types where the most common categories are those of landed properties. As indicated earlier, there are two types of waqf; general and specific. These two types are further classified into movable or immovable properties. The debate on the movability of the waqf properties still persists especially there are contradictions between the scholars on the Islamic principle supporting it. The movability in the waqf system is highly supported by the Ottoman Sultans who believed that the fund obtained from the movable waqf properties are used for the expansion of Islam in Europe (Chowdury et al, 2011; Cizakca, 2004, 2010). The Malaysian Fatwa Committee Council also confirmed that cash waqf, one form of movable waqf, is allowed to be endowed (Chowdury et al, 2011). The below chart specify the three diverse aspects of waqf system in the Islamic Jurispudence.

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<sup>&</sup>lt;sup>6</sup> Interview with JAWHAR

Figure 2: Categories of waqf



Source: Chowdury et al (2011)

It is to some researchers' opinion that the movable waqf should be given serious attention. They believe that to develop the full potential of waqf properties to generate income, the orthodox treatment of them shall be replaced by new innovation of waqf. To materialize this new vision, movable waqf shall be allowed to be endowed freely without restricting waqf properties to immovability status only. As such, this section briefly laid down the notion of movability in waqf management. It is a point to mention that there exist interrelations between these mechanisms as discussed next.

#### 6.1 Cash Waqf

Most Muslims believed that waqf endowment shall be in the form of properties since properties meet the conditions of perpetuity, irrevocability and inalienability. Little do the Muslims know that properties can be demolished and destructed due to natural mishap and thus the value of the properties can be diminished. Due to this reason, it is crucial to look into cash waqf as an alternative to waqf properties where the value of waqf can be enhanced through proper management. Cash waqf is more constructive as compared to land, books, buildings and it is reckoned to be lucrative in the modern Islamic financial system practices. As cash waqf does not involve land, many Muslims can participate in the waqf endowment regardless of their financial position as long as no shariah principles are violated (Chowdury et al, 2011).

The society can easily join the cash waqf as they are only required to donate their money by way of cash or make the payment through bank accounts via e-waqf facility. The fund collected from the society will be managed by the nazir who acted as an agent to the waqif based on the wakalah contract where the nazir route the fund for the identified projects and any balance will be reverted back to the fund for future undertakings. Practically, the wakalah contract is applied in the implementation of cash waqf because the waqif permission is not required to run the activities and projects under the waqf agreement (Jalil & Ramli, 2008). The nazir is solely responsible to manage the fund as long as the objectives of the waqf are sustained.

Another example is cash waqf through deposits as practiced by a mosque created under the existing waqf. When the mosque is in need of fund, it can simply apply a beneficiary account with the bank or get a new account of a newly created waqf. Another way is for the mosque to solicit donation for additional fund for maintenance of the mosque through displaying its account number to the public at its premise. Often, there will be a number of people willingly donate to the mosque for this purpose. If in any case, a smaller amount of money is donated or when the waqif does not have any beneficiaries in mind, the waqif may select from a list of existing or future development projects of the bank dealing the waqf certificate where the waqif will

eventually leave the bank to make decision on his behalf (Karim, R, n.d). Here, the bank will position itself as the mutawalli for the waqf. The model for the abovementioned is tabled below.

1-The founder deposits money into cash waqf based account

Capital
Investment

Cash waqf Account

Cash waqf Account

Cash waqf Account

Charity Projects

2-The bank manages the capital on behalf of the waqif

3-The capital is invested

4-The Cash waqf account earns profit thru a mudarabah account

5-The proceeds will be used for charitable purposes or purposes specified by the waqif

Figure 3: Product model-public waqf

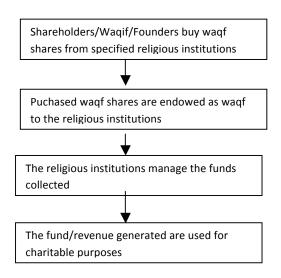
Source: Khademolhoseini (n.d)

#### 6.2 Waqf-Shares

Waqf share works closely with cash waqf concept. This means there is no physical donation of property but cash. The availability of waqf share, like cash waqf, gives opportunity for all Muslims to participate regardless of status. It will eliminate the notion that only the wealthy persons can make the waqf endowments.

An individual will buy shares-amount must be affordable to all- from specified religious institutions. A certificate is issued to the individual, in this case known as waqif or founder- where the name of the waqif will be written on the certificate as proof that he purchases the share with specific amount. The shares will be endowed to the specific religious institution who acts as a mutawalli to manage the collected fund. The funds or revenue collected then will used for charitable purposes. The model of waqf shares is stipulated in the table below. Not only Malaysia used this model but also other countries such as Indonesia, Sudan, Kuwait and UK.

Figure 4: Waqf Share Model-Public waqf



Source: Khademolhoseini (n.d)

# 6.3 Corporate waqf

Ibrahim and Ibrahim (2013) pointed that development of waqf is not confined to immovable property such as land. Steps have been taken to introduce more contemporary waqf development. As mentioned earlier, cash waqf and waqf share are two of the new mechanisms in waqf development. These two mechanisms are more to individual's participation. The most contemporary and most discussed mechanism in waqf development, however, is corporate waqf where cash waqf and waqf share are also utilized in its application. Corporate waqf is an innovative mechanism in generating income for the benefits of most society in the form of cash waqf, waqf share and other assets investment methods. It is an initiative in combining perpetuity characteristic of waqf to achieve the power of entrepreneurial dynamism<sup>7</sup>. Example of corporate waqf is evidenced in some of the Muslims countries such as JCorp in Malaysia and Warees Plc in Singapore.

In line with corporate waqf principles 1) to create an Islamic institution catering to the society's need with element of corporate entity 2) to carry out the responsibility to the 'ummah' for eternity 3) to voluntarily share wealth, time and expertise 4) to generate wealth and protection of the income, and 5) to establish an incorporation instrument that is trustworthy and wholly; the objectives of corporate waqf are (Ministry of Finance, 2011):

- 1. Ability to expand and generate wealth for individuals, private and public sector in global arena
- 2. Professional management
- 3. Preservation of the ummah economic ownership through protection of the assets
- 4. Released of the ummah's undeveloped assets
- 5. Strengthening of the ummah's economic welfare
- 6. assist government in nation's development and reduction of spending, deficit and debts

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<sup>&</sup>lt;sup>7</sup> Ministry of Finance (2011)

Corporate waqf is popularly discussed as the tools to give new meaning in generating income to improve the economy of the ummah. Most importantly, its application is not against the principles of waqf. It is expected that all issues pertaining to waqf management such as management negligence, flaws and ineffectiveness can be solved through corporate waqf.

In short, the three mechanisms, cash waqf, waqf share and corporate waqf- are new innovation in waqf development in the new era. Nevertheless, the applications of these mechanisms are not without controversies. It is important to mention that cash waqf utilization in the waqf system received a lot of debates among the fiqh scholars and modern scholars alike. Historically, cash waqf exist and accepted in many Muslim countries as way back as the 15<sup>th</sup> century to the 16<sup>th</sup> century. Not only it deviates from the three conditions of waqf-perpetuity, irrevocability, inalienalility- but also, the nature of the management of cash waqf which involve some form of interest bearing become the disputes which persisted from the 16<sup>th</sup> century till the twentieth century (Cizakca, 1998). Despite this disagreement among the fiqh experts, Majid Khademolhoseini (n.d) noted that cash waqf, waqf share and corporated cash waqf are acceptable in many Muslim Countries albeit ongoing debates on them.

## 7. CONCLUSION

Majority of Muslims aware that waqf is to help the poor and needy. This historic belief of waqf is one big factor to the many problems occurring as we reach the era of millennium. Conservatively, most waqf properties are used to develop mosques, surau and religious schools. Many Muslim countries refused to bulge from the tradition system of waqf, fearing any changes made to its system will violate the shariah principles. No doubt, changes made on the waqf development and management erected new meaning and understanding that needs to be understood and accepted by the Muslims as a whole. Malaysia is no exception to this situation. Problems pertaining to waqf that arise in Malaysia almost replicate those of other Muslim countries. Hence, Malaysia is also in active search of ways to improve its waqf development.

It is mentioned by Alhabshi (1991) that estimated 90% of all waqf proclaimed for religious purpose where only 10% can be used for other purposes. Judging from the number, nothing much can be done to improve the development of waqf for the philanthropic and economic improvement of the ummah. But according to Rashid (2011), even 10% of all waqf properties can be developed due to urbanization and a rise in property valuation and rentals. He further mentioned that the average rate of return of investments made in developing waqf can give returns between 20-25%. As such, it is worth the time and effort to seriously look into the new ways in developing the waqf. Notwithstanding, there exists many new mechanisms of waqf which are creative and innovative in generating better income for waqf, still there are slow incoming due to reluctance in changing the old system. Malaysia cannot afford to lose all the time and possibilities in gaining income from the many underdeveloped waqf available in all the states. It is beyond words what can be achieved from developing the underdeveloped waqf properties. In India, for example, 100 waqf properties developed increased nearly 1900% in revenues (Ibrahim & Ibrahim, 2013; Rashid, 2011).

In summary, maybe it is not fair to solely put full responsibility to the religious councils. The government and the Muslim society should also be involved in finding the best way to develop waqf properties in Malaysia. The changes made to waqf system not only involve the changes to its administration and implementation of the waqf properties, but also, all parties need to combine effort in finding the best policy that can be applied to the existing way of their waqf management. There are many papers written on the participation of Islamic financial institutions in providing fund to develop waqf properties. Here, it is evidenced that developing waqf properties are not small matters in hand. All parties should lend their hands to be realize what Rashid (2011) expressed as "only sky is the limit in the waqf development'.

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# PERSPECTIVE OF SIYASAH SHAR'IAH IN APPLICATION OF CASH WAQF TRANSFER FOR ISLAMIC FINANCIAL INDUSTRY: INDONESIAN STUDY CASE

Ahmad Mikail<sup>1</sup>

#### **ABSTRACT**

World has become witness for the Indonesian rapid economic growth todays. This rapid economic growth has elevated most of their population standard of living. Nevertheless, this rapid economic growth did not guarantee every citizen in this country live properly. About 35 percent of its population lives with income less that 2 dollar a day. Hence, Poverty is the major problem for Indonesia since this country reached their independence. As most populated Muslim country in the world Indonesia has a lot of opportunity to eradicate poverty by using its Islamic heritage policy. Waqf is the one of the several priceless Islamic heritages that can be utilized for Muslim in Indonesia to tackle their classic problem. Moreover, Muslim in Indonesia has a chance to maximize the momentum of rapid growing of Islamic finance industry by introducing once again waqf as the tool for poverty problem. The unique characteristic of wagf, perpetuity and temporary concept, that inherent with wagf itself can be strengthened by offering applicable method that can be matched with Islamic financial industry todays. Several methods have been offered by many Muslims scholar in the world to re-juvenile the waqf into the Muslim economic activity. One of the most populist is cash waqf transfer. This method is more concern upon return on investment and cash collecting as main source of wagf fund. This concept can be combined by utilizing the Islamic capital market that growing fast recently in Indonesia. The objective of this paper is trying to review the concept of cash waqf transfer and its implementation in Indonesia. Furthermore, this paper also attempt to explain perspective of syiasah shari'ah in application of cash as medium of waqf. Based on library research method, this paper found that cash waqf transfer has been implemented in several private waqf institutions in Indonesia. Lack of government support and participation consider as two main reasons of the low level of cash wagf collection.

Keywords: Indonesia, waqf, cash waqf transfer, Islamic financial industry, Siyasah Shari'ah.

# 1. INTRODUCTION

Indonesian has good experience for developing their country from one of the poorest in Asia to become the member of G-20 in 2011. However, Indonesian rapid economic growth is proven not capable in ensuring the prosperity of the people since its independence. Based on World Bank data, the poverty has been decreased significantly from 85 percent in 1990 to 18 percent in 2010. Nevertheless, the massive numbers of Indonesian people live under the 2 \$ poverty line still continues following the diminishing rate of Indonesian economic growth since 1997. The proportion of Indonesia people live under 2\$ a day still reach 45 percent in 2010. Graph.1 shows us the progression of Indonesian poverty line from 1990 to 2010.

Furthermore, the inequality within the society also becomes major problem in Indonesian economy. Gini coefficient index shows increasing level from 0.34 in to 0.44 in 2010. Form this information we

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can infer that the economic growth does not guarantee people in Indonesia prosper together. Inequality situation might bring social and political problem in Indonesia such as crime, chaos, and disintegration. The limitation of government budget, corruption and lack of national insurance also create worse condition for poverty alleviation in Indonesia.

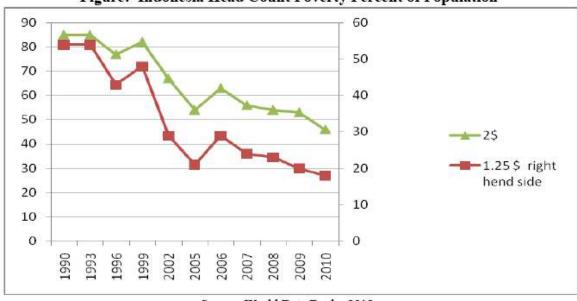


Figure: Indonesia Head Count Poverty Percent of Population

Source: World Data Bank, 2013.

This situation might be handled by Indonesia if the people want to participate together to against the poverty. Indonesia has lot of potential resources that can be used to overcome this situation. Beside its abandon of natural resources, Indonesia has also good potential resources to against the poverty by active participation of Muslim society. Indonesia is the most populated Muslim country in the world. This condition should be maximized by Muslim people to erode this problem by implementing holistic approach of Islamic Economic system.

Islamic economic system has different goal than any other economic system in the world. The holistic approach that defining by Maqasid Shariah or the objective of Islamic law ensures the goal of Islamic economic system not only achieving economic growth but also justice and equality among people. The concept of Maslahah or beneficiary can be attained by protecting five values: life, lineage, wealth, intellect, and religion. One of the main characteristic of Islamic economic system is voluntary sector based<sup>2</sup>. Voluntary sector play important role in achieving maqasid shariah through several instrument such as zakat, waqf, infaq, and sadaqat. It is called third sector because it is different with government and private sector. Private sector works because of the profit motive so the allocation and distribution function in economics was generated by market mechanism. Meanwhile, Government institution plays to correct the market mechanism when allocation and distribution function is not worked efficiently<sup>3</sup>.

We can find voluntary sector in conventional economics like endowment fund. Nevertheless, endowment fund in conventional system works based on altruism motive. In Islamic society voluntary sector works based on seek of Allah blessing. One of the main significant sources of funding for this sector is Waqf. It has played significant role in Islamic society since the era of Prophet Muhammad (Pbuh). The history of Waqf in the economic activity is as long as the history of Islam. Waqaf have been practiced by Prophet Muhammad (pbuh) and his companion since the beginning of Islam<sup>4</sup>.

<sup>&</sup>lt;sup>2</sup> Ziauddin Ahmed, et.al, "Fiscal Policy and Resource Allocation in Islam," (Jeddah: International Centre for Research in Islamic Economics, 1983).:17

<sup>3</sup> Ibid.p.18

<sup>&</sup>lt;sup>4</sup> Monzer Kahf, "Towards the Revival of Awqaf: A Few Fiqhi Issues to Reconsider," (Presented at the Harvard Forum on Islamic Finance and Economics, 1999).:10

Unfortunately, the western colonization had reduced the role of Waqf in Muslim society and the critique from western orientalist about the concept of Waqf as the source of corruption had totally reduced waqf institution in Muslim countries<sup>5</sup> Now days, many people even could not understand what actually the concept of waqf is. With the rapid development of economic activity in many Muslim countries and the awareness of the important of Waqf Muslim country has tried to revive the waqf institution once again. The main problem that face by many Muslim in Indonesia to improve the role of waqf in Muslim society today is the awareness of Muslim people in Indonesia about the benefit of waqf. Besides, people are not well educated about the concept of waqf itself. For majority people waqf is identic with land, building, mosque, and any other fixed asset.

In recent days, Muslim scholars try to revive waqf institution trough several concept one of the most famous method is cash waqf transfer. We can define cash waqf transfer as charitable endowment or mobilizing fund for certain purpose through cash capital<sup>6</sup>. This method is famous because the flexibility of cash capital. Through cash waqf transfer nadzir or the person who manage waqf asset might manage the asset easily. Cash waqf transfer not only limited with transferring cash but also transferring any other asset which allowed by shariah principle such as stock, sukuk, deposit certificate, and hajj saving certificate<sup>7</sup>.

The development of Islamic financial institution in Indonesia now day has support the implementation of cash waqf transfer in several Muslim countries. This momentum should not be ignored by Muslim people in Indonesia. Islamic financial institution like Islamic capital market and Islamic bank should be integral part for developing voluntary sector in Indonesia. These institutions should play as intermediary channel for rich people in Indonesia to waqf their wealth. The graph.2 shows us the growth of Islamic bank asset, financing, and third party fund in Indonesia. The average growth of Islamic bank asset increases around 40 to 60 percent a year. The third party rose rapidly from just Rp. 1 trillion in 2000 to Rp.102 trillion in 2011.

That number show us how huge the potential amount of money that can be collected from the third party to finance the voluntary sector in Indonesia. Moreover, we can use this potential by offering waqf contract for some rich depositor in Islamic bank for poverty reduction purpose. With this kind of effort we can revive and modernize once again waqf institution in Muslim society.

Aside from Islamic bank, Islamic capital market is also the potential institution in Islamic financial industry. Islamic capital market has been growing significantly in Indonesia. With average growth 40 percent each year, Islamic capital market has potential place for Muslim to revive waqf institution in Indonesia. Based on graphic.3, the total capitalization of Islamic capital market reached Rp.1671 trillion or US\$ 167,1 billion increasing rapidly from only US\$7.8 billion US\$ in 2000. This rapid growing indicate how big money that can be collected if there is good institution that provided by the Indonesian government or private institution for altruism purpose.

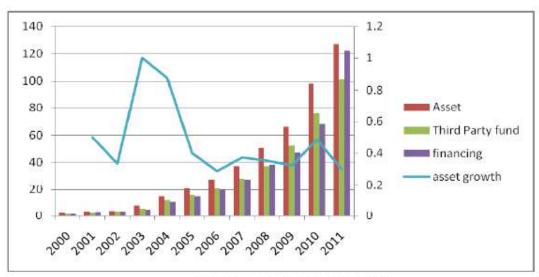
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<sup>5</sup> Ibid n 13

<sup>&</sup>lt;sup>6</sup> Murat Cizaka,"Incorporated Cash Waqf and Mudarabah, Islamic Non-Bank Financial Instrument from the Past to the Future?"(Presnted in International Seminar on Non-Bank Financial Institution, Kuala lumpur,2004):1

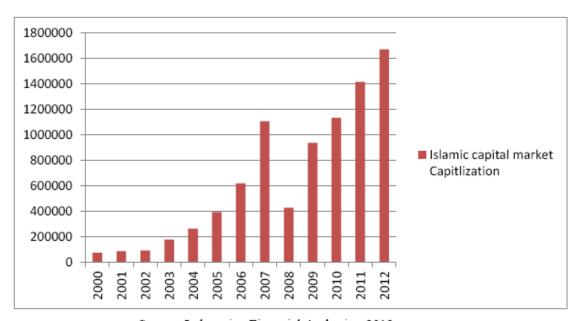
<sup>&</sup>lt;sup>7</sup> Dodik Siswantoro and Miranti Kartika Dewi." The effectiveness of Waqf Raising through Mutual Fund in Indonesia,"( Jakarta: Department of Accounting Faculty of Economics University of Indonesia,2006):4

Figure 2. Growth of Islamic bank industry in Indonesia from 2000 to 2011 (Trillion Rupiah)



Source: Bank of Indonesia, 2013.

Figure 3. Capitalization of Islamic Capital Market in Indonesia from 2000 to 2012 (Billion Rupiah)



Source: Indonesian Financial Authority, 2013.

Regarding above explanation, we know the valuable potency of Islamic financial industry in generating cash waqf transfer in Indonesia. This potency should not be ignored by Indonesian government and Muslim society to accelerate poverty alleviation. Nevertheless, the implementation of cash waqf transfer is not immune with several obstacles. The lack of government support in constructing silent nadzir institution in Indonesia and fiqh issue related cash waqf concepts are several issuesvthat faced by the society today. In this case the framework of siasah syar'iyyah plays important role to analyze these problem. By definition of Ibn Qayyim, "siasah syar'iyyah is any measure which actually brings the people closest to the beneficence (salah) and furthest away from corruption (fasad)

partake in just siyasah even if it has not been approved by Prophet (PBUH) nor regulated by Divine revelation. Anyone who says that there is no siasah syar'iyyah where the shariah itself is silent is wrong and has misunderstood the companions"<sup>8</sup>

That definition explains that the ruler, in this case Indonesian government, can take any measure to reach *maslahah* for its people and reduce *mafsadah* or any obstacle that arise in implementation of cash waqf transfer in Indonesia of course with several steps that allowed or not contradict of shariah. It is interesting to inform what kind of obstacle that faced in implementing cash waqf transfer in Indonesia and what is jurist opinion about this method. According to these reasons, this paper tries to explain and review clearly the concept of cash waqf transfer and its implementation in Indonesia. Moreover, this paper also tries to analyze the concept of cash waqf transfer from syiasah shariah perspective.

## 2. LITERATURE REVIEW

In this part, the author try to explain the definition of waqf, its general principle, institution, and concept of cash waqf transfer. The sources of this part come from several journal and books.

# 2.1. General Concept of Waqf

Firstly we have to identify what is the meaning of waqf. "Literally waqf means to stop, to hold, to restrain, to detain, or to prevent, such as saying," preventing from disposition." In Islamic law, waqf refers to irrevocable dedication of a portion of ones wealth for the purpose of expending its usufructs to legitimate causes or charitable and righteous ends with the overriding objective of getting closer to Allah<sup>9</sup>. By this definition we can infer that waqf has different characteristic with any other charitable gift. It has stock concept then flow concept. The principle of waqf asset must be hold and the usufruct or the return of that asset can be used for charitable purpose.

In Islamic history Waqf has play a crucial role. It is help not only to build mosque but also to create job. "Waqaf institutions also contributed significantly in taking care of orphans, widows, handicapped and the old; by providing them with food, shelter and all the basics they needed. There were also some waqf for animals and dead people; for instance, and during the Mamluki era in Egypt, a whole Waqf institution cared for funeral ceremonies for the aliens, and another one cared for cats and dogs. Awqaf helped also in providing job opportunities for the jobless; for example, in Turkey 1931, the Turkish Awqaf hired over 13% of the working power in the country" <sup>10</sup>. From Islamic jurisprudence, waqf can be classified into three aspects: time, purpose, and object matter of waqf<sup>11</sup>.

• Time: we can divide waqf based on how long the waqf asset invested in waqf purpose. When one person decided to waqf his asset forever for certain purpose, we can classify this as permanent waqf. Based on *Malikiyyah* if some on decide to waqf his asset for certain period of time and take back the usufruct or the ownership of his asset before for his pleasure, it can classify it as

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<sup>&</sup>lt;sup>8</sup> Mohammad Hashin Kamali, "Siyasah Shari'iyyah or the Policies of Islamic Government," *the American Journal of Islamic Social Sciences*, vol. 6 no. 1 (1989): 1.

<sup>&</sup>lt;sup>9</sup> Mek Wok Mahmud and Sayed Sikandar shah. *Optimization of Philanthropic Waqf: The Need for Maqasid-Based Legislative Strategies*,

http://webcache.googleusercontent.com/search?q=cache:u6cfn8Vm9f0J:www.iefpedia.com/english/wp-content/uploads/2010/01/Optimization-of-Philanthropic-Waqf-The-Need-for-Maqasid-based-Legislative-Strategies-Dr.-Mek-Wok-and-Dr.-Sayed-Sikandar-Shah1.doc+&cd=1&hl=en&ct=clnk&gl=my (accessed March 3rd, 2013).

Ahmed Habib. "Role of Zakat and Awqaf in Poverty Alleviation", (IslamicDevelopment Bank, 1st edition, 2004), p. 3.

Abdullah Jalil and Asharaf Mohd Ramli., *Waqf Instrument for Construction: An Analysis of Structure*, http://www.academia.edu/504004/WAQF\_INSTRUMENTS\_FOR\_CONSTRUCTION\_CONTRACT\_AN\_ANALYSIS\_OF\_STRUCTURE (accessed March 3rd, 2013).

temporary waqf<sup>12</sup>. For instance, when some on decide to waqf her building for mosque purpose for one year then take back his asset after that is what we mention as temporary waqf.

- Purpose: the intention of using the usufruct of waqf asset can be classify as two main categories family waqf and full charity purposes. In family waqf the usufruct and the ownership of the asset is still hold by family member of waqif or the person who waqf his asset. The usufruct of that asset is used to family member pleasure. In full charity waqf the ownership of the asset and the usufruct of the asset are transferred to nadzir or the institution which manage asset of waqf. The purpose of this waqf can be specific or it can be general for social welfare.
- Object: the object of waqf or the asset of waqf can be classified as two main categories. The first one is moveable asset such as cash, book, valuable certificate, etc. the second is immoveable asset such as building, land, mosque, and house<sup>13</sup>. The graphic bellow shows us the summary of categories of waqf.

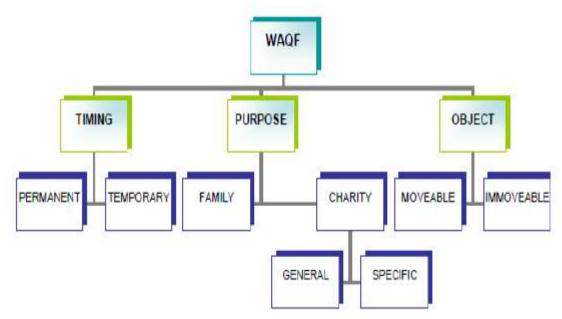


Figure 4. The Categories of Waqf in Islamic Jurisprudence

Source: Abdullah Jalil (2010) 14

## 2.2. The Characteristic of Waqf

Based on classical jurist Waqf has three main characteristic <sup>15</sup>. Irrevocability means lack of power of waqif to revoke his donation at any time. In other word when someone has decided to waqf his asset, he could not revoke the ownership of his asset for his pleasure. The second characteristic of waqf is perpetuity which has three definitions "once the declaration of waqf is made by the donor, a legally binding waqf os automatically effected. Second, that waqf cannot be constrained by time and temporariness. Third, the subject metter of the waqf should remain so forever" <sup>16</sup>.

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<sup>&</sup>lt;sup>12</sup> Ibid, p. 2.

<sup>&</sup>lt;sup>13</sup> Ariff hidayat Ali,"Waqf ontinued Relevance as The Third Sector in Term of Mobilizing Resources for Productive Use in Islamic Economic Sytem,"(Malaysia: The Global University in Islamic Finance,INCEIF).10
<sup>14</sup> Abdullah Jalil, ibid., p. 2.

Mohammad Tahir et.al, "Obstacle of the Current Concept of Waqf to Development of Waqf Properties and The Recommended Alternative", http://eprints.utm.my/501/1/27-38.pdf (Accessed June 1st 2013).

16 Ibid., p. 29.

This definition shows us the rigidity of waqf asset. By this definition the ownership and the usufruct of waqf asset could not be changed. The interpretation of perpetuity concept creates some different idea. Jurist has some different position regarding perpetuity of the asset. Kahf argued that the perpetuity of subject matter of waqf can be changed as long as the usufruct of the asset or *mal* still at the same purpose <sup>17</sup>. He insists that as long as the principle of the asset preserved there is a room for changing the object of the asset. The third characteristic of waqf is inalienability. It mean "after a valid declaration is made, the subject matter of waqf passes out of the ownership of the waqif and it cannot be alienated or transferred either by waqif or the mutawalli or nadzir" <sup>18</sup>. Even for family purposes the waqf asset could not be hold by the name of waqif. There should be legal transfer of asset from waqif to society.

# 2.3. Institution of Waqf

There are several individual or parties who get involved in waqf process. The first one is the founder or the person who waqf their asset called al-waqif. This person must have several criteria such as an adult, be sound of mind, capable of handling financial affairs; not under interdiction for bankruptcy<sup>19</sup>.

The second is the property or object matter called *al-mawqūf* or *al-muḥabbas*. There are several requirements for object matter: al-waqif must have control over the object matter, the objects should be allowed in Islam, the object should be clearly defined, and the purpose or intention to waqf this object must be clearly stated. The third one is an administrator called *nāzir* or *mutawallī* or *kayyim*. This administrator or manager of waqf asset could be a person or institution. Waqif is given the right to choose the administrator of his waqf assets.

Waqif:
Personal or
Group

Waqf Property:
-Movable
-Immovable

Nadzir/Kayyim:
-Personal
-Institution

Beneficiaries:
-Family
-General

Figure 5. The Grant Concept of Waqf

Source: Author's Own

# 2.4. Cash Waqf Transfer Concept

The cash waqf transfer is one method of waqf which popular today although the history of cash waqf transfer can be trace back to ottoman era<sup>20</sup>. This method became popular among philanthropy in Ottoman era even there are some critique about the implantation of cash waqf transfer. They argued that if someone already gave their asset for waqf purpose then the asset belongs to Allah and could not be transferable to third parties<sup>21</sup>. According to Cizakca during the ottoman time philanthropies give cash waqf to some borrowers and let the borrower used the usufruct of that money. The borrower then used their house as the collateral to the waqf institution. As long as the borrower keeps the money they obligated to pay rent for their house that they allowed to use. When they pay the loan back they can take the ownership of their house again<sup>22</sup>.

<sup>18</sup> Ibid., p. 30.

<sup>&</sup>lt;sup>17</sup> Ibid., p. 29

<sup>&</sup>lt;sup>19</sup> Arif hidayat ali,Ibid., p.11

<sup>&</sup>lt;sup>20</sup> Murat Cizaka, ibid.,p. 2.

<sup>&</sup>lt;sup>21</sup> Ibid., p. 2

<sup>&</sup>lt;sup>22</sup> Ibid., p. 3

This rental amount that they have to pay is similar with usury. This condition arise some critique about its implementation that close with riba. Based on this experience Imam Zufar approved the implementation of cash waqf as long as it was invested under mudarabah contract<sup>23</sup>. According to Cizakca musyaraka and mudarabah contract are the two contracts that can be used to avoid back door riba and reduce agency problem. The profit from mudarabah or musyarakah contract can be used for waqf purpose and these contracts also avoid cash waqf asset from riba practice.

The main ide of cash waqf transfer is maximizing the flexibility of cash as a liquid asset. With transfer of cash nazir will manage the waqf asset easily for attaining the waqf objective. The cash waqf also create opportunity for nazir to invest in several sectors that could bring more benefit. One of the pioneers in cash waqf transfer is social investment bank in Bangladesh. Dr. Mannan as founder and chairman of this bank is one of the Muslim scholars who implement the concept of cash waqf transfer in real life<sup>24</sup>.

According to him the cash waqf transfer concept can be strengthened by issuing cash waqf certificate. This leads to securitization of Islamic voluntary sector. With the cash waqf certificate it will increase the interest of the people to waqf their small amount of money. This also can pool that money in several purpose and increase good governance in maintaining waqf asset. Mannan gives several guidelines governing the issuing of cash waqf certificate<sup>25</sup>:

- 1. Cash-awqāf shall be accepted as endowment in conformity with the sharī a. The bank will manage the waqf on behalf of the wāqif;
- 2. Awaāf are done in perpetuity and the Account shall be opened in the title given by the wāqif;
- 3. Wāqif will have the liberty to choose the purpose (s) to be served, either from the list of 32 purposes identified by SIBL as noted later or any other purpose(s) permitted by the sharīca;
- 4. Cash-waqf amount will earn profit at the highest rate offered by the bank from time to time;
- 5. The waqf amount will remain intact and only the profit amount will be spent for the purpose(s) specified by the wāqif. The unspent profit amount will automatically be added to waqf amount and earn profit to grow over time;
- 6. Wāqif may also instruct the Bank to spend the entire profit amount for the purpose specified by him/her.
- 7. Wāqif will have the opportunity to create Cash-waqf at a (later?) time. Otherwise, he/she will declare the amount he/she intends to build up and will start with a minimum deposit of Tk. 1000/= one thousand only (or equivalent foreign currency). The subsequent deposits shall also be made in thousand or in multiples of thousand;
- 8. Wāqif shall also have the right to give standing instruction to the bank for regular realization of Cash-waqf at a rate specified by him/her from any other a/c maintained with SIBL;
- 9. Cash-waqf shall be accepted in specified endowment receipt voucher and a certificate for the entire amount shall be issued as and when the declared amount is built;

<sup>&</sup>lt;sup>23</sup> Ibid., p. 3

<sup>&</sup>lt;sup>24</sup> M.A.Mannan,"Cash Waqf Certificate Global Opportunities for Developing The Social Capital Market in 21first century Voluntary-Sector Banking (Proceeding of the Third Harvard University Forum on Islamic Finance: Local Challengs, Global opportunities Cambridge, Massachusetts, Center for Middle Eastern Studies, Harvard University. 1999pp. 23-256):243
<sup>25</sup> Ibid., p.251

10. The principles and shara-based rules of Cash-waqf Account are subject to amendment and review from time to time

From above explanation we can contract the concept of ideal cash waqf transfer method. The following picture shows us the flow of money in cash waqf transfer model. We can infer form this picture that the waqf money can be invested in social project and profitable investment. The profitable investment such as investment on industry, agriculture, and service sector can help financing the social project. The consideration of high cost of managing social project can be overcome by the profit which generate by private investment. Furthermore the implementation of financing under musyarakah and mudarabah contract is considered as the way to avoid practice of riba by social investment bank.

Waqif

Cash waqf
certificate

Musyarakah
Social project
investment
Profitable
investment
Investment

Figure 6. General Concept of Cash Waqf transfer

Source: Author's Own

# 3. RESEARCH METHOD

This study uses library research method in collecting the data which relevant with application of cash waqf transfer. The data is collected from relevant literature such as journal, books, and other related materials. Several paper show how the concept of cash waqf transfer has been implemented in such countries like Indonesia, Malaysia, and Singapore. Moreover, jurist's point of view related with cash waqf transfer is also gathered to inform us the *fiqh* issue in cash waqf transfer.

# a. Implementation of Cash Waqf Transfer in Several Countries

# Malaysia

Malaysia is one of the leaders of Islamic financial industry in the world. With several Islamic institutions Malaysia continues to develop Cash waqf method for several purposes. Government actively encourages the development of waqf institution like establishment of department of waqf, Hajj, and Umrah in 2004 under the ministry of finance. Furthermore, Johor Corporation as quasi-governmental body in 2006 establish corporate waqf share by its subsidiary in Kuala Lumpur, Waqf An-Nur<sup>26</sup>. The establishment of several clinic of An-nur shows the commitment of this corporation to develop the role of waqf.

Beside for allocation purpose, cash waqf transfer can be used for economic growth objective. Malaysia tries implementing this relatively a new way to help micro and medium enterprises (MME'S). The purpose of cash waqf transfer is to provide financial assistance and develop financial service for MME's in Malaysia. Several methods are offered by the scholar to collect and generate fund from society and MME's and MME's stakeholders to improve the adequacy of fund. For building the cash

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<sup>&</sup>lt;sup>26</sup> Ariff Hidyat Ali, ibid., p.16

waqf in Malaysia Lahsana suggested the cooperation between several institutions is needed. SMIDEC Stand for Small and Medium Industries Development Corporation (Malaysia) is the main important institution to insist this model work<sup>27</sup>.

Several steps are needed to construct the cash waqf transfer for MME's<sup>28</sup>. Firsly, the SMIDEC has the obligation establishing the cash waqf and create deposit account for every SMIDEC member. Secondly, SMIDEC make Appointment of trustee with the founder of the cash waqf (fund management to invest the capital). Thirdly, the SMIDEC mobilize the fund by attracting several institution like SME members in SMIDEC, NGO, financial institution, Government, etc. Fourthly, this fund can be used to investment in debt financing like murabaha, BBA, Ijarah financing. Otherwise, this fund can be invest in equity financing like musyarrakah and mudarabah financing.

Lastly, the distribution of the profit according to SMIDEC member's terms and according to the accounts of cash waqf management. This concepet that create by lahsana can solve the problem of high risk financing contract like musyarakah and mudarabah financing. The MME's in Malaysia always faces the difficulties when they ask for this contract financing because agency problem that inherent with profit and loss sharing contract. With chash waqf some of this problem can be solved.

## Singapore

Singapore institutionalize it waqf under the Majlis Ugama Islam Singapura (MUIS). Tis institution is a statutory body under the Ministry of Community Development youth and sport (MCYS)<sup>29</sup>. The administration of Muslim act (AMLA) in 1968 is a basis for Muslim in Singapore to establish waqf institution. The sources of financing for several waqf project in Singapore are financed by Sukuk musyarakah bond and cash waqf method. By this method Muslim in Singapore can directly participated in monitoring and maintaining waqf project.

According to Hanefah In 2007, the pre –tax income received by the Waqaf Funds is \$98.9 million increased from \$6.3 million from 2006 because of an increase on the fair value of investment properties. The total capital owned is \$65.4 million and the asset revaluation reserve is \$8.4 million. The accumulated funds received are \$341 million increased from \$130.7 million in 2006.

# Indonesia

maonesi

Indonesia is one of several countries which already implemented cash waqf transfer method to finance several social projects especially for poverty reduction and reducing inequality. Indonesian government already established the regulation for cash waqf activities since 2004. Waqaf act no 41 2004 has become basis for several institution to collect and spend cash waqf in Indonesia. This act clearly stated that sources of waqf can be tangible asset such as money, stock and securities. One of the leaders for waqf institution is Tabung Waqf Indonesia (TWI). TWI is independent private institution which establish as initiation of Dompet Dhuafa. Beside TWI there are several private waqf institutions such as center for justice and Caring of Ummah, and Caring of Ummah Darrut Tauhid<sup>30</sup>.

Although Indonesia is most populated Muslim country the awareness about cash waqf transfer is leave behind. This condition happened because the people are not really familiar with the concept of cash

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<sup>&</sup>lt;sup>27</sup> Lahsana, Ahcene."The Role Of Cash Waqf In Financing Micro and Medium sized enterprices (MMES)".(Paper was Presented in Seventh International Conference-the Tawhidi Epistemology Zakat and Waqf Economy.Bangi. 2010): 105.

Hajah Mustafa Mohammad Hanefah et al,"financing the development of Waqf Property: The Experience of Malaysia and Singapore",(Malaysia: Faculty Ekonomi dan Muamalat Universitas Sains Islam Malaysia).3

<sup>&</sup>lt;sup>30</sup> Ahmad Affandi and Diah NurhayatiNufus."Analysis on Cash Waqf Return Fund Allocation in Indonesia: A case study in Indonesian Waqf Deposit,"(Paper was presented in Seventh International Conference-The Tauwhidi Epistemology: Zakat and Waqf Economy, Bangi, Bangladesh, 2010):121

waqf<sup>31</sup> because waqf in Indonesia identic with fixed asset such as land, building and mosque. For that reasons it is not easy way to inform Muslim in Indonesia about cash waqf transfer.

TWI as the leader in this sector spent the cash wag for productive and social sector. The allocation for social sector is the major expenditure of TWI. Beside the collecting and spending activities, cash waqf transfer can also be generated by Mutual Fund. In the case of Indonesia, Batasa Capital as nadzir for individual investor transfers some fraction of money to Dompet Dhuafa.

Table 1. The Proportion of Cash and Mutual Fund

No	Cash Waqf	Mutual Fund
1.	10%	90%
2.	30%	70%
3.	50%	50%
4.	70%	30%
5.	90%	10%

Source: Siswantoro, 2006

This Mutual fund base on fixed income basis where 80 to 100 percent of the fund from the investor is allocated to Islamic bond including Repurchase Agreement (REPO) and the rest is to Islamic Money market (Islamic Deposit). The rate of return is around 11 to 13 percent and the scheme offered to investor in some combination of mutual fund investment and cash waqf transfer.

Fraction of money that distributed to cash wagf and mutual fund investment is predetermined before the Mutual fund invested. That table shows allocation and investment scheme that offered by Batasa Syariah.

From the explanation of Siswantoro above, we can infer that cash waqf can be generated by Mutual fund concept and cash waqf collection as commonly used. Mutual fund concept is relatively new method in Islamic world where nadzir maximize the rapid growing of Islamic capital market such as Sukuk and Islamic share to generate cash waqf. The idea quite interesting because this scheme not only can generate income for the investor of Islamic capital market but it also can increase the share of voluntary sector based in Indonesia. Nevertheless there is some limitation of the development of this scheme.

Based on Siswantoro, the transparency is really needed for the investor's trust. Lack of transparency or information regarding the management of cash waqf transferred will reduce new investor to come. Moreover, government support regarding this concept is urgently needed. The placement of government account in such Mutual Fund and will help the Batasa Syariah capital to generate more money for cash waqf purposes. Besides, government can also help by securitizing idle asset owned by government and use that cash collection for this mutual fund purpose.

<sup>&</sup>lt;sup>31</sup> Dodik Siswantoro, ibid., p. 4.

## 3.2. Opinion of Muslim Scholar about Cash Waqf Transfer

Cash waqf method can be implemented under the condition where the waqf asset in this case money can be exchange with different asset that will generate income. This condition arise some fiqh issue related the ahkam of exchanging waqf asset with other asset. Based on Fatwa Kedua Puluh Dua Saham Wakaf dan Wakaf gentian: Muzarakah Jawatankuasa Fatwa Kebangsaan Bagi Hal Ehwal Ugama Islam Malaysia, Malaysian government has allowed waqf ibdal to be implemented.

Jurist has different opinion about the akham on *istibal*. This word means change or exchange waqf asset with different asset by selling or buying with other asset with the intention to keep and maintain asset of waqf<sup>32</sup>. Imam Abu Hanifah one of the classical jurists allowed istibal on waqf asset. He argued that *istibal* is allowed as long as it will bring more benefit. He also allowed to sale the waqf asset when it is urgently needed<sup>33</sup>. Maliki schools also allowed this transaction under *darurah* condition. Several jurists disagree with it. Imam syafii argue that waqf asset cannot be transferable because when it already announce as waqf the ownership belongs to Allah and there is no room to revoke that asset<sup>34</sup>. Imam syafii is also one of jurist who disallow cash as waqf asset<sup>35</sup>. Besides Syafii, Ibnu Qudamah is also one of the jurst who disagree with cash waqf<sup>36</sup>.

Regarding the need of cash waqf as the instrument of waqf Indonesian government has passed the Waqf act No.41 in 2004. In this act Indonesian government allow cash, valuable certificate, gold and silver, land certificate, etc. this act is similar with other act in several countries which already allowed cash as one of waqf asset.

## 4. RESULT

## 4.1 Issues Related Cash Waqf transfer in financial Industry

Several issues may arise regarding implementation of cash waqf transfer concept especially in Indonesia. We can analyze this issue by each institution that must exist in waqf: waqif, Asset of waqf, *Nadzir*, and portfolio investment.

- Waqif: with the growing consideration of implementing shariah in recent economic activities, there will be big chance for big corporation or international corporation deal with private waqf institution in Indonesia such as TWI. The issue is how we decide that institution or corporation waqf their money for good purpose. Based on several endowment fund experience around the world, money laundry activities did happen in the name of endowment fund. We don't want the good intention of establishing waqf institution in Indonesia mislead by avoiding tax practice or money laundry activities. According to this, selective criteria must be regulated by the government for international and private institution that eager to waqf their asset in cash waqf method especially in Mutual fund arrangement. According to this check and balance and transparency must be implemented to avoid that case.
- Asset of waqf: based on Waqf act no.41/2004, government allows several asset like cash, equity, sukuk, deposit certificate, land certificate, etc as to be waqf. This certificate is representing the ownership of some asset like equity and sukuk of several corporations. The screening criteria of this portfolio must be done by nadzir such as Batasa Capital in receiving this portfolio. AAOFI has already clearly stated what type of equity which categorize as shari'ah compliance. From that criteria nadzir should receive the asset or certificate that categorized as shari'ah compliance asset.

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<sup>&</sup>lt;sup>32</sup> Fatwa kedua puluh dua,"Saham dan Wakaf,"(Muzarakah Jawatankuasa Fatwa Kebangsaan Bagi Hal Ehwal Ugama Islam Malaysia ke-4 pada 13 hingga 14 pril 1982):84

<sup>33</sup> Fatwa kedua puluh dua.p.84

<sup>&</sup>lt;sup>34</sup> Mohammad Tahir et.al, ibid., p. 3.

<sup>&</sup>lt;sup>35</sup> Ibid, p. 3.

<sup>&</sup>lt;sup>36</sup> Ibid, p. 4.

In Indonesian context, stocks of corporations that list in Jakarta Islamic Index are preferable due to its liquidity and its lower ratio of debt to equity.

- Nadzir: in the context managing asset of waqf, nadzir must keep the amanah of waqif. The relationship of waqif and nadzir in cash waqf transfer is based on trust and transparency. Once nadzir violate the trust that already been transferred to him it will reduce the eager and participation of people to implement waqf. Cash is a liquid asset which very difficult to trace. According to this, TWI or Batasa Capital should create transparence and acceptable accounting method in managing cash waqf asset from waqif. Moreover, the excessive overhead cost in managing waqf asset should be avoided.
- **Portfolio investment**: manager of waqf asset should be selective in using and trading the portfolio of their investment. Cash waqf transfer through Mutual Fund should be considered what type of sukuk which tradable and non-tradable. Sukuk al-Ijarah, al-musyarakah, and al-mudarabah should become prioritize because its limitation of fiqh issue regarding these type. Moreover, mudarabah and musyarakah contract is preferable in mobilizing cash waqf for financing social project or profitable project. TWI or any other private waqf institution should become pioneer in introducing masyarakah and mudarabah type of financing amid Muslim people in Indonesia.

# 4.2. Government Role and implementation of Cash Waqf Transfer in Indonesia

Siyasah shar'iah or Islamic oriented public policy play an important role in analyzing cash waqf transfer as one method that used amid revitalization of waqf institution in Islamic world today. Kallaf clearly denotes syiasah shar'iah as "administration of public affairs in Islamic polity with the aim of realizing the interest of, and preventing the harm to, the community in harmony with general principle of Shari'ah even if it disagrees with particular ruling of mutjtahidun". Kallaf said siyasah shar'iah is tantamount to acting on maslahah, or public interest<sup>37</sup>.

We consider that the implementation of cash waqf transfer not immune with critique from several jurist even from several classical jurist<sup>38</sup>. Nevertheless, the flexibility of cash that can be used and generated to make profit for waqf purpose is considered bringing more *maslahah* for the *ummah* today. By this method, we can also securitize idle asset into small numerator and sale it to potential waqif. The intention of this method is trying to capture common people to participate in waqf activities and generate more income for poverty alleviation and social purposes. By its nature waqf is one instrument of Islamic teaching which protect five values of Maqasid Shar'iah: life, lineage, wealth, religion, and intellect.

We have become witness how many *maslahah* which already been achieved by cash waqf transfer in Indonesia like financing school, poor district, rehabilitation of natural disaster victim, health center etc. All of these actions are trying to protecting the life of the *ummah*, their knowledge trough education, their wealth trough creating job, and their religion through mosque. In the framework of *syiasah shar'iah*, it is the obligation of government to increase the participation of Muslim people in Indonesia in waqf. It is not impossible to achive *hajihiyah* (complement level), *tahsiniyyah* (desirable level) of *Maqasid shari'ah* trough active participation of Indonesian government and its dweller.

Based on Siswantoro, Indonesian government is not really active in helping the revival of waqf institution. This is un-fortune condition while 30 percent of its citizen live less than 2 dollar a day. The government of Indonesia should do more in supporting this method. Several ways can be done like increase the advertising of cash waqf transfer by government body, encourage participation of people who deposit their money in government bank, and encourage participation of investor in Islamic capital market through issuing government waqf certificate.

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<sup>&</sup>lt;sup>37</sup> Mohammad Hashin Kamali, ibid., p. 61

<sup>&</sup>lt;sup>38</sup> Dodik siswantoro, ibid., p. 4.

Aside from encouraging any measures that could close people to public interest, the ruler should also take any measure that could further away people to *mafsadah* or corrroption. The key success factor of implementing cash waqf transfer method lays on trust, transparency, and quality of nadzir in managing cash waqf transfer. Trust between waqif and nadzir is playing crucial role in order to increase participation of people. Moreover, transparency is needed to encourage the trust of the waqif to nadzir. This is the role of the government to create transparence system in informing the citizen. Good governance in nadzir institution is urgently needed. This is also the rule of government to reduce fasad or corruption in society. Quality of manager must be another consideration of waqf institution Indonesia. To implement just *syiasah* or *siyasah adilah* loyal and strength officer are needed<sup>39</sup>. The loyal mean fear to misuse the *amanah* that already trust to them and strength is the capability of nadzir in investing cash waqf transfer. These two requirements must be attained to keep the existence of waqf institution.

## 5. CONCLUSION AND RECOMMENDATION

The objective of this paper is trying to inform several objectives: review the concept of cash waqf transfer, its implementation in Indonesia, jurist opinion about cash waqf transfer, and perspective of syiasah shariah in implementing cash waqf transfer in Indoneia. From several explanations above we can conclude some information regarding this topic.

The main objective of cash waqf transfer is increasing participation of Muslim in waqf their money through buying cash waqf certificate from bank or waqf institution. The cash will be mobilized to financing social project and profitable project to support financing of social project. Several jurist suggest the project must be implemented under musyarakah and mudarabah contract to avoid back door riba practice.

Several jurists have different argument in analyzing the *ahkam* of cash as instrument of waqf. Syafii schools tend to avoid the using of money as asset of waqf and prohibit changing waqf asset. Nevertheless Imam Hanafi allows changing waqf asset to different asset as long as it bring more benefit. Several countries has already allows the practice of cash waqf transfer such as Malysia, Indonesia, and Singapore.

Several condition must be consider to success in implementing cash waqf transfer such as criteria of waqif, quality and transparency of nadzir, and investment process that should be in line with shar'iah. From the perspective of syiasah shar'iah the government should actively encourage the participation people in waqf to achieve better maslahah. The silent regulation and transparency must be constructed in order to increase participation of people.

Several recommendations can be addressed to government in order to achieve Maqasid Shar'iah. Firstly, the government can help revive waqf institution by create strong regulation according transparency and accountability of waqf institution. The government could help through providing good manager in maintaining waqf asset. Secondly the government could participate by injection some capital into the system to increase capitalization of waqf institution. Thirdly, government might facilitate auditing program for waqf institution in Indonesia to improve transparency. Finally, the government might help by improve socialization of cash waqf transfer in mass media or social media.

To conclude, how to improve participation of people can be main concern of Indonesian government.

<sup>&</sup>lt;sup>39</sup> Mohamad Hashim Kamali, ibid., p. 67.

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# THE FOUR-RS OF A WAQF IN ILORIN EMIRATE ECONOMY

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#### **ABSTRACT**

Absence of a Waqf for the entire people of Ilorin Emirate Economy (IEE) spurred this study. The Four-Rs of establishing a Waqf in Ilorin Emirate Economy (IEE) are the Rationale for, Riddles within, Remedies for, and Reward accruable to the people of IEE if a Waqf is organized. Books relating the existing financial institutions and Waqf are reviewed with reference to IEE. Participant, discussion and observation methods are used to obtain cross-sectional data and analyzed via the major sources of Islamic Economics. It is discovered that IEE possesses the wherewithal (Human, Islamic, Landed and Material Resources) to establish a Waqf but there are some surmountable factors hindering its establishment while the likely proceeds of Waqf on IEE are inexhaustible. The inexhaustible contributions of Waqf to the IEE are also sustainable; will never lead to disinvestment; precedes and supersedes MDGs (Millennium Development Goals); and gives hope to the hopeless; generates full employment of resources; harmonizes the haves and the have-nots; increases output and productivity; stabilizes prizes of commodities, enhances consumption, spending trading, income, savings, investments and even distribution of income among other micro and macroeconomic objectives of every economists. Above all, Waqf would enable the people of IEE to secure the Eternal Mercy of Allah (S.W.T). The study recommends prompt establishment of a Waqf combining all residents of IEE, in order not to miss the sustainable and everlasting benefits of a Waqf on the IEE in particular and the entire world in general.

**Keywords**: IEE, Sustainable Development, Waqf

## 1. INTRODUCTION

The call for the establishment of a Fund for the development of the Ilorin Emirate Economy (IEE) by the National or Chief Missioner of Ansarudeen Society of Nigeria, Sheikh Abdul-Rahman O. Ahmad in 2011 (Ahmad, 2011), reiterated by the current Grand *Khadi*, Kwara State *Shariah* Court, Justice Imam Fulani, at this year's Annual End of Ramadan Program, organized by Joint Committee of IEDPU Ilorin Branch and National Council of Muslim Youth at the front of Emir's Palace, Ilorin; formation of an Economic Committee within the National Executives of Ilorin Emirate Descendants Progressive Union (IEDPU), organization of a Workshop for Revamping Ilorin Emirate Economy and the speech of National President of IEDPU, retired Justice Saka Yusuf (Yusuf, 2012) showed that there was no *Waqf* in the IEE. These showed that there was no *Waqf* collectively owned by the stakeholders of IEE. Ahmad (2011) called for the establishment of a Trust Fund or Common Purse for the development of the people of Ilorin Emirate.

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Thus, the will of people to voluntarily contribute a part of their hard-earned income to the Fund, for community development, could lead to the establishment of a *Waqf*. *Waqf* is an Arabic word that stands for "A religious foundation set up for the benefit of the poor", and *Awqaf* is the "Property voluntarily transferred to the charity or trust so that the usufruct may accrue to other people" Usmani (2002: 237). The institution of *Waqf* began in the early days of Islam, well-developed in the Ottoman Empire, contributed to socio-economic development of Islam and signified a foundation set up for keeping properties in perpetual existence and making its income available for specific beneficiaries (Navaid, 2010: 57). It was an endowment for common well-being (Navaid, 2010: 118).

There is persistent influx of people to the state capital, Ilorin Metropolis from all parts of Nigeria due to insecurity in the northern part of Nigeria and relatively conducive commercial environment of the state, Kwara compared to the southern part of Nigeria, Moronfoye, (2013). Above all, all efforts made by various governments to stop street begging in IEE have proved abortive and many other reasons necessitate the establishment of Waqf in IEE.

Acronyms used in the paper are IEDPU, IEE, MDGs, S.A.W, Q and S.W.T which means "Ilorin Emirate Descendants' Progressive Union", 'Ilorin Emirate Economy', 'Millennium Development Goals', 'Qur'an', 'Solallahu Alaehi Was-Salaam' (Peace and Blessing of Allah be on him.) and 'Subuhanahu Wa Tahala' (Glory and Esteem be to Him) respectively.

# 2. LITERATURE REVIEW

Waqf is religious endowment, Khan (1996: 889). Thus, if a foundation were to be Islamic, it does not have to come in the name of somebody's mother, father, wife, etc. According to www.irWaqf.com/index.php?!/Waqf\_publications .... 2013/06/18 12:02pm, Waqf is different from other acts of charity for it is Sadaqah Jariyah, an on-going, endless and sustainable religious endowment. It is an asset given as religious gift by a Mujtahid (Islamic Donor), has current and renewable challenges, can be used to buy assets to mosques, construct Islamic schools, construct public utility services, ceases to become the asset of the donor after delivery, to the Mutawali (Suretee) and yield sustainable economic development for the beneficiary who is safe and secured with it, leading to huge reward for the donor. The donor of which must be matured, sane, not under pressure, objective, and has right over the property endowed.

Abdul-Yakeen (2006) ascertained that there was Islamic Banking Windows in Ilorin Metropolis but the patronage was below expectation. However, the existence of Islamic Banking Windows in Keystone and many other banks is a good step towards having a *Waqf*. Meanwhile, Abdul-Yakeen (2012) discovered that the contribution of Rotating Savings and Credit Associations (ROSCAS) to the economic development of Ilorin Metropolis was very great and thus recommended improved patronage of ROSCAS to attain the greater and sustainable economic growth and development. The implication of this is that the establishment of a *Waqf* would assist ROSCAS and Islamic Banking Windows of many Conventional Banks to develop the community in a more Islamically minded way. On The Untapped Role of Civil-Servants, Ibrahim and Abdul-Yakeen (2013) suggested the application of One-By-One (1X1) Financial Strategy in order to attain Affluence through the 'Emulable 'Circular Flow of Wealth'.

Development of human resources includes extensive and intensive training of man in all spheres of life to uplift his understanding and commitment to Islam (taqwa), efficiency, sense of responsibility, social spirit of individuals; and to establish Justice, adl in the society according to Ahmad (1980) cited by Molla, et al (1988: 200). Sustainable development, therefore, is defined as voluntary increase in employment of resources (for the sake of Allah 'S.W.T') that leads to increase in output and improvement in the standard of living of people in this world and in the hereafter. This kind of development is sustainable because the

contributors are not expecting material gains (interest, commission or compensation) from the beneficiaries (Q92: 17 - 21) but countenance from His Lord, Allah (S.W.T) who would reward them with Paradise and eternal bliss.

Ibrahim (2006) tried to discover how individual collection and distribution of *Zakah* significantly contributed to ineffectiveness of *Zakah* in Ilorin Metropolis and suggested solutions which do not involve establishment of a *Waqf*. This shows the fact that the only compulsory financial institution in Islam is not yet well-coordinated by the community. Thus, the researchers had the necessary and sufficient excuses to commence a study on the formation of a Voluntary Financial Institution in Islam, *Waqf*.

Aliyu, Gatawa and Abdul-Yakeen (2013) discovered that the level of application of some Islamic Principles to the operation of ROSCAS in Ilorin Metropolis is sixty-eight percent. It recommended improved employment of Islamic Principles to ROSCAS' operation at micro and macroeconomic levels; formalization; and transformation of ROSCAS to Islamic Banks to attain *Falah* (Success in this World and in the Here-After). With this level of compliance (68%) from the associations where people would get direct benefit, who knows what would be the percentage of compliance to Islamic Principles when it comes to the establishment of a *Waqf*. The challenge the Muslim countries face was to actualize the Islamic Vision of *Falah* and *Hayat Tayyibah* for every individual in their societies in spite of the resource constraints they face, Chapra (1992/1412H: 339). *Hayat Tayyibah* means Clean life and *Falah* implies successful living in this Life and Here-After. The best way to achieve these is to add the establishment of *Waqf* to the current Islamic religious duties they uphold.

The best course for people who have surplus wealth is to hand it to others so that they may satisfy their needs, Afzal-ur-Rahman (2000: 40). This assertion is derived from Qur'an (Q2: 267). Ministry of *Waqf*, Islamic Affairs, and Holy Places was issuing specialized amount of *Muqarada* Bonds the proceeds of which was used to build shops, offices, and factories on the *Waqf* Land, renting out the properties under *Al-Hijarah* contract and the rentals ('*ijr*) constituted its profit (Rosly, 2008: 477). This shows that Ministries of *Waqf* can be established by all Islamic Governments and pieces of land could be set aside as a *Waqf* and lent out for business purposes. According to Gusau (1993: 77 - 112), social security, Islamic Jurists described Social security in terms of guaranteeing of minimum livelihood of feeding, clothing, shelter, marriage and education. He continued that Social Security was enjoined on Prophets like Ibrahim (Q2: 73), Ismael (Q1: 58), Musa (Q7: 156) and Jesus (Q19: 31). The implication of this statement, though not mentioned by Gusau (1993: 77 - 112), is that *Waqf* is a way of providing Social Security for the society.

Source of funds to *Waqf* could be through *Sadaqat* (Voluntary Donations). Sadaqat is rated in *Hadith* 1324 in Al-Asqalani, (1996: 535) which says "*Sadaqa* does not reduce property, Allah (S.W.T) increases the honor of him who forgives and no one will humble himself for Allah's (S.W.T) sake without Allah (S.W.T) raising him up". Thus, *Waqf* would lead to an improved welfare for the people of IEE. In addition, there is Time-Multiple-Counter-Loan (TMCL) invented by Sheikh Mahmud Ahmad (www.renaisance.com.pk,lawrel961.\$html ... 2013/6/30 ...3am.). This is an Islamically accepted means of financing because it involves no payment of interest on loans and is accepted by a lot of Islamic jurists. Thus, Establishment of *Waqf* could aid the execution of TMCL as an alternative to interest based financial system.

## 3. METHODOLOGY

The study area is Ilorin Emirate. Ilorin town is on coordinate  $8^0$  30'N  $4^0$ 33'E /  $8.500^0$  4.550°E, founded in 1450 and having a population of 847,582 as at 2007 (en.m.wikipedia/wiki/Ilorin, Nigeria... 2013/06/19 2am.). Ilorin Emirate was established in the third decade of nineteen century, Ilorin town became popular Centre of Islamic Learning south west of Niger and beacon of light to Islam and Muslims in Nigeria till present time, Danmole (2012: 3 - 4)

Shari'ah (technically, is seen as the Islamic legal system that encompasses all aspects of life), Aliyu (2010: 1). Waqf as an aspect of Islamic economics is derived from Shari'ah. Guiding rules of Islamic Financial System (IFS) are derived from Qur'an and Sunnah [i.e. Sayings and Deeds of Prophet Muhammad (S.A.W)], Rosly (2008: 20). Allah (S.W.T) says believers shall follow Him and His Prophets respectively (Q64: 12). Qur'anic teachings are in three dimensions, namely: Aqidah (Faith and Belief), Akhlak (Ethics and Morality), and Muamalat (Transactions), Rosly (2008: 20). Impliedly, Islamic Financial System is derived from the basic sources of Islamic religion, Shari'ah. In order to elaborate it, Aliyu (2010) says that Shari'ah is derived from three basic sources, namely: Qur'an, Hadith (Prophetic Traditions) and Ijma' (Consensus of Muslim jurists).

he researchers used explanatory method to analyze data obtained through Participatory, Discussion and Observation methods of analyzing primary and qualitative data. The secondary data were obtained from the Holy Qur'an, the primary source of *Shari'ah* (Islamic Law) and was used to back most of the arguments put forward for the establishment of *Waqf* in the study area. Following the above was the sayings of Holy Prophet, Muhammad (S.A.W), views and discoveries of Islamic scholars were used for data analysis and discussion of findings. None of the data obtained was subjected to any scaling method or quantitative analysis but they were discussed briefly due to the fact that they were too numerous.

The findings of the study are stated as the synthesis of the rationales for the establishment of *Waqf*; riddles of organizing a *Waqf*; remedies to the problems of potential *Waqf* institution; and the likely gains that could arise from the *Waqf* if established in IEE.

## 4. DATA PRESENTATION AND ANALYSIS

The data obtained and explained in the study are based on the rationale, riddles, remedies and rewards of *Waqf* in IEE which led to the remark made by the researchers. It goes thus:

## 4.1 Rationale

Rationales are the *raison-deter* or arguments in support of the establishment of a *Waqf* in IEE. Thus, the reasons why a *Waqf* should be established in IEE are listed and explained below.

Iman (Belief). Islamic Religion must be available in a place where a Waqf would be instituted. Muslims are the people who belief in Oneness of God, Allah (S.W.T), Messengership of Muhammad (S.A.W), Ghaib (invisible things), last day of judgment, observe Salat (Islamic Prayer) (Q2: 3; 3: 114, etc). Muslims or Believers are called to be helpers of the course of Allah (S.W.T), (Q61: 14). A Muslim is defined as a person in whose hand and tongue the lives and properties of other Muslims are safe (Hadith 10 in Khan, 1994: 60). He who feeds and greets others Muslims is a Muslim (Hadith 12 in Khan, 1994: 60 - 61). Most of the indigenes of IEE are Muslims Ahmad (2011), Yusuf (2012), Danmole (2012), etc. Thus, IEE people are obeying the Aqidah (Faith and Belief) teaching of the Qur'an as stated by Rosly (2008).

'Ardh (Land). Land, according to jurists is not eligible for entitlement to share of profit as compared to other factors of production, Usmani (2002: 237). Therefore, a portion of the free gift of nature, land in IEE could be allocated for a *Waqf*. IEE has a very large land mass that is over forty percent of the entire land mass of Kwara State of Nigeria, Lambo (2012). in agreement with *Hadith* 1081 in Khan (1994: 508), *Waqf* Land shall not be distributed, in order to preserve it for future generation.

'Amalan Soliah (doing good work) or Gainful Employment and doing well with their wealth as stated in Qur'an (18: 110). Believers are to struggle in Allah's (S.W.T) way (Q5: 35), must not sit at home expecting Mercies of Allah (S.W.T) to fall on him without making some refinements on them. Though Allah (S.W.T) promises to provide means of sustenance to every body (Q51: 58; 15: 20; etc) He also enjoined believers to work (2: 277); for Him, His messengers and the generality of Muslims to see (Q9: 105). Seek for Allah's (S.W.T) Mercy after *Jumu'ah* prayers (O62: 10), invite people to good deeds (O3: 104), etc. Doing good leads people to Paradise (Q14: 124; 51: 22, 7: 3; etc), good life and better rewards (Q16: 97); compensation with garden in Paradise beneath which rivers flow, perpetually sustainable living, and reciprocal mercy between Allah (S.W.T) and believers who fear Him; and workers would not be cheated (Q3: 195). Allah (S.W.T) says the work may be a good one or bad one and everybody would see his work on the Day of Judgment (Q99: 1 - 9). Thus, laziness and beggary are not condoned in Islam. Majority of the people of Kwara State in which Ilorin Metropolis is the capital are civil-servants, Ahmed (2013). The Holy Prophet (S.A.W) says it is better that one goes to fetch log of wood for sale and earn income than to beg [Hadith 748 in Khan (1994: 371 - 372)]. Allah (S.W.T) also says after darkness, difficulty, failure, sufferness, pain, payment, and input, etc comes illumination, ease, success, joy, receipt, and output respectively (Q94: 5 - 6). Therefore, the Muhamalat (Transactions) teaching of Qur'an identified by Rosly (2008) is followed by the aborigines of IEE.

Kulu wa Sirabu (Consume: Eat and Drink). Muslims are allowed to eat and drink the lawful, products of their labor (Q7: 157; 3: 168). There shall be no illegal consumption (Q4: 29), no prodigal spending (Q7: 31), no stealing (Q5: 41), no illegal capital accumulation (Q2: 188). Here, the role of custom (Urf) and usage ('Ada) must be adhered to. Thus, one must not embezzle wealth of others. One must also provide shelter for his family, or let your wife and children live where you live (Q65: 6, etc).

Infaq (Spending). It is agreed in Islam that Men are created in ranks (Q43: 32; 16: 71; 6: 165, etc). As such rich believers are expected to spend out of their income in Allah's (S.W.T) way (O2: 274; 36: 47; 57: 7, 65: 6-7; etc). Spending could be from their wealth via kindness to the poor ((Q92: 5-7; 107: 1 -3); 51: 19; 28: 77; etc) in order to protect the less privilege ones. You are created in ranks, if you must ask, ask Allah (S.W.T) (Q43: 32) and men to give to women (4: 34). Nafagat (Maintainance of Wife, children, close relatives, etc.) is the fact that husband must be ready to provide food, clothing, housing, education, health and other sustainable living facilities for his wives, children, close relatives, Gusau (1993: 113 - 124). Thus, Muslim is permitted to spend each unit of his on himself, children, wives, slaves and where he knows best respectively as could be inferred from an *Hadith* cited by Gusau (1993: 114). There shall be no niggardliness (Q3: 180), no extravagance (Q25: 67). In Islam, Hagus-Saahili means that beggars and destitute have right in the properties of the rich, (Q70: 24 - 25) including the poor who does not beg for living (Q51: 19). Orphans and Beggars are not to be driven away (Q93: 9 - 11). Rich Muslims must be kind to the poor ones (Q107: 4 - 7), feed the poor (Q89: 17 - 18). Allah (S.W.T) promises anybody with problems that after problem is relief (Q94: 5 - 6). Expenditure in Islam includes Low Income Earners, who are expected to spend out of their income (Q65: 7). People IEE do give alms to beggars especially on Thursdays and Fridays. They are free to spend their wealth or money in order to get increase in self purification (Q93: 18). Hadith 1103 in Khan (1994: 520) encourages quick spending in Allah's (S.W.T) way within three days. Also, Hadith No. 522 of Sahih Al-Bukhari, Vol. 2 cited in the footnote of Khan (1996: 114) says everyday an angel pray to Allah (S.W.T) to compensate those who spend on His cause and anther angel does pray that Allah (S.W.T) to destroy the misers. This implies that the *Akhlq* (Ethics and Morality) teachings from the Qur'an outlined by Rosly (2008) are not strange to the people of IEE.

Bai' (Trade) is permitted but Riba (Interest) is forbidden. Interest is forbidden but Trading is permitted in Islam (Q2: 275). Bai' (Sale), Ishtirā' (buying) and Aqd (contract) are permitted by Islam. Allah (S.W.T) wants to alleviate poverty (Q4: 28). Thus, He says "Trade and do not cheat" (Q4: 29 - 30). There shall be no hoarding (Q9: 34), excessive accumulation of wealth (Q104: 1 - 4). Never-the-less, rich ones must leave properties for their descendants to inherit (Q4: 7). There are a lot of markets where people buy and sell commodities in IEE. Among them are: the Traditional, Goods Markets (Oja-Oba,Oja-Omoda, Oja-Gbooro, Oja-Ipata, Oja-Ago, Oja-Tuntun, Mandate Market and Oja-Kankatu to mention but a few), Modern Markets: Capital Market (Stock Exchange Market at Station Area in Ilorin, Banks, Insurance Companies, etc); and Labor Market (e.g. Civil-Service Commission, Local Government Service Commission, Teaching Service Commission and Universal Basic Education etc).

*Qardul Hassanah* (Good Loans). Excess output of a producer could be loaned out with proper documentation and witnesses (Q2: 282), debt postponement and forgiveness if the debtor is straightened and the creditor is able (Q2: 280), etc but interest charges must be avoided (Q2: 275 - 279). Loans must not be interest payment reliant (Q2: 275) but should be good loans (*Qardul-Hassanah*), (Q:Q5: 12). Most of the people in IEE do not engage in interest but that does not mean the absence of Money Lenders.

*Ummah* (Global Unity or Collectiveness of Muslims). Believers are enjoined to hold fast to the Rope of Allah (S.W.T) and do not be divided (Q3: 103). The Qur'anic verse that says fight in the way of Allah (S.W.T) (Q61: 4), should not be limited to physical fight against unbelievers but extended fight against poverty of wealth, knowledge, insecurity and other uncomfortable living conditions among believers and their neighbors. Danmole (2012: 21 - 21) reported that the first Emir of Ilorin did not mount the saddle of leadership on the platter of gold. He established prestined Islam in Ilorin, sougth for legitimacy frm the then Emir of Gwandu, Emir Muhammad B. Abdullah in 1829 and the request was granted as indicated in *Risala Ila Amir Yarba*. This shows that IEE is part of *Ummah*.

Ihwah (Brotherhood), Sharikah (Partnership) and Wakaala (Manager or Agency). Brotherhood and giving out ones assets to others for management are permitted in Islam but there shall be no cheating, Hadith 742 and 743 in Al-Asqalani (1996: 309 - 310). In addition, all loans must be repaid, Hadith 751 and 752 in Al-Asqalani (1996: 312). However. Managers of Waqf have rights to test and consume from and manage the wealth of orphans if they (Waqf Managers) are poor (Q4: 6). Allah (S.W.T) also says 'let there be among you, people who exhorting people to doing good and forbidding bad deeds' (Q3: 104).

Early Childhood Islamic Training which always lead to the construction of Dummy-Mosques by the very young ones before any Ramadan fast. The very young ones who are indigenes of IEE used to herald the coming of *Ramadan* Fasting (Annual Compulsory Fasting being observed by all Muslims) by constructing Dummy-Mosques which they (Very Young Ones) call Mosques. Probably, it is this infant spirit of mosque construction that grows with them that makes all the indigenes of IEE mosque-crazy (Very Determined to Construct Mosques). This kind of spirit can be extended to *Waqf*, especially now that we have necessary, sufficient and highly sophisticated mosques.

#### 4.2 Riddles

The Riddles are the puzzling questions that a reasonable person may ask concerning the existing factors that could hamper the establishment of a new thing (say, Waqf in IEE). They are not called Problems but Riddles because they are funning, purposely existing not to debar Waqf's existence but some people would expect them to hinder the establishment of Waqf. Thus, some scholars may call them 'factors inhibiting the existence of a Waqf'.' These go thus:

Desire for Direct Benefits. Most of the people of the IEE would want to get some benefits from the persons they lifted out of problems. Thus, there are Islamic Cooperative Societies in almost all the government establishments and private institutions in the IEE. Among them are: Muslim Staff Treasury of Government Day Secondary School, Amule, Ilorin; *Al-Halal* Cooperative Society of Kwara State University, Malete; Islamic Cooperative Society Saint Anthony Secondary School, Ilorin; Islamic Cooperative Society at Deputy Governor's Office, Ilorin; and many others.

There are some modern Islamic Organizations that suppose to work towards the establishment of a *Waqf* in IEE. Among the Modern Islamic Organizations are: Council of Muslim Organizations (CMO); National Council of Muslim Youths (NACOMYO); and *Jamaatu Nasirul-Islam*, *Sherriff* guard, The NASFAT, QUAREEB and many other *Al-Asalatu-*Groups.

Existence of Foundations that are not committed to establishment of a *Waqf*. Among them are: Islamic Welfare Foundation which organizes monthly Lectures and Established an Islamic Cooperatives; Retired Justice Mustafa's 'Akanbi Oniyo Foundation', which also organizes Public Lectures in addition to philanthropic activities; LEAH Charity Foundation established, for political propagation, by the wife of the current Kwara State Governor, Deaconess Omolewa Ahmed; Alh. Tunde Yusuf's 'TTY Foundation' that is giving scholarship to students; Adisa Bakare Foundation also give scholarship to students; Raliat Islamic Foundation established in memory of the mother of Late Admiral Muhammad Lawal; Alhaja Faoziyyat Ola-Olu Ali Foundation is another private *Waqf* instituted in memory of the wife of Barrister Yusuf Ola-Olu Ali (SAN); Muhammad Kamaldeen Education Foundation (MUKEF) aimed at raising funds for establishing a University in memory of Sheikh Muhammad Kamaldeen Al-Adabiy. These foundations are individually owned and are not Waqf despite the fact that they are established by Muslims. The philanthropic moves by the politicians are not *Waqf* for they do not follow the principles of "We feed them to secure Allah's Mercy, we do not expect reward or thanks from them" as stated in Qur'an (Q76: 9S) and *Qardul-Hassana* (Good Loans) extolled by Allah (S.W.T) in Qur'an (Q73: 20, etc).

Inadequate communal support from the well-to-do and the so-called Islamic Preachers to the deprived, orphans, needy, poor and their helpers. Believers are extorted to make adequate provisions for the orphans, *Hadith* 743 in Khan (1994: 369). Muslim Orphanage Home under the guidance of Architect Saifullah Ahmad Alege, stands alone for not bearing any name of any individual and not having any political and commercial motive. It is a real *Waqf* but undocumented but glaring report shows that little encouragement is given to its coordinator and staff.

Differences in political delinations. Majority of the indigenes of IEE are card carrying members of PDP (People's Democratic Party) but are not professing the party but following the Eldest Son of the Deceased Political Icon of the town, Late Dr. Abubakar Sola Saraki. So establishment of a *Waqf* could be hampered by the party not having large number of their people as organizers of a *Waqf*.

Paradox of Behaviour and Ostentatious Living of the New-Breed Islamic Scholars. Some of the New-Breed Islamic Scholars used to go to the houses of rich men, pray for them, accept payments and start ostentatious life by riding on the newly modeled vehicles, marry many wives and expensive houses. Their priorities are to become rich quickly in order to buy costly vehicles and live in mansions. They, Islamic Teachers do preach the virtues of spending for the course of Allah (S.W.T) but do not practicalize the habit of spending in the name of Allah (S.W.T). Most of them generate incomes through religious donations but spent their incomes on the purchase of new and flashy cars, building mansions, big mosques that are costly to be maintained, polygamous marriages and *Maoludin-Nabiyy* ceremonies among other expenses which are tantamount to white elephant projects. In addition, they want people to abide by the time but they are also not time conscious.

Excessive Concentration of Wealth which ultimately leads to the Bequittance of Legacies to the First Child. In IEE, every rich, educated, royal, influential, religious, spiritual and outspoken man in IEE is

pursuing the programme with which the first some of his family would inherit his legacy. Due to this fact, some specific families have specific profession and specific method of bequetting their legacies to their blood relations.

Marriage to Non-Muslims and Non-Indigenes. This is another riddle in the sense that whenever a rich man and an indigene of IEE dies and left a lot of properties, the Non-Muslims and non-indigene descendants always prevail on the legacies. Thereby, they debar the poor and needy orphans access to their Islamic rights. This, in an occasion went to the closure of a Jumu'at Mosque, and non-release of a portion of land to the development union to which it was willed among other instances.

Proliferation of Beggars. Beggars are growing in number and found along so many major streets almost every nooks and corners of the IEE. Among the places and major streets where you can find the beggars are *Oja-Oba* (Kings' Market), *Gambari*, *Omoda*, Emirs Road, Lagos Road, and *Ipata*, to mention but a few. Based or personal assessment, it was discovered that most of the beggars did not possess physical disability, incapacity or poverty. Added to the real beggars were the Political Beggars going to Political Office Holders to either beg for money or frame some undesirable excuses to request for financial assistants. Begging is not done for public interest (*Maslahah*) but personal gains. There and then some academics may ask questions like "Do these people believe in the regular statement of Muslims, in every prayer 'It is You (Allah) we worship and from You (Allah) we seek for sustenance" that is embedded in Qur'an (Q1: 5) or do they not make prayers the people of Cave, "Our Lord, provide for us from your Mercy and facilitate for us our affairs in the right way" in the Qur'an (Q18: 10).

Persistent Invitation of Muslims to Public *Kiyamu Lael* (Night Prayer) the cost (money, time, energy, etc) could be enough to establish and sustain a Waqf. Currently, there is hardly a week that passes and one would not hear invitation to Islamic Night Vigil by at least a Muslim Society on the Radio stations sited in IEE. None of these associations do call for a *Waqf* for the Emirate.

Excessive belief and compliance to the principle of 'Feed the Poor during Ramadan (Religious and Compulsory thirty days fasting that is observed annually during the lunar month of *Ramadan*) and get Multiple Rewards', in addition to other religious duties. Probably, because of this, some well-to-do citizens of IEE did not establish Foundations. We would have suggested an all year feeding of the downtrodden masses but for the fear of it being a disinvestment for the mentally sound, willing and able bodied men and women. This is evident in Senator Abubakar Saraki who dolled out One Hundred Million naira to prepare *Iftar* (Food for people when breaking their Islamic Fasting) for the people of Ilorin Metropolis this year.

Other riddles or problems are Islamic preaching are politicized and personalized; traditional religious pilgrimage to Kuo; lavishing of time, money and other scarce resources during marriages, naming and Maoludin'Nabiyy ceremonies; Pomposity via the expressions of words like "We-are-all-born-here, Nobody-can-drive-me-out-of-This-Town" and "Nobody-Can-Kill-Me Syndrome"; absence of necessary and sufficient enlightenment on the virtues of doing goods for the sake of Allah (S.W.T); marriage of prominent muslims to christians; geographical distribution of Ilorin Metropolis into two major divides (i.e. Oke-Imale and Aafin dichotomy); absense of a Full-Fledged Islamic Banks; highest financial donations to religious foundations are from the Politicians while the least used to come fron the Islamic Preachers; perpetual subjugation of Islamic Students to the control of their Islamic Teachers; biased and inadequate enlightenment (most of the sponsored religious programs on the Radio are for selfish ends. They are either for political campaigns, self aggrandizement or business promotion); desire for prompt or instant benefit; inactivity of the Zakah Collection Committee; existence of corruption in Nigeria; inadequate compliance to the Islamic Principles of Financing by the operators of existing financial system; absence of very strong opposition from the very minute fear that giving out of wealth reduces wealth of the giver; indigenes of IEE who are indigenes of IEE who converted to Christian faith; land tussle between the government and the indigenous land owners in IEE; existence of sects among the

practitioners of Sufism (*Tijaniyyat* sect, *Qodiriyya* sect, *Ikhlasiyyat* sect); and others too numerous to be mentioned.

#### 4.3 Remedies

The researchers observed that there are remedies (Ways in which the Riddles of *Waqf* in IEE could be streamlined to form a *Waqf*). These remedies serve as recommended solutions to the riddles or hindrances to the Establishment of a *Waqf* in IEE. They are as follow:

Involvement of Institutional will. This is the process of making Waqf to be an Institution of its own and everybody to contribute to Waqf as an institution that would stand the test of time. Labor, education, administrative acumen, land, machines, materials, useful advice, materials, and the so-called scrap goods, etc can be contributed to Waqf as an institution. Thus, there shall be quick formation of a committee that would institutionalize the Waqf. Just like the Joint Committee of the Traditional Ramadan Festival, and the Central Mosque Committee, among others; the need for the formation of a Waqf Committee cannot be over-emphasized. The Emirate Council under the Leadership of the current Emir of Ilorin, Alh. Ibrahim Sulu Gambari, can constitute the Waqf institution. The term of reference that would be given to the Waqf Committee shall be Institutionalization of Waqf in IEE within a lunar year. The committee members shall be trustworthy and retired academicians and civil-servants who may have no cause to swindle the assets.

There shall be Regular Call for Donations to *Waqf*. The regularity could be twice in a decade or every decade. Thus, it should not be only when we need to repair the Central Mosque that we would call for donations. All the existing modern Islamic associations and the foundations could assist this project. The duty of Regular Call for Donations could be assigned to Dr. Abubakar Ali-Agan, Alh. AbdulRahman Olanrewaju Ahmad (National Missioner of Ansarudeen Society of Nigeria) and the likes.

Inevitability of *Bai'a* (Pledge). Promise of good and Islamically acceptable behavior must be made by the people that would manage *Waqf* assets. With reference to Hadith 18 in Khan, 1994: 62, the *Mutawali* (Trustee) of a *Waqf* must promise not to: associate anything with Allah (S.W.T), engage in sexual promiscuity, slander, biasness, kill anybody and misbehave. Justice Alfa Belgore (Retired Chief Judge of the Federation, Nigeria); and Justice, Dr. S.O. Muhammad among others could facilitate this duty.

Desirability of Amanah (Trustworthiness). All indigenes of the IEE shall try to be trustworthy so that they would be qualified as, at least, beneficiaries of Waqf assistance, if they cannot be managers of Waqf assets. Pending the establishment of a full-fledged Islamic Bank, the Waqf account can be opened as an interest-free account in a Conventional Bank. No matter how little everybody, residents of IEE, is enjoined to strive to contribute to Waqf whenever they get surplus income.

Need for Collective Responsibility. Every indigenes of IEE shall be ready to avoid begging as stipulated in *Hadith* 747 in Khan 1994: 371) and work for/or contribute to the success of *Waqf* as 'abdullah [Servant of Allah (S.W.T)]. The work for the *Waqf* shall be either manual labor, or mental labor, or both. Other contributions could be in terms of provision of legal backing, administrative acumen, security, technical advise, education, financial assistance, etc.

Impetus of Regulation and Control of Ostentatious Living Style. Here, incessant ceremonies, and usage of assets whose monetary values are too prohibitive should be minimized. This would check jealousy, armed robbery, incessant attacks, wide gap between the rich and the poor, etc. At the for front, here, we can have Retired General Abdullahi Muhammed as the Champion.

Creation of Political will. The Politicians shall have it as part of their Manifestoes that they are going to create and sustain a *Waqf* for the IEE in particular and the state in general. Distinguished Senator, Dr. Abubakar Bukola Saraki can spearhead the Political Will of having a *Waqf* in IEE as an innovative venture over his predecessors.

Avoidance of Pomposity and Bragging. Everybody shall know that if another person cannot kill or banish him to other towns, Allah (S.W.T) is measuring his deeds and would reward him according to his action as could be read in Qur'an (Q99: 1 - 9). Allah (S.W.T) would give greater reward to people who have heavy good deeds in His Scale and lesser reward for those with light good deeds. (101: 6 - 11).

Decentralization of Wealth. The rich, educated, royal, religious, and influential people of the Emirate shall be ready to disperse their wealth to other families. This would lead to fair and even distribution of wealth; peaceful co-existence, economic growth and development.

Subjugation of Colonial Legacies of injustice, inequity, nuclear family, selfishness, and many others to the Islamic Legacies of Peaceful Co-Existence, Justice, Equity, Brotherhood, Goodness to everybody, and many others. This mission can be led by the Chief Imam of Ilorin, Alh. Muhammad Basheer Salih.

Opening of *Waqf* Accounts with banks [e.g. Keystone Bank (NIB Accounts), Stanbic IBTC Bank (*Imaan* Account), Access Bank, etc] that have Interest-Free Accounts.

Avoidance of Marriage with Non-Muslims. All bonafide indigenes of IEE shall avoid tieing nuptial knot with Non-Muslims. This would pave way for the Islamic legacies of IEE to be retained among the believers. Better still, they should convert them (Non-Muslims) to Islam before death overtakes them (Muslims).

Formalization of Islamically Permissible Businesses. For the *Waqf* to be sustainable and honorable, beneficiaries of *Waqf* funds and *Waqf* managers shall embark on all *Halal* [Islamically permissible businesses like *Mudaraba*, *Murabaha*, *Musharaka*, *Bais-Salaam*, *Bai' Muajjal*, One-By-One Financial Strategy, Time-Multiple-Counter-Loans (TMCL), Al-*Jumuah* Cooperatives or Rotating Savings and Credit Associations (ROSCAS), etc]. By implication, they should avoid all *Haram* [Deals that are forbidden by Islam, for example *Maysir* (Gambling), *Riba* (Interest or Usury dealings), sales and or eating of dog and swines, dead animals, alcoholic drinks, etc].

Optimal Utilization of 'ardh (land) resources within the IEE. Some portion of the land could be set aside as Waqf Land. The unused properties could also be loaned out on Qardul-Hassanah basis to Waqf for Allah (S.W.T) says if you lend good loan (Qardul-Hassanah) to Allah (S.W.T) you would get multiple rewards (Q64: 18). This principle of Time-Multiple-Counter-Loan (TMCL) could be applied when giving out monetary loans under Waqf.

Efficacy of Ad-Dua' (Prayer). The prayer of the managers and beneficiaries of Waqf fund must include the one that complies with Hadith 1331 in Al-Asqalani, (1996: 537) where the Holy Prophet (S.A.W) says "O Allah as You have made my form beautiful so make my character beautiful".

Purchase of Tangible Commodities. Waqf beneficiaries must ensure that they spent assistants, grants and/or loans obtained on tangible, productive, sustainable and lasting goods and services. In other words, people especially poor people should stop lavishing monies on frivolities.

Modernization of *Waqf*. This is a situation where *Waqf* complies with all and current Mercies of Allah (S.W.T) released for the betterment of human race. The Mercy in Vogue is the Electronic-Dealings. Thus, the IEE *Waqf* shall have a website where stakeholders can inform and be informed of *Waqf* activities. This would minimize the cost of information disemination and make *Waqf* to be Millennium Compliant.

#### 4.4 Rewards

Among the prospects of *Waqf* in IEE are:

It would generate employment via the promotion of effective utilization of resources. Prompt and effective demand is encouraged in Islam through the verse that says "Spend before death comes", (Q63: 10). Here, Islam encourages Effective Aggregate Demand. The Holy Prophet (S.A.W) also encourages quick dispensation of personally owned resources, in Allah's (S.W.T) way within three days; *Hadith* 1103 in Khan (1994: 520).

It would minimize Street-Begging along the main mosque, other mosques and major streets of Ilorin Metropolis. IEE would be a best nation as promised in the Qur'an (Q3: 110). In addition, it would aid the attainment of the Millennium Development Goals (MDGs) before the targeted year. Fund for maintaining the Ultra-Modern Central Mosque and many other mosques in IEE could come from *Waqf*.

To be precise, the establishment of Waqf in IEE would lead to peaceful co-existence. This is because both the rich and the poor, old and young, producers and consumers, males and females, leaders and the led, strangers and dwellers, etc would live peacefully with each other.

Waqf establishment would lead to Social and infrastructural development. Spending leads to the removal of people from darkness to illumination (Q65: 11). In addition, it leads to soul's benefit (Q64: 16), self-control and direct benefit to the consumers before their death overcomes them (Q63: 10). That is to say the *Waqf* could enhance regular supply of electricity in IEE.

In addition, the establishment of *Waqf* in IEE would lead to increase in output, consumption of *Halal* (Permissible) goods, creation of gainful business avenues, price stability, bumper harvest, savings, investments and many other symptoms of economic growth and development.

## 4.5 Synthesis of the Four-Rs of Establishing *Waqf* in IEE

Rationales or reasons why a *Waqf* must be established in IEE are: Existence of Believers, Land, Gainful Employment, Consumption, Spending, Trade, Good Loans, Brotherhood, Unity, Partnership, Agency, and Early Childhood Islamic Training among others.

Riddles of *Waqf* in IEE are: desire to get benefits from the person helped out of a problem, existing modern Islamic Organizations and Foundations that are not working towards the establishment of *Waqf*, Inadequate communal support for the Muslim Orphanage Home, differences in political delinations, Paradox of Behaviour of New-Breed Islamic Scholars, Excessive Concentration of Wealth, Marriage to Non-Muslims and Non-Indigenes, Proliferation of Beggars, Persistent Invitation of Muslims to *Kiyamu Lael*, belief in 'Feeding the Poor during Ramadan', and others too numerous to be mentioned.

Remedies to the above riddles are Institutional will, Regular Call for Donations to *Waqf*, Pledge to be made by the Trustworthy Committee Members based on terms of reference, avoidance of begging profession, regulation and control of ostentatious living style, Political will, Avoidance of Pomposity and Bragging, Subjugation of Colonial Legacies to Islamic Legacies, Opening of *Waqf* Accounts with banks that have Interest-Free Accounts, Avoidance of Marriage to Non-Muslims, beneficiaries of *Waqf* funds and *Waqf* managers shall embark on all *Halal* (Islamically Permitted) businesses, set aside portion of Emirate Land as *Waqf* Land, regular Prayer must be made for the success of *Waqf*; and purchase of tangible, productive, and sustainable commodities with *Waqf* Fund.

The prospects of Waqf in IEE are employment generation, minimization of Street-Begging, enhancement of peaceful co-existence, increase in output, consumption of Halal (Permissible) goods, creation of gainful business avenues, price stability, bumper harvest, savings, investments, self-control, social

development, infrastructural development (Illumination); people derive direct benefits from their income before their death (Q16: 10), and many other symptoms of economic growth and development.

## 5. CONCLUDING REMARKS

Waqf can be established in IEE without much hassle. Many studies and implementation of the recommendations of this kind shall be conducted in other Islamic villages, towns, metropolis, megalopolis of all nations and the entire world so that we can resuscitate the Global Muslim Waqf (Waqf ul-Ummatul Muslimeen) which precedes and supersedes the MDGs. MDGs as approved by all member countries of United Nations' Organization, include elimination of extreme poverty, improvement of health, education, equality of sexes, global financial cooperation, etc which have been embedded in Waqf since its inception.

The study does not exhaust all the points available under the Four-Rs of *Waqf* in IEE, for to Allah (S.W.T) belongs all and complete knowledge. Allah (S.W.T) is powerful over all things and surrounds them with His knowledge (Q65: 12).

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# MEMPERKASA ZAKAT PERTANIAN DI MALAYSIA: SATU SOROTAN (EMPOWERING THE ZAKAH ON AGRICULTURE IN MALAYSIA: A REVIEW)

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#### **ABSTRAK**

Zakat merupakan salah satu bidang terpenting di dalam Islam. Di samping ianya merupakan satu bentuk ibadah ketuhanan ia juga menjaga kemaslahatan manusia. Oleh kerana itu apabila bidang zakat ini diperkasakan, secara langsung ia menjamin kemaslahatan bagi umat Islam terutamanya dari sudut ekonomi. Kertas kerja ini bertujuan untuk melakukan sorotan dan analisis terhadap bagaimana untuk memperkasakan zakat di Malaysia dengan memfokuskan kepada bidang zakat pertanian. Ia berasaskan satu kajian kualitatif yang dilakukan terhadap perbincangan-perbincangan zakat pertanian di kalangan ulama' fiqh. Hasil kajian mengemukakan beberapa kaedah pemerkasaan zakat pertanian di Malaysia iaitu memperbanyakkan sumber-sumber pertanian yang perlu dizakatkan, menyelaraskan kadar nisab bagi setiap negeri, melakukan pentaksiran ke atas tanaman dan zakat atas penyewa (petani) dan tuan tanah.

Kata kunci: zakat, zakat pertanian, ekonomi, fiqh

#### **ABSTRACT**

Zakah is a well known and also one of the most important "ibadah" (worship) in Islam. Besides it's role as ibadah, it also vital for the benefit of ummah. Therefore, the empowerment of zakah in Malaysia is most welcome, because it exactly will ensure the stability of economy for ummah. This paperwork has been made to review and also to analyse through the process on how to empowering the zakah institution in Malaysia by focusing to the zakah on agriculture. This review was based on qualitative studies on zakah on agriculture that have been done lately by the fiqh scholar around the globe. As a result, the finding of this studies also have propose effective methods or framework to empower and strengthen the zakah on agriculture institution in Malaysia such as by enhancing or increase the source of agricultural crops that includes in zakah on agriculture, coordinate all states nisab amount, formative assessment to every plants or crops and lastly the reinforcement of zakah to the farmers and landlord.

**Keywords:** zakah, zakah on agriculture, economy, figh.

# 1. PENDAHULUAN

Zakat adalah ibadah harta yang mengandungi hikmah dan manfaat yang sangat besar dan mulia, sama ada terhadap pemberi zakat, penerimanya, harta yang dizakatkan, mahupun terhadap masyarakat keseluruhannya<sup>4</sup>. Falsafah zakat juga adalah memberi, di mana golongan yang kaya memberi kepada orang yang memerlukan terutamanya orang miskin. Ia juga membawa motif perkongsian antara orang

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Didin Hafidhudin, Zakat dalam perekonomian modern (Jakarta: Gema Insani, 2002), 9-10.

kaya dan golongan yang tidak bernasib baik serta merapatkan jurang sosial antara orang kaya dan orang miskin<sup>5</sup>, ini jelas kita lihat dalam sebuah hadis ketika mana Rasulullah menghantar Mu'az bin Jabal ke Yaman dan berpesan, maksudnya:

"sesungguhnya Allah memfardukan keatas mereka agar menzakatkan harta mereka yang diambil daripada orang-orang yang kaya dikalangan mereka dan diberikan kembali kepada orang yang miskin dikalangan mereka"

(Hadis riwayat Bukhari dan Muslim)

Zakat juga mempunyai hikmah dan objektif yang besar dalam kehidupan manusia, antaranya adalah:

- Sebagai bukti keimanan kepada Allah dan mensyukuri nikmat-Nya, Melahirkan akhlak yang mulia dengan rasa kemanusiaan yang tinggi, menghilangkan sifat kedekut, rakus, kebendaan, juga dapat memberikan ketenangan.
- Membersihkan dan mengembangkan harta yang dimiliki, kerana apabila lahirnya rasa syukur maka Allah akan menambahkan nikmat-Nya keatas hambanya. Firman Allah s.w.t yang bermaksud:

"Dan (ingatlah juga) tatkala Tuhanmu memaklumkan: sesungguhnya jika kamu bersyukur, pasti Kami akan menambah (nikmat) kepadamu, dan jika kamu mengingkari nikmat-Ku, maka sesungguhnya azabku sangat pedih"

(Surah Ibrahim: 7)

- Zakat merupakan hak orang yang layak menerima zakat, maka hakikatnya zakat berfungsi menolong membantu dan membina mereka, terutamanya fakir miskin kearah kehidupan yang lebih baik dan lebih sejahtera. Sehingga mereka dapat memenuhi keperluan hidup, dan beribadah kepada Allah, juga dapat mengurangkan beban yang mereka tanggung.
- Orang yang tidak mahu berzakat adalah orang yang kedekut, dan kesan daripada itu akan menimbulkan sifat hasad dengki dari orang-orang miskin dan penderitaan, juga akan mengundang azab Allah s.w.t yang bermaksud:

"(Iaitu) orang-orang yang kedekut, dan menyuruh orang lain menjadi kedekut, dan menyembunyikan apa yang dikurniakan oleh Allah yang diberikan kepada mereka. Dan kami telah menyediakan untuk orang-orang kafir seksaan yang hina"

(Surah an-Nisaa': 37)<sup>6</sup>

- Dari sudut pembangunan kesejahteraan umat, zakat merupakan salah satu instrumen persamarataan pendapatan. Dengan zakat yang dikelola dengan baik, ia dapat memungkinkan pertumbuhan ekonomi sekaligus persamarataan pendapatan, ataupun economic with equity<sup>7</sup>.
- Zakat dapat memajukan ekonomi umat Islam dengan menerusi perancangan penggunaan dana zakat yang berkesan. Ia juga dapat menjadi sumber pendapatan kepada negara<sup>8</sup>.
- Dapat memperkasakan negara dan umat Islam melalui penyelidikan-penyelidikan dalam pelbagai bidang seperti ekonomi, pendidikan, kesihatan dan sebagainya dengan menggunakan dana zakat<sup>9</sup>.

Shofian Ahmad dan Amir Husin Mohd. Nor, Zakat Membangun Ummah (Kuala Lumpur: Utusan Publications & Distributors Sdn Bhd, 2002), 21.

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Ahmad Muflih Saefuddin, Pengelolaan zakat ditinjau dari aspek ekonomi (Bontang: Badan Dakwah Islamiyyah, 1986), 99.

Hamizul Abdul Hamid, Eksklusif Zakat (Selangor: Galeri Ilmu, 2012), 9.

Hamizul Abdul Hamid, Eksklusif Zakat, 10; Sayed Sikandar Shah Haneef & Mek Wok Mahmud, Issues in Contemporary Zakah A Juristic Analytical Evaluation, (Selangor: IIUM Press, 2011), 5.

• Zakat juga berbeza dengan riba, kerana zakat pada hakikatnya dapat menyuburkan harta, sedangkan riba hanyalah kerugian pada akhirat kelak, firman Allah s.w.t yang bermaksud:

"Allah memusnahkan riba dan menyuburkan sedekah" (Surah al-Baqarah : 276)

Secara kasarnya didapati bahawa zakat memainkan peranan yang penting dalam mengimbangi ekonomi umat Islam<sup>10</sup>. Oleh kerana itu, kertas kerja ini akan melakukan sorotan terhadap kaedah untuk memperkasakan zakat pertanian di Malaysia. Secara tidak lansung pemerkasaan zakat pertanian ini dapat mempertingkatkan hasil zakat di Malaysia dan mengimbangi kadar sosio ekonomi umat Islam di Malaysia.

## 2. ZAKAT PERTANIAN

Pertanian adalah salah satu sumber pendapatan dan ekonomi bagi manusia, dengan mempunyai tanah dan tanaman yang subur boleh menjadikan seseorang itu kaya. Oleh kerana itu jugalah hasil yang dikeluarkan dari bumi tersebut diwajibkan zakat, iaitu zakat pertanian.

Zakat pertanian umumnya adalah hak yang wajib ditunaikan sebanyak 10% atau 5% (mengikut kaedah pengairan) daripada hasil pertanian (yang tertentu), pada waktu hasil tersebut dituai (atau setelah dilakukan pentaksiran) yang mencukupi atau melebihi 5 *ausuq*<sup>11</sup>. Selaras dengan pengertian zakat secara umum, iaitu "hak yang wajib ditunaikan dengan kadar tertentu dari pada harta tertentu, untuk golongan tertentu pada waktu yang tertentu". Menurut Mujaini Tarimin, pentakrifan zakat pertanian adalah:

"Mengeluarkan sebahagian daripada pendapatan bersih hasil pertanian yang dimajukan oleh manusia dari jenis biji-bijian atau buah-buahan atau mana-mana hasil pertanian yang memberi manfaat serta menepati semua syarat, rukun dan sebab (*'illah*) diwajibkan zakat"<sup>13</sup>

Zakat pertanian juga dikenali sebagai *al-'usyr*, zakat *al-zuru' wa al-thimar*, atau zakat *al-mu'asyirat*<sup>14</sup>, walaupun begitu ia tetap mempunyai satu maksud. Hasil pertanian wajib untuk dikeluarkan zakat daripadanya. Dalil-dalil yang mewajibkan zakat pertanian antaranya adalah seperti berikut:

# Al-Quran

Firman Allah s.w.t di dalam surah al-Baqarah :

"Wahai orang-orang yang beriman! belanjakanlah (pada jalan Allah) sebahagian dari hasil usaha kamu yang baik-baik, dan sebahagian dari apa yang Kami keluarkan dari bumi untuk kamu"

(Surah Al-Baqarah 2 : 267)

dan firman Allah dalam surah al-An'am:

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Pranam Dhar, "Zakat as a Measure of Social Justice in Islamic Finance: An Accaountant's Overview," Journal of Emerging Economies and Islamic Research 1, no. 1 (2013), diakses pada 10 Jun 2013, http://www.jeeir.com/index.php/jeeir/article/view/35

Muhammad Ikhlas Rosele, Luqman Hj Abdullah & Mohd Anuar Ramli, "al-Qaradawi's Juristic Perspectives on Zakah of Agricultural Wealth As Reflected in His Fiqh al-Zakah: A Brief Survey" (Makalah National Seminar on Contemporary Figh: Issues and Challenges, UIAM, 18-19 Disember 2012), 288.

Mansur bin Yunus al-Buhuti, *Kasyaf al-Qina' 'an Matn al-Iqna'* (Riyad : Dar 'Alam al-Kutub, 2003), 3: 803-804; 'Abdul Karim Zaidan, *al-Mufassal fi Ahkam al-Mar'ah wa al-Bait al-Muslim* (Beirut : Muassasah al-Risalah, 1993), 1: 343.

Mujaini Tarimin, Zakat Pertanian; Sistem dan Pelaksanaannya (Kuala Lumpur: Dewan Bahasa dan Pustaka, 1990). 2.

Yusuf al-Qaradawi, Fiqh al-Zakah Dirasah Muqaranah li Ahkamiha wa Falsafatiha fi Dhau' al-Qur'an wa al-Sunnah (Kaherah: Maktabah Wahbah, 1994), 1: 329.

"Makanlah dari buahnya ketika ia berbuah dan keluarkanlah haknya (zakatnya) pada hari memetik atau menuainya; dan janganlah kamu melampau-lampau (pada apa jua yang kamu makan atau belanjakan); sesungguhnya Allah tidak suka kepada orang-orang yang melampau-lampau"

(Surah Al-An'am 6 : 141)

#### Al-Sunnah

Sabda Rasulullah s.a.w:

فيمَاسَقَتْ السَّمَاءُوَ الْعُيُونُ أَوْ كَانَعَثَر يَّاالْعُشْرُ وَمَاسُقِيَبِالنَّصْحِنِصْفُالْعُشْر

"Pada apa-apa yang diairi (disirami) dengan air hujan, mata air atau air tanah (takungan) dikenakan (zakat) sebanyak 10%, sedangkan pada apa-apa yang diairi dengan tenaga dikenakan (zakat) sebanyak 5%"

(Hadis riwayat al-Bukhari)

Sabda Rasulullah s.a.w:

فِيمَاسَقَتْ الْأَنْهَارُ وَ الْغَيْمُالْعُشُورُ وَفِيمَاسُقِيَبِالسَّانِيَةِنِصْفُالْعُشْرِ

Yang bermaksud : "Pada apa-apa yang diairi dengan sungai dan hujan dikenakan (zakat) sebanyak 10%, sedangkan pada apa-apa yang diairi dengan pengairan dikenakan (zakat) sebanyak 5%"

(Hadis riwayat Ahmad dan Muslim)

Serta beberapa hadis lain yang menyatakan hasil pertanian dikeluarkan zakat.

#### Iima'

Para ulama' telah ijma' dalam mewajibkan zakat dari hasil yang dikeluarkan dari bumi, tetapi mereka berbeza pendapat dari sudut perinciannya sahaja<sup>15</sup>.

## 2.1 Perlaksanaan Kutipan Zakat Pertanian di Malaysia

Zakat pertanian merupakan antara sumber zakat yang penting di Malaysia, ini kerana sektor pertanian antara sektor utama yang menjadi tulang belakang kepada ekonomi di Malaysia di samping sektor perkhidmatan dan perkilangan<sup>16</sup>.Sosio ekonomi masyarakat Malaysia juga antaranya berasaskan pertanian. Pertubuhan-pertubuhan kutipan zakat di Malaysia telah pun menjalankan kutipan zakat hasil tanaman atau pertanian demi merealisasikan tuntutan syariat. Di dalam bahagian ini akan membincangkan secara ringkas dan umum berkenaan perlaksanaan kutipan zakat di Malaysia.

Hasil pertanian yang wajib dikeluarkan di Malaysia adalah hasil pertanian yang berbentuk makanan asasi (*qut al-balad*) dan mengenyangkan bagi sesebuah negeri. Pentakrifan inilah yang diperjelaskan oleh kebanyakan pusat pungutan zakat negeri di Malaysia seperti Selangor<sup>17</sup>, Melaka<sup>18</sup>, Pahang<sup>19</sup>dan selainnya.

Abu Bakr bin Mas'ud al-Kasani, *Badai' al-Shanai' fi Tartib Syarai'*(Beirut : Dar al-Kutub al-'Ilmiyah, 2003), 2: 495.

Mohd Faisol Ibrahim & Suhana Musani, *Zakat dan Perlaksanaannya di Malaysia* (Sabah: UMS, 2010), 17; Aziz Abdul Majid, Ab. Latif Ibrahim, Norizan Md. Nor & Hassan Naziri Khalid, "Pertanian Mapan: Cabaran dan Strategi Pembangunan Dalam Sektor Pertanian Di Negeri Perlis," (makalah Society Space and Environment In A Globalised World Prospects & Challenges, City Bayview Hotel, Penang, 29-30 April 2003), 277.

Lembaga Zakat Selangor, "Zakat Pertanian," e-zakat.com, diakses pada 8 Jun 2013, http://www.e-zakat.com.my/zakat-harta/zakat-pertanian/

Dalam konteks Malaysia dimaklumi bahawa makanan asasi masyarakatnya adalah beras ataupun padi, oleh kerana itu zakat tanaman adalah diwajibkan ke atas padi apabila telah sempurna syarat-syaratnya<sup>20</sup>.

Syarat-syarat wajib zakat pertanian, tanaman atau lebih khususnya padi adalah seperti berikut<sup>21</sup>:

- i. Islam
- ii. Sempurna Milik
- iii. Merdeka
- iv. Cukup Nisab
- v. Biji-bijian dan buah-buahan ditanam oleh manusia

Nisab bagi zakat pertanian pula dilihat berbeza di antara setiap negeri di Malaysia. Lihat Jadual 1 berikut:

Jadual 1: Kadar Nisab Zakat Pertanian di Negeri-Negeri di Malaysia

Negeri	Kadar Nisab (kg)
Johor <sup>22</sup>	816.75
Kedah <sup>23</sup>	1300.49
Kelantan <sup>24</sup>	875
Melaka <sup>25</sup>	1300
Negeri Sembilan <sup>26</sup>	1306
Pahang <sup>27</sup>	1000
Perak <sup>28</sup>	363 gantang
Perlis <sup>29</sup>	986.7
Pulau Pinang <sup>30</sup>	1300
Sabah	-
Sarawak <sup>31</sup>	1080
Selangor <sup>32</sup>	1306

Pusat Zakat Melaka, "Zakat Pertanian," izakat.com, diakses pada 8 Jun 2013, http://www.izakat.com/index.php?option=com content&view=article&id=14&Itemid=13&lang=bm

Pusat Kutipan Zakat Pahang, "Zakat Tanaman (Padi)," zakatpahang.my, diakses pada 8 Jun 2013, http://www.zakatpahang.my/v2/TanamanAbstrak.aspx

Jabatan Wakaf, Zakat dan Haji Jabatan Perdana Menteri, *Manual Pengurusan Pengiraan Zakat* (Putrajaya: Jabatan Wakaf, Zakat dan Haji, 2009), 44.

Jabatan Wakaf, Zakat dan Haji, *Manual Pengurusan Pengiraan Zakat*, 44.

MAIJ, "Zakat Pertanian (buah-buahan dan bijiran)," maij.gov.my, diakses pada 8 Jun 2013, http://www.maij.gov.my/zakat/

Jabatan Zakat Negeri Kedah, "Nisab Zakat Padi," zakatkedah.com, diakses pada 8 Jun 2013http://www.zakatkedah.com/index.php/padi

MAIK, "Kadar Nisab Zakat Tanaman (Padi)," e-maik.my, diakses pada 8 jun 2013, http://www.e-maik.my/public\_new/index.php?option=com\_content&view=article&id=237&Itemid=1199

Pusat Zakat Melaka, "Zakat Pertanian,"

Pusat Zakat Negeri Sembilan, "Zakat Pertanian (Padi)," *zakatns.com*, diakses pada 8 Jun 2013, http://www.zakatns.com.my/ver4/info-zakat/jenis-zakat/zakat-pertanian-padi

<sup>&</sup>lt;sup>27</sup> Pusat Kutipan Zakat Pahang, "Zakat Tanaman (Padi),"

Hasan Bahrom & Ezani Yaakub, *Pengurusan Zakat Semasa* (UPENA, UiTM: Selangor, 2006), 69.

Nuruul Hidayah Mansor, "Analisis Perbandingan Amalan Kaedah Pembayaran Zakat Tanaman: Kajian di Negeri Selangor dan Perlis," (Disertasi Sarjana Syariah, Universiti Malaya, 2012), 84

Zakat Pulau Pinang, "Zakat Pertanian," zakatpenang.com, diakses pada 8 Jun 2013 http://www.zakatpenang.com/index.php/kutipan/jenis-zakat/zakat-pertanian

Tabung Baitulmal Sarawak, "Zakat Tanaman dan Pertanian," *tabung-baitulmal-sarawak.org.my*, diakses pada 8 Jun 2013, http://www.tabung-baitulmal-sarawak.org.my/zakatpertanian3.html

Nuruul Hidayah Mansor, "Analisis Perbandingan Amalan Kaedah Pembayaran Zakat Tanaman: Kajian di Negeri Selangor dan Perlis," 84

Terengganu <sup>33</sup>	937.5
Wilayah Persekutuan <sup>34</sup>	363 gantang

Kadar zakat yang perlu dikeluarkan apabila hasil pertanian sudah mencukupi atau melebihi nisab adalah sebanyak 5% jika diari oleh alat bantuan seperti jentera dan sebagainya. Jika tanaman diairi oleh air hujan atau secara alami maka kadar zakat yang wajib dikeluarkan adalah sebanyak 10%<sup>35</sup>. Walaubagaimanapun ada antara negeri di Malaysia meletakkan kadar zakat sebanyak 7.5% sekiranya kedua-dua kaedah pengairan tersebut digunapakai<sup>36</sup>, contohnya adalah negeri Melaka<sup>37</sup>, Sarawak<sup>38</sup>, Wilayah Persekutuan<sup>39</sup> dan selainnya.

#### 2.2 Pemerkasaan Zakat Pertanian

Pemerkasaan zakat begitu penting bagi mengimbangi dan mempertingkatkatkan ekonomi umat Islam, Memperkasakan zakat juga dilihat sebagai suatu bentuk pemerkasaan manusia, ini adalah kerana zakat merupakan suatu mekanisme ekonomi yang berbentuk global dan bersifat manusiawi<sup>40</sup>. Oleh kerana itu apabila sistem zakat dapat diperkukuhkan taraf hidup umat Islam juga meningkat dan seimbang. Walaubagaimanapun kertas kerja ini hanya melakukan sorotan terhadap sub-bidang zakat sahaja iaitu zakat pertanian dan pemerkasaannya di Malaysia.

Zakat pertanian dilihat boleh diperkasakan di Malaysia, ini kerana Malaysia giat dalam mengusahakan sektor pertanian di samping sektor-sektor lain. Sektor pertanian juga merupakan sektor ekonomi primer yang merupakan sumber pendapatan negara<sup>41</sup>. Berikut adalah beberapa cadangan dalam memperkasakan zakat pertanian di Malaysia:

#### 2.2.1 Memperbanyakkan sumber-sumber pertanian yang perlu dizakatkan

Ulama-ulama fiqh berbeza pendapat dalam menentukan jenis sumber-sumber pertanian yang wajib dikeluarkan zakat. Secara asasnya terdapat 4 perbezaan pendapat mengenai isu ini;

- i) Kewajipan zakat pertanian hanya terbatas kepada empat hasil pertanian sahaja (gandum, barli, kurma dan kismis). Ia merupakan pendapat Ibnu 'Umar dan sebahagian ulama' salaf <sup>42</sup>.
- ii) Semua yang dikeluarkan daripada bumi yang bertujuan untuk menyuburkan tanah (memperoleh hasil) wajib untuk dikenakan zakat padanya<sup>43</sup>. Pendapat ini dikemukakan oleh Imam AbuHanifah<sup>44</sup> yang juga merupakan pendapat 'Umar 'Abdul 'Aziz, Mujahid, al-Nakha' i<sup>45</sup> dan Hammad.

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MAIDAM, "Zakat Tanaman," terengganu.gov, diakses pada 8 Jun 2013, http://www.terengganu.gov.my/maxc2020/baitulmgmt/gen.zakatTanaman.php

PPZ MAIWP, "Zakat Pertanian," zakat.com, diakses pada 8 Jun 2013, http://www.zakat.com.my/en/zakat-pertanian.html

Mohd Liki Hamid, "Hubungan Budaya dan Hukum: Tumpuan Khusus Terhadap Perubahan Amalan Pertanian Padi di Kedah dan Kesannya Kepada Ibadat Zakat Padi," dlm *Hukum Islam dan Budaya Tempatan*, Md. Saleh Hj. Md, Abd Karim Ali, Ridzwan Ahmad, Mohamad Zaidi Abd. Rahman (Kuala Lumpur:Jabatan Fiqh dan Usul, UM, 2006), 206

<sup>36 &#</sup>x27;Isam Abu al-Nasr, al-Itar al-Fiqhi wa al-Mahasabi li al-Zakah (Kaherah: Dar al-Nasyr li al-Jami'at, 2010), 186.

Pusat Zakat Melaka, "Zakat Pertanian,"

Tabung Baitulmal Sarawak, "Zakat Tanaman dan Pertanian,"

<sup>&</sup>lt;sup>39</sup> PPZ MAIWP, "Zakat Pertanian,"

Zarina Kadri, Sanep Ahmad & Mohd Ali Mohd Noor, "Zakat Sebagai Pemangkin Pembangunan Ekonomi: Ke Arah Negara Berpendapatan Tinggi," dlm *Prosiding Perkem VII* (Bangi: UKM, 2012) 1263-1273. 2: 1265

<sup>41</sup> Mohd Faisol Ibrahim & Suhana Musani, Zakat dan Perlaksanaannya di Malaysia, 17.

<sup>&</sup>lt;sup>42</sup> Ibn Qudamahal-Maqdisi, *Al-Mughni* (Kaherah: Hajar, 1992), 4: 156-157/160.

<sup>&</sup>lt;sup>43</sup> al-Qaradawi, Figh al-Zakah, 1: 383-384.

- iii) Mensyaratkan bahawa hasil pertanian yang dikenakan zakat mestilah berbentuk makanan asasi yang boleh disimpan lama. Pendapat ini dikemukakan oleh Imam Malik dan Imam al Syafi'i<sup>46</sup>.
- iv) Hanya hasil pertanian yang boleh disukat, tahan lama dan boleh dikeringkan sahaja akan dikenakan zakat. Pendapat ini didokong oleh Imam Ahmad<sup>47</sup>.

Pandangan Imam Abu Hanifah dilihat relevan pada masa kini. Ini kerana sumber kekayaan hasil bumi bukanlah terhad hanya kepada jenis-jenis tanaman tertentu sahaja. Di Malaysia perusahan tanaman dan hasil pertanian juga berkembang pesat dan sewajarnya hasil tersebut juga perlu dikenakan zakat seperti tebu, nanas, limau dan sebagainya. Perkara ini juga secara lansung dapat meningkatkan hasil kutipan zakat pertanian di Malaysia dan dapat meningkatkan taraf ekonomi orang yang memerlukan serta melepaskan umat Islam dari kesusahan.

Al-Qaradawi di dalam kitabnya Fiqh al-Zakah bersetuju dengan pendapat Imam Abu Hanifah ini. Beliau menyebut:

"Pendapat inilah bertepatan dengan al-Quran dan al-Sunnah, dan ianya juga seiring dengan hikmah pensyariatan zakat, tidaklah dikatakan suatu hikmah sekiranya Allah mewajibkan zakat kepada petani yang menanam barli dan gandum, dan mengecualikan (membayar zakat) pemilik kebun-kebun limau, mangga ataupun epal" 48

Nas-nas yang terdapat di dalam al-Quran yang menyatakan kewajipan zakat pertanian adalah bersifat umum dan tidak menentukan dan mengkhususkan jenis sumber pertanian yang wajib dizakatkan sebagaimana firman Allah s.w.t di dalam surah al-Baqarah 2:267, dan surah al-An'am 6:141. Begitu juga di dalam hadis Rasulullah s.a.w<sup>49</sup>., sabda Baginda s.a.w:

"Pada apa-apa yang diairi (disirami) dengan air hujan, mata air atau air tanah (takungan) dikenakan (zakat) sebanyak 10%, sedangkan pada apa-apa yang diairi dengan tenaga dikenakan (zakat) sebanyak 5%" (Hadis riwayat al-Bukhari)

Berasaskan pendapat inilah semua tanaman yang ditanam untuk memperolehi hasil perlulah dizakatkan termasuklah tumbuhan hijau seperti sayur-sayuran dan buah-buahan yang tidak tahan lama dan cepat busuk. Ini adalah kerana zakat pertanian akan dikenakan pada setiap tumbuhan yang sudah menjadi, contohnya tumbuhan yang kering dizakatkan apabila ia sudah kering, dan tumbuhan yang basah dizakatkan apabila ia sudah masak<sup>50</sup>. Zakat daripada tumbuhan hijau diambil mengikut nilainya bukan fizikalnya oleh kerana tumbuhan hijau cepat rosak dan busuk.Antara ulama' tersebut adalah al-Zuhri, Maimun bin Mihran, al-Auza'i<sup>51</sup>, Ata' al-Khurasani, al-Sya'bi<sup>52</sup> dan selain mereka.Di samping itu hasil tanaman selain padi (di Malaysia terutamanya) dilihat lebih membuahkan hasil dan mendatangkan

al-Syafi'i, Al-Umm (Beirut: Dar al-Kutub al-'Ilmiyah, 2002), 2: 46; al-Qurtubi, Al-Jami' li Ahkam al-Qur'an (Beirut: Mu'asasah al-Risalah, 2006), 9: 55; Ibn al-'Arabi, Ahkam al-Qur'an (Beirut: Dar al-Kutub al-'Ilmiyah, 2003), 2: 283.

<sup>&</sup>lt;sup>44</sup> 'Ali bin Abu Bakr al-Mirghinani, *Bidayat al-Mubtadi* (Kaherah: Matba'ah al-Futuh, t.t.), 41; Ibn al-Humam, *Fath al-Oadir* (Beirut: Dar al-Kutub al-'Ilmiyyah, 2003), 2: 248.

Ibn al-Humam, Fath al-Qadir, 2: 249.

Pendapat yang mensyaratkan bahawa hanya hasil pertanian yang boleh disukat sahaja yang dikenakan zakat, lihat: Ibn Oudamah, *Al-Mughni*, 4: 155-156.

al-Qaradawi, Figh al-Zakah, 1: 384.

Syams al-Din al-Sarakhsi, *Al-Mabsut* (Beirut: Dar al-Ma'rifah, 1978), 3: 2.

<sup>&</sup>lt;sup>50</sup> al-Qaradawi, *Fiqh al-Zakah*, 1: 386.

Abu 'Ubaid, Al-Qasim bin Salam, *Kitab al-Amwal* (Beirut : Dar al-Syuruq, 1989), 604.

Yahya bin Adam al-Qarasyi, *Kitab al-Kharaj* (Kaherah : Al-Matba'ah As-Salafiyyah,1384H), 142.

kekayaan kepada pengusahanya<sup>53</sup>. Oleh kerana itulah adalah wajar sekiranya hasil pertanian selain padi di Malaysia seperti keledek, pisang, sawit dan selainnya juga dikenakan zakat.

Walaupun begitu, terdapat perkara yang perlu diberi perhatian iaitu membezakan antara bentuk-bentuk tanaman yang dikenakan zakat perniagaan (iaitu tanaman yang ditanam bertujuan untuk diniagakan) dan tanaman yang dikenakan zakat pertanian. Oleh kerana itu dicadangkan agar kajian yang lebih terperinci dilakukan untuk mengklasifikasikan jenis tanaman-tanaman tersebut dalam usaha untuk mewajibkan zakat pertanian ke atas tanaman selain padi di Malaysia. Tambahan pula wujudnya kesediaan masyarakat untuk membayar zakat dari hasil pertanian yang diikhtilafkan<sup>54</sup>. Ini dapat memungkinkan penambahan sumber-sumber hasil pertanian yang diwajibkan zakat dapat direalisasikan.

#### 2.2.2 Menyelaraskan kadar nisab bagi setiap negeri

Perbezaan kadar nisab bagi zakat tanaman di antara negeri-negeri di Malaysia perlulah diselaraskan. Ianya bertujuan untuk menjamin keseimbangan dan kestabilan sosio ekonomi umat Islam di Malaysia dan menepati prinsip-prinsip keadilan dalam kutipan hasil zakat. Nisab bagi zakat pertanian adalah sebanyak 5 *awsuq* dan hasil pertanian yang kurang daripada kadar nisab tersebut tidak diwajibkan zakat, sebagai mana sabda Rasulullah s.a.w yang bermaksud:

"Apa-apa yang kurang daripada 5 awsuq tidak diwajibkan zakat" (Hadis muttafaq 'alaih)

Untuk menyelaraskan kadar nisab bagi setiap negeri di Malaysia perlu berapakah jumlah atau perkiraan 5 *awsuq* tersebut. Menurut al-Qaradawi perkiraan 5 *awsuq* adalah sebanyak 300 *sa'* (gantang). Penentuan tersebut berdasarkan sebuah hadis *da'if*<sup>55</sup> serta berpegang dengan ijma' yang dinukilkan oleh Ibnu Munzir dan selainnya<sup>56</sup>.

Timbul pula persoalan dalam menentukan saiz besarnya satu sa'. Ulama' bersepakat dalam sukatan sa'yang dipakai adalah sukatan sa' Madinah, tetapi mereka berbeza dalam mengenalpasti besarnya satu sa' tersebut. Terdapat dua pendapat yang masyhur berkenaan satu sa'. Pendapat pertama adalah satu sa' bersamaan dengan 5 1/3 kati Baghdad yang merupakan pendapat ulama' fiqh Hijaz<sup>57</sup>. Pendapat kedua pula adalah satu sa' bersamaan dengan 8 kati Baghdad yang merupakan pendapat ulama' fiqh Iraq<sup>58</sup>.

Pendapat yang terpilih adalah satu *sa'* bersamaan dengan 5 1/3 kati Baghdad. Al-Qaradawi juga berpendapat bahawa satu *sa'* adalah bersamaan dengan 5 1/3 kati Baghdad<sup>59</sup>. Pendapat ini berasaskan beberapa bukti, antaranya Imam Malik sendiri telah menakar sendiri besar *sa'* penduduk Madinah yang masih kekal sehingga zaman beliau<sup>60</sup>. Abu Yusuf juga telah menakar sendiri besar *sa'* penduduk madinah

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Asmak Ab. Rahman & Joni Tamkin Borhan, "Isu Dalam Kutipan Zakat Pertanian: Kajian di Selangor," dlm. *Teori dan Aplikasi Kontemporari Sistem Ekonomi Islam di Malaysia*, ed. Abdullah Alwi Hj. Hassan et al. (Kuala Lumpur: Utusan Publications & Distributors Sdn Bhd, 2005), 151-152.

Sanep Ahmad, Hairunnizam Wahid & Wiyadi, "Potensi dan Cabaran Terhadap Perluasan Sumber Zakat Sektor Pertanian di Malaysia," *Jurnal Manajemen dan Bisnis* 12, no. 1 (2006): 74.

Sabda Rasulullah s.a.w yang bermaksud: "*Satu wasaq itu bersamaan dengan 60 sa*" (Hadis riwayat Ibn Majah)
Yahya bin Syaraf al-Nawawi, *al-Majmu' Syarh al-Muhadhdhab*. (Jeddah : Maktabah al-Irsyad, t.t.), 5: 439.

Muhammad bin Ahmadal-Dasuqi, *Hasiyat al-Dasuqi 'ala Syarh al-Kabir*(Dar Ihya' al-Kutub al-'Arabiyyah, 1980), 1: 506; Yahya bin Syarafal-Nawawi, *Raudah al-Talibin*(Riyadh: Dar 'Alam al-Kutub, 2003), 2: 93-94; Muhammad bin Muhammadal-Khatib al-Syarbini, *Al-Iqna' fi Hill Alfaz Abi Syuja'*(Beirut: Dar al-Kutub al-Ilmiyah, 2004), 1: 458.

Ibn al-Humam, Fath al-Qadir, 2: 301-302, Lihat juga: al-Qaradawi, Figh al-Zakah, 1: 393-394.

<sup>&</sup>lt;sup>59</sup> al-Qaradawi, Figh al-Zakah, 1: 398.

<sup>&</sup>lt;sup>60</sup> al-Baihaqi, *al-Sunan al-Kubra* (Beirut : Dar al-Kutub al-'Ilmiyah, 2003), 4: 286.

ketika beliau selesai menunaikan haji, sehingga beliau menukar pendapatnya dengan menerima pendapat penduduk Madinah<sup>61</sup>.

Namun timbul permasalahan yang timbul adalah kiraan semasa (kg) bagi 1 kati Baghdad, perlunya ada usaha untuk mendapatkan kiraan tepat bagi 1 kati Baghdad tersebut mengikut sukatan Malaysia. Walaubagaimanapun terdapat 2 alternatif untuk menyelaraskan timbangan nisab zakat pertanian;

- 1) Pertama: Al-Qaradawi telah melakukan kiraan nisab 5 *awsuq* mengikut kiraan semasa. Beliau mendapati bahawa 5 *awsuq* adalah bersamaan dengan 653 kg gandum. Kadar berat ini boleh digunapakai (di*qiyas*kan)dalam timbangan nisab bagi beras<sup>62</sup>.
- 2) Kedua: Memilih satu kadar yang telah ditentukan oleh setiap negeri untuk menjadikan kadar nisab yang sesuai diaplikasikan di Malaysia. Kadar nisab yang dilihat sesuai adalah 363 gantang beras yang bersamaan 1300 kg beras. Timbangan inilah yang perlu kita selaraskan bagi setiap negeri di Malaysia.

Perbincangan nisab 5 awsuq adalah sesuai digunakan bagi hasil pertanian yang boleh diliter. Bagi hasil pertanian yang tidak boleh disukat dengan menggunakan sa' hendaklah dikeluarkan zakat dengan menggunakan mata wang mengikut nilai 5 awsuq bijian yang sederhana nilai harganya. Nilai harga barang memang berbeza di antara setiap negara, jadi penentuan itu hendaklah diserah kepada setiap ilmuan di negara tersebut<sup>63</sup>. Sebagai contoh, nisab bagi tebu adalah mengikut nilai 5 awsuq padi atau dalam kilogram adalah lebih kurang 653 kg padi yang mempunyai harga yang sederhana<sup>64</sup>. Harga sederhana digunakan sebagai ukuran adalah untuk menjaga dua kepentingan iaitu, kepentingan fakir miskin dan kepentingan pemilik kekayaan<sup>65</sup>.

#### 2.2.3 Melakukan pentaksiran ke atas tanaman

Pentaksiran dilakukan ke atas tanaman adalah untuk mengetahui jumlah yang perlu dizakatkan oleh petani dengan lebih awal<sup>66</sup>. Pentaksiran atas tanaman dilihat perlu bahkan ianya sunat dilakukan menurut para fuqaha', oleh kerana itu pemerintah perlu mewujudkan para pegawai atau pekerja untuk melakukan kerja-kerja pentaksiran<sup>67</sup>. Objektif paling jelas dalam melakukan pentaksiran ialah untuk memberi kebebasan kepada pemilik untuk melakukan apa-apa urusan terhadap hasil pertaniannya<sup>68</sup>.

Walaubagaimanapun dalam isu ini terdapat dua golongan yang berbeza pendapat, golongan yang mengatakan sah menggunakan kaedah pentaksiran dan yang mengatakan tidak sah. Golongan tersebut adalah:

1- Jumhur ulama'. Mengikut jumhur ulama' menggunakan kaedah pentaksiran adalah sah, dan mereka berhujah dengan dalil daripada hadis Nabi s.a.w<sup>69</sup>.

al-Baihagi, al-Sunan al-Kubra, 4: 286.

Sayed Sikandar Shah Haneef & Mek Wok Mahmud, *Issues in Contemporary Zakah A Juristic Analytical Evaluation*, 23.

al-Qaradawi, Fiqh al-Zakah, 1: 403

<sup>&</sup>lt;sup>64</sup> Contoh ini adalah berasaskan inisiatif penulis, bertujuan untuk memudahkan kefahaman terhadap perbincangan tersebut.

al-Qaradawi, Figh al-Zakah, 1: 403.

<sup>66</sup> Mahmood Zuhdi Abd. Majid, *Pengurusan Zakat* (Kuala Lumpur: Dewan Bahasa dan Pustaka, 2003), 264.

Ibn Qudamah al-Maqdisi, *al-Mughni* (Riyadh: Dar 'Alim al-Kutub, 1997) 4: 173-174, al-Nawawi, *al-Majmu'* Syarh al-Muhadhdhab, 5: 459.

Mahmood Zuhdi, *Pengurusan Zakat*, 264.

<sup>69</sup> Ibn Qudamah, al-Mughni, 4: 173.

2- Imam Abu Hanifah pula berbeza dengan jumhur. Beliau berpendapat kaedah pentaksiran adalah tidak sah. Beliau berhujah bahawa kaedah pentaksiran merupakan satu bentuk anggaran dan agakkan. Anggaran dan agakkan tidak boleh dijadikan sumber hukum<sup>70</sup>.

Pendapat yang diterima adalah pendapat yang dikemukakan jumhur ulama' kerana adanya nas yang jelas<sup>71</sup>. Namun perlu ditekankan bahawa pentaksiran ini bukanlah sesuatu yang mengikat. Pemilik hasil tanaman boleh menolaknya (jumlah taksiran) sekiranya ia tidak tepat berbanding jumlah sebenar setelah disukat. Al-Syirazi menyatakan sekiranya kesilapan (pentaksiran) yang didakwa itu terlalu besar sehingga mencecah 1/3 atau 1/4 maka dakwaan pemilik hasil itu perlu ditolak. Sekiranya dakwaan kesilapan itu dalam kadar yang munasabah, dakwaan pemilik hasil itu perlu diterima dengan disertai sumpah<sup>72</sup>.

Asasnya pentaksiran ini dilakukan kepada kurma dan anggur sahaja. Berkenaan hasil pertanian selain daripada kurma dan anggur, jumhur berpendapat bahawa selain kurma dan anggur tidak boleh ditaksir, manakala al-Zuhri, al-Laith dan al-Auza'i berpendapat bahawa selain kurma dan anggur boleh digunakan kaedah pentaksiran<sup>73</sup>. Imam Yahya juga mengharuskan dilakukan pentaksiran ke atas tanaman (selain buah-buahan) kerana maslahah<sup>74</sup>.

Dicadangkan di Malaysia agar melakukan pentaksiran ke atas semua jenis sumber-sumber pertanian yang layak dikenakan zakat. Ianya dapat melancarkan perakaunan zakat pertanian, mampu menjamin keakuran petani untuk membayar zakat serta memudahkan para petani melakukan urusan terhadap hasil pertaniannya dan memudahkan pengutip zakat dalam melakukan urusan berkaitan perlaksanaan zakat pertanian.

### 2.3 Zakat atas penyewa dan tuan tanah

Di Malaysia amalan menyewa dan memberi sewa tanah telah lama dipraktikkan, termasuklah amalan menyewa tanah pertanian. Jadi persoalan yang timbul siapakah yang perlu membayar zakat, adakah pemilik tanah kerana pemilikannya terhadap tanah tersebut dan mendapat keuntungan atas sewaannya ataupun orang yang menyewa kerana secara zahir dialah yang mengusahakan tanah dan tanaman dan yang mengeluarkan hasil dari tanah tersebut.

Ulama-ulama fiqh juga berbeza pendapat dalam isu ini. Secara asasnya di dalam persoalan ini terdapat dua pandangan yang utama;

i) Pendapat Imam Abu Hanifah: Imam Abu Hanifah berpendapat bahawa zakat hanya dikenakan ke atas pemilik tanah<sup>75</sup>. Ini adalah kerana zakat pertanian (*'usyr*) diwajibkan ke atas tanah yang mengeluarkan hasil bukan ke atas bijian ataupun hasil pertanian<sup>76</sup>, alasan lain adalah kerana *'usyr* dikenakan ke atas manfaat dari tanah, dan manfaat dari tanah itu sebenarnya di serahkan kepada penyewa dalam bentuk bayaran sewa, dan sewa adalah ganti kepada manfaat yang diperoleh dari tanah. Oleh kerana itu zakat dikenakan ke atas pemilik tanah, berasaskan kaedah hukum perkara yang menggantikan mengambil hukum perkara yang digantikan<sup>77</sup>

al-Qaradawi, Fiqh al-Zakah, 1:410. Muhammad bin 'Ali al-Syaukani, Nail al-Awtar (Mesir: Dar al-Hadis, 2005). 2: 507.

<sup>&</sup>lt;sup>71</sup> al-Syaukani, *Nail al-Awtar*, 2: 507. Abu 'Ubaid, *Kitab al-Amwal*, 588/595.

<sup>&</sup>lt;sup>72</sup> Ibrahim bin 'Ali al-Syirazi, *al-Muhazzab fi Fiqh al-Imam al-Syafi'i* (Beirut: Dar al-Kutub al-'Ilmiyyah, 1995), 1: 287

<sup>&</sup>lt;sup>73</sup> Ibn Oudamah. *al-Mughni*. 4: 178-179.

<sup>&</sup>lt;sup>74</sup> al-Syaukani, *Nail al-Awtar*, 2: 507.

al-Kasani, Badai' al-Shanai' fi Tartib Syarai', 2: 499; Ibn al-Humam, Fath al-Qadir, 2: 256.

al-Sarakhsi, *al-Mabsut*, 3: 5. Lihat juga: Ibnu Qudamah, *al-Mughni*, 4: 201; al-Mawardi, *al-Hawi al-Kabir* (Beirut: Dar al-Kutub al-'Ilmiyah, 1999), 3: 254.

<sup>&</sup>lt;sup>77</sup> al-Sarakhsi, *al-Mabsut*, 3: 5.

ii) Pendapat jumhur: Jumhur ulama pula berpendapat bahawa zakat hanya dikenakan keatas penyewa, oleh kerana zakat diwajibkan ke atas hasil tanaman bukan tanah yang mengeluarkan hasil tanaman itu<sup>78</sup>.

Ibnu Rusyd telah melakukan penjelasan berkenaan asas perbezaan Imam Abu Hanifah dan Jumhur. Ibn Rusyd menjelaskan sebab perbezaan pendapat dua golongan tersebut adalah penentuan sama ada zakat itu merupakan hak tanah ataupun hak hasil tanaman ataupun hak keduanya. Tetapi tidak ada yang berpendapat bahawa ia merupakan hak keduanya. Sedangkan ia adalah hak keduanya (iaitu hak tanah dan hak hasil tanaman). Mereka berpendapat bahawa zakat mestilah merupakan hak salah satu antara keduanya, perbezaan yang timbul adalah yang mana satukah di antara dua perkara itu lebih utama untuk dikenakan zakat. Maka jumhur berpendapat bahawa zakat dikenakan atas hasil tanaman, dan AbuHanifah berpendapat bahawa zakat dikenakan atas asal kepada benih iaitu tanah <sup>79</sup>.

Apabila diteliti penjelasan yang dikemukan oleh Ibn Rusyd mempunyai asasnya. Oleh kerana itu adalah wajar sekiranya zakat dikenakan ke atas penyewa dan tuan tanah. Perkara ini dapat meningkatkan hasil kutipan zakat di Malaysia dalam rangka mempertingkatkan ekonomi umat Islam. Al-Qaradawi juga bersetuju dengan pendapat Ibn Rusyd ini, di mana zakat pertanian diwajibkan ke atas tanah dan ke atas hasil pertanian, bukan ke atas salah satu daripada dua perkara tersebut.Ini bermakna pemilik tanah dan penyewa hendaklah mengeluarkan zakat pertanian<sup>80</sup>.

Tetapi masih terdapat persoalan yang timbul apabila pemilik tanah dan penyewa perlu mengeluarkan zakat, iaitu bagaimanakah cara kedua-dua mereka untuk mengeluarkan zakat secara bersama? Berikut adalah cara dan kaedah kiraan yang dikemukakan oleh al-Qaradawi;

Permulaannya, sewa yang dikenakan ke atas penyewa hendaklah ditolak sebagai hutang yang ditanggung oleh pembayar zakat.Ini bermakna hasil pertanian hendaklah ditolak dengan segala hutang yang ditanggung dan pembiayaan, dan kemudian barulah dikeluarkan zakat dari bakinya apabila telah cukup nisab samada sebanyak 10% ataupun 5%.

Contoh kiraannya adalah, seorang lelaki telah menyewa sawah untuk menanam padi dengan harga sewaan sebanyak 20 *junaih*. Hasil yang diperolehi daripada sawah itu adalah 100 *irdab* yang mana setiap 1 *irdab* berharga 4 *junaih*. Maka penyewa hendaklah menolak hasil pertanian yang diperolehi itu sebanyak 50 *irdab* untuk bayaran sewa sawah (50 *irdab* x 4 *junaih*= 200 *junaih* ) sepanjang sepuluh bulan (10 bulan x 20 *junaih* = 200 *junaih*). Contohnya penyewa telah menggunakan sebanyak 40 *junaih* (bersamaan dengan 10 *irdab*) untuk tujuan pembiayaan juga hendaklah ditolak. Maka setelah ditolak yang tinggal hanyalah sebanyak 40 *irdab* sahaja pada penyewa (cukup nisab), dan hendaklah dia mengeluarkan sebanyak 5% (atau 10% mengikut kaedah pengairan) daripada 40 *irdab* untuk dizakatkan iaitu sebanyak 2 *irdab*. Manakala pemilik tanah hendaklah mengeluarkan zakat daripada hasil bayaran sewa yang diperolehi, iaitu sebanyak 200 *junaih*.contohnya pemilik tanah perlu membayar cukai ataupun *kharaj* sebanyak 40 *junaih*, maka 40 *junaih* hendaklah ditolak dari 200 *junaih*. Maka yang tinggal pada pemilik tanah adalah sebanyak 160 *junaih* (cukup nisab), maka wajib untuknya mengeluarkan zakat sebanyak 5% daripada 160

<sup>&</sup>lt;sup>78</sup> Ibn Rusyd, *Bidayah al-Mujtahid wa al-Nihayah al-Muqtasid* (Beirut: Dar al-Kutub al-ʻIlmiyyah, 2009), 1: 368; al-Nawawi, *al-Majmu' Syarh al-Muhadhdhab*, 5: 481; al-Mawardi, *al-Hawi al-Kabir*, 3: 254; Ibnu Qudamah, *al-Mughni*, 4: 201. Lihat juga: al-Qaradawi, *Fiqh al-Zakah*, 1: 428.

<sup>&</sup>lt;sup>79</sup> Ibn Rusyd, *Bidayah al-Mujtahid wa al-Nihayah al-Mugtasid*, 1: 368.

al-Oaradawi, Figh al-Zakah, 1: 429.

*junaih*, iaitu 8 *junaih*. <sup>81</sup>Sekiranya setelah ditolak sewa dan pembiayaan dan baki yang tinggal tidak mencukupi nisab maka zakat tidak lagi diwajibkan keatas penyewa.

Mengenai pemilik tanah pula ia tidaklah wajib mengeluarkan zakat daripada hasil pertanian itu tetapi dia wajib mengeluarkan zakat daripada sewa yang diperolehi daripada penyewa yang mengusahakan tanah dan tanaman. Apabila duit sewa yang diperoleh itu mencukupi nisab (iaitu sebanyak RM 1470.15) maka dia wajib mengeluarkan zakat sebanyak 10% ataupun 5% daripada duit sewa yang diperoleh tersebut. Sekiranya terdapat hutang yang ditanggung, membayar *kharaj*, ataupun sara hidup, pemilik hendaklah menolak kesemuanya itu terlebih dahulu sebelum mengeluarkan zakat<sup>82</sup>.

Contoh yang lain adalah<sup>83</sup> seorang penyewa telah menyewa tanah dengan harga sewaan sebanyak RM 200, dia telah mengusahakan padi di tanah tersebut. Hasil yang diperolehi daripada tuaian padi adalah sebanyak 600 gantang beras. Dia juga telah menggunakan sebanyak RM 300 untuk membiaya tanamannya itu.

Nisab zakat pertanian adalah 5 *awsuq* mengikut ukuran gantang di Malaysia adalah sebanyak 363 gantang<sup>84</sup> iaitu bersamaan 1300 kg<sup>85</sup>, jadi 600 gantang x 3.58 kg = 2148 kg. 1 kg beras = RM 1.80, jadi 2148 kg x RM 1.80 = RM 3866.40. maka nilai sebanyak RM 3866.40 perlu ditolak dahulu harga sewa tanah dan pembiayaan yang ditanggung oleh penyewa (petani) sebanyak RM 500. Jadi nilai bersih yang berada ditangan penyewa adalah sebanyak RM 3366.40. Nisab zakat pertanian mengikut harga adalah (363 gantang = 1300 kg x RM 1.80 = RM 2340) sebanyak RM 2340, jadi RM 3366.40 yang diperolehi oleh petani adalah melebihi nisab dan hendaklah dia mengeluarkan zakat sebanyak 10% ataupun 5% daripada RM 3366.40. Supaya pengiraan ini lebih mudah untuk difahami rujuk jadual 2;

Jadual 2: Pengiraan zakat yang dikenakan ke atas penyewa<sup>86</sup>

	5 differential its datas periferra
Pengiraan :	
RM 3866.40	(Hasil pertanian yang diperolehi oleh penyewa)
- RM 300.00	(Sewa tanah)
- RM 200.00	(Pembiayaan)
RM 3366.40	(Hasil bersih dan telah melebihi
	nisab [RM 2340])
Maka 5% ataupun 10% daripada RM 3366.40 hendaklah dizakatkan.	

Sekiranya setelah ditolak sewa dan pembiayaan dan baki yang tinggal tidak mencukupi nisab maka zakat tidak lagi diwajibkan keatas penyewa. Mengenai pemilik tanah pula ia tidaklah wajib mengeluarkan zakat

Contoh kiraan telah diubah oleh pengkaji menggunakan bentuk timbangan dan nilai harga di Malaysia supaya lebih mudah difahami, ini disebabkan pengiraan yang dilakukan oleh al-Qaradawi di dalam kitabnya mengikut kaedah kiraan di Mesir. Tetapi kaedah dan prinsip asas masih dikekalkan dan mengikut buku *Fiqh al-Zakat*.

al-Qaradawi, Figh al-Zakah, 1: 431.

<sup>&</sup>lt;sup>82</sup> al-Qaradawi, Fiqh al-Zakah, 1: 430.

PPZMAIWP, "Zakat Pertanian," *zakat.com*, diakses pada 16 April 2012,http://www.zakat.com.my/index.php?option=com\_content&view=article&id=102%3Azakat-pertanian&catid=10&Itemid=95&lang=ms

Fatwa yang diwartakan di negeri Melaka pada 19 Nov 2009 (no. rujukan:JMM/BFB(S)/351/255/02/02; PUNM. 700-02/37) lihat JAKIM, "Kaedah Pengiraan Zakat Harta Bagi Negeri Melaka," *e-fatwa.gov*, diakses pada 9 Jun 2013,http://www.e-fatwa.gov.my/fatwa-negeri/kaedah-pengiraan-zakat-harta-bagi-negeri-melaka

<sup>&</sup>lt;sup>86</sup> Hasil analisis yang dilakukan oleh pengkaji.

daripada hasil pertanian itu tetapi dia wajib mengeluarkan zakat daripada sewa yang diperolehi daripada penyewa yang mengusahakan tanah dan tanaman. Apabila duit sewa yang diperoleh itu mencukupi nisab (iaitu sebanyak RM 2340.00) maka dia wajib mengeluarkan zakat sebanyak 10% ataupun 5% daripada duit sewa yang diperoleh tersebut. Sekiranya terdapat hutang yang ditanggung, membayar *kharaj*, ataupun sara hidup, pemilik hendaklah menolak kesemuanya itu terlebih dahulu sebelum mengeluarkan zakat<sup>87</sup>.

Pendapat ini dilihat lebih sesuai dengan prinsip keadilan dan toleransi.Penyewa membayar zakat hasil dari tanaman dan buah-buahan yang dikurniakan Allah kepadanya setelah ditolak sewa, hutang dan pembiayaan-pembiayaan lain, manakala pemilik pula membayar zakat hasil keuntungan yang diperolehinya daripada tanah yang disewakannya itu apabila telah ditolak hutang, *kharaj* dan selainnya. Dengan pertimbangan kewajipan yang adil itulah diambil apa yang terbaik dari pendapat AbuHanifah dan apa yang terbaik dari pendapat jumhur. Zakat dikenakan berasaskan pemilikan masing-masing maka tidak timbul persoalan membayar dua zakat pada sumber yang sama<sup>88</sup>. Kesimpulannya kaedah ini perlulah diaplikasikan di Malaysia untuk meningkatkan hasil kutipan zakat serta memperkasakan zakat daripada hasil pertanian.

#### 3. KESIMPULAN

Zakat suatu bidang yang penting dalam Islam. Ia bukan sahaja ibadat sebagai bukti ketaatan kepada Allah, bahkan ia mendatangkan kemaslahatan dalam kehidupan umat Islam. Memperkasakan zakat sama seperti memperkasakan umat Islam. Pemerkasaan zakat dapat memberikan beberapa faedah antaranya, mempertingkatkan taraf sosio ekonomi umat Islam, menjamin pusingan kekayaan (*rounding wealth*) di kalangan masyarakat, membantu golongan yang memerlukan terutamanya fakir miskin dan sebagainya.

Disebabkan itulah setiap bidang-bidang pengurusan zakat perlu diperkasakan dari sudut sumber-sumber zakat, kaedah kutipan dan agihan zakat serta mempertingkatkan produktiviti harta zakat. Kertas kerja ini menyediakan beberapa cadangan yang perlu diberi perhatian dalam usaha memperkasakan zakat pertanian di Malaysia. Oleh kerana itu perlu adanya kajian lanjutan dijalankan dalam merealisasikan cadangan-cadangan serta idea-idea yang telah dikemukakan.

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## ZAKAT PERTANIAN: KAJIAN METODOLOGI AL-QARADAWI (ZAKAH ON AGRICULTURE: A STUDY ON Al-QARADAWI)

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#### **ABSTRAK**

Artikel ini bertujuan untuk memperlihatkan ketokohan al-Qaradawi dalam bidang fiqh. Kajian ini khusus mengenai sumber dan metodologi hukum al-Qaradawi dan ianya menfokuskan terhadap metodologi beliau dalam membantu menetapkan hukum zakat pertanian. Untuk mencapai objektif tersebut, analisis dilakukan terhadap data-data kepustakaan terutamanya kitab Fiqh al-Zakat karangan beliau sendiri. Hasil kajian mendapati al-Qaradawi mempunyai kaedah dan metodologi penetapan hukum yang tersendiri di mana terdapat lima metodologi yang dapat dikenalpasti digunakan oleh beliau dalam penetapan hukum zakat pertanian. Metodologi penetapan hukum yang digunakan al-Qaradawi dilihat cenderung ke arah memelihara maslahah serta meraikan realiti semasa dan setempat ('urf).

Kata kunci: metodologi istinbat, al-Qaradawi, zakat pertanian, maslahah dan 'urf

#### **ABSTRACT**

This article has been made to notify al-Qaradawi charismaristic and caliberism in the field of fiqh related to zakah. This study was specifically based on his source and methodology in "hukm" (istinbat al-hukm) and focus on his in methodology to prescribe and define hukm on zakah on agriculture. Therefore, to achieve that specified objective, the analysis on literature review such as on his own writing book, Fiqh al-Zakah has been done. The finding of this study exactly has found al-Qaradawi special and distinctive methods in define hukm on zakah on agriculture, where there is five methodologies that has been used by him. Al-Qaradawi methodologies in define hukm on zakah on agriculture seems to be great, tend to preserve "maslahah ummah" and also cherish the current "'urf".

**Keywords**: define on hukm (istinbat al-hukm), al-Qaradawi, zakah on agriculture, "maslahah" and 'urf.

#### 1. PENGENALAN

Prof. Dr. Yusuf al-Qaradawi (al-Qaradawi) merupakan salah seorang intelektual Islam yang begitu masyhur, beliau merupakan pemikir Islam dan pendakwah yang tidak asing lagi di dalam dunia Islam masa kini. Beliau sering muncul di kaca televisyen, di dalam laman sesawang, banyak menghasilkan karya-karya dalam pelbagai lapangan bidang, menyampaikan ceramah juga melakukan pembentangan di seminar-seminar dan konvensyen yang menyebabkan beliau menjadi masyhur di kalangan umat Islam hari ini.

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Al-Oaradawi terkenal dengan ketokohannya dalam bidang figh, beliau juga antara ulama' pada zaman ini yang begitu menekankan persoalan ijtihad dalam syariat Islam<sup>3</sup>. Oleh kerana ketokohannya itu, al-Qaradawi banyak mengeluarkan fatwa, mengarang kitab di dalam bidang fiqh dan usul fiqh. Justeru itu, artikel ini bertujuan untuk menganalisis metodologi beliau dalam penetapan hukum di lapangan fiqh. Penulis telah menjadikan bidang zakat pertanian sebagai subjekuntuk menganalisis metodologi penetapan hukum (istinbat hukum) al-Qaradawi. Dalam artikel ini penulis turut menyatakan metodologi penetapan hukum al-Oaradawi secara umum kemudian dikhususkan kepada metodologi beliau di dalam zakat pertanian, setelah itu penulis membawa contoh jitihad al-Oaradawi dalam zakat pertanian.

#### **BIOGRAFI AL-QARADAWI**

Nama penuh al-Qaradawi ialah Yusuf bin 'Abdullah bin 'Ali bin Yusuf al-Qardah. Beliau dilahirkan di sebuah desa kecil yang terletak di negara Mesir bernama Saf al-Turab di al-Mahalla al-Kubra pada 9 September 1926 bersamaan 1344 hijrah<sup>4</sup>. Pendidikan awal al-Qaradawi adalah di salah satu *kuttab*<sup>5</sup> ketika usianya lima tahun<sup>6</sup>. Tatkala beliau berusia tujuh tahun, beliau masuk ke *madrasah ilzamiyyah*.Beliau telah berjaya menghabiskan hafalan al-Ouran sebelum usianya genap sepuluh tahun. Setelah tamat dari madrasah ilzamiyyah beliau melanjutkan pelajaran ke sekolah rendah (madrasah ibtida 'iyyah) di Thanta. Setelah tamat di sekolah rendah beliau masuk ke sekolah menengah (madrasah thanawiyyah) yang juga di Thanta selama lima tahun<sup>7</sup>.

Setelah tamat pengajiannya di peringkat sekolah menengah, beliau telah ditawarkan untuk melanjutkan pengajiannya di Universiti al-Azhar. Di Universiti al-Azhar beliau belajar di Fakulti Usuluddin, dan beliau memperolehi ijazah pertama (BA) dengan kepujian tertinggi di Fakulti tersebut pada tahun 1953, dan pada tahun 1960 beliau telah berjaya memperoleh ijazah kedua (MA). Kemudian beliau menyambung pengajiannya di peringkat tertinggi jaitu PhD dengan tesis berkajtan zakat yang selesai pada tahun 1973<sup>8</sup>.

Al-Qaradawi telah banyak menerima anugerah atas jasa, sumbangan dan ketokohan beliau. Antara anugerah yang telah diterima oleh beliau adalah, Anugerah Pembangunan Ekonomi Islam dari Bank Islam pada tahun 1411 hijrah, Anugerah daripada Universiti Islam Antarabangsa Malaysia pada 1996, Anugerah daripada Sultan Hasanul Bolkiah, Brunei dalam bidang figh Islam pada tahun 1997<sup>9</sup> dan selainnya.

Beliau juga memliki karya yang banyak jumlahnya yang merangkumi pelbagai bidang. Kira-kira 115 judul buku karangan al-Qaradawi yang dikumpul dan disenaraikan oleh Ishom Talimah<sup>10</sup>. Antara kitab al-Qaradawi yang masyhur adalah Al-Halal wa al-Haram fi al-Islam, Fatawa al-Mu'asirah (Jilid 1-3), Figh al-Aulawiyyat, Figh al-Zakat dan banyak lagi.

#### 3. METODOLOGI AL-QARADAWI DALAM PENETAPAN HUKUM

#### 3.1 Sumber-sumber Hukum al-Qaradawi

Secara ringkas dan umumnya sumber hukum yang digunakan al-Qaradawi dalam mengeluarkan fatwa adalah al-Quran, as-Sunnah, Ijma' yang diyakini keabsahannya, beramal dengan qiyas yang betul, menggunakan maslahah, istihsan, meraikan magasid syariah<sup>11</sup>, 'urfdan termasuk di dalamnya adalah

<sup>&</sup>lt;sup>3</sup>Lihat al-Oaradawi (1996). Al-Iitihad fi al-Syari'at al-Islam, Kuwait: Dar al-Oalam, h. 101-102.

<sup>&</sup>lt;sup>4</sup>al-Qaradawi (2006). *Ibn al-Qariah wa al-Kuttab*. Kaherah: Maktabah Wahbah. j. 1, h. 103.

<sup>&</sup>lt;sup>5</sup>Kuttab merupakan satu tempat pengajian yang hampir sama dengan sistem pengajian pondok di Malaysia.

<sup>&</sup>lt;sup>6</sup>Ishom Talimah (2001). Manhaj Fikih Yusuf al-Qaradhawi, (Samson Rahman, terj). Jakarta: Pustaka al-Kautsar. h. 3.

<sup>&</sup>lt;sup>7</sup>al-Khurasyi, Sulaiman bin Salih (1999). *Al-Oaradawi fi al-Mizan*. Riyadh: Dar al-Jawab. h. 9.

<sup>8</sup>*Ibid.* hh. 9-10.

<sup>&</sup>lt;sup>9</sup>Qaradawi.net (2004). Al-Sirah al-Tafsiliyyah li al-Oaradawi. Diakses pada 23 Februari 2012, dari http://www.qaradawi.net/life/9/973-2011-09-04-14-39-33.html

<sup>&</sup>lt;sup>10</sup>Lihat; Ishom Talimah (2001).op. cit. hh. 35-39.

<sup>&</sup>lt;sup>11</sup>Mas'ud Sabri (2007, julai). AI-Ifta' Inda al-Syeikh al-Qaradawi: al-Manhaj wa al-Tathiq. Kertas kerja ini dibentangkan di Multaqa al-Imam al-Qaradawi ma'a al-Ashab wa al-Talamidh, Doha, Qatar. hh. 84-114.

mengambil kira realiti masyarakat dan kehidupan sekitar (iaitu sezaman dan setempat)<sup>12</sup>, *sadd al-dharai* '<sup>13</sup>, mengambil sunnah-sunnah para Khulafa' al-Rasyidin dan para sahabat RA, dan pendapat-pendapat para fuqaha' dari sudut pandangan mereka samada tafsiran terhadap nas-nas, atau hasil *istinbat* mereka, atau penentuan '*illah* yang mereka lakukan<sup>14</sup>.

Al-Qaradawi juga menolak ilham sebagai sumber hukum mahupun sebagai hujah<sup>15</sup>.Beliau juga menolak mimpi sebagai sumber hukum, sehinggakan mimpi berjumpa dengan Nabi s.a.w juga tidak boleh dijadikan sebagai sumber hukum menurut beliau<sup>16</sup>.

#### 3.2 Metodologi al-Qaradawi dalam Mengeluarkan Hukum

Al-Qaradawi telah menggariskan metodologi-metodologi yang beliau gunakan dalam mengeluarkan hukum atau fatwa dalam permasalahan fiqh umumnya, dan metodologi yang digunakan beliau adalah seperti berikut<sup>17</sup>:

- 1- Berpegang dengan keumuman nas-nas daripada al-Quran dan Sunnah selagi mana tidak ada dalil yang mengkhususkannya. Berkenaan dengan metodologi ini, al-Qaradawi sendiri menyebut:
  - "Aku (al-Qaradawi) berpendapat bahawa wajib untuk mengambil setiap ayat-ayat yang umum yang datang daripada al-Quran dan hadis-hadis Rasulullah s.a.w, dan beramal dengan keumumannya, selagi mana tidak ada nas yang sahih dan thabit, serta jelas pendalilannya (sarih al-dalalah) mengkhususkannya, sekiranya ada maka ketika itu hendaklah didahulukan khas daripada 'am"<sup>18</sup>
- 2- Berpegang dengan ijma' yang diyakini keabsahannya. Al-Qaradawimenerima ijma' yang diyakini, manakala ijma' yang hanya berbentuk dakwaan sahaja tidaklah diterima (atas nama ijma') tetapi ianya hanya sekadar satu ijtihad<sup>19</sup>. Salah satu contoh pengaplikasian beliau adalah di dalam masalah keharusan untuk berbuka puasa bagi wanita yang sedang hamil atau yang menyusukan anak. Menurut al-Qaradawi, ianya adalah ijma' di kalangan fuqaha', dan perbezaan hanyalah berlaku di dalam permasalahan adakah wajib bagi wanita tersebut membayar kafarah dengan memberi makan ataupun menggantikan puasanya ataupun kedua-duanya sekali<sup>20</sup>.
- 3- Beramal dengan *qiyas* yang benar. Al-Qaradawimenggunakan *qiyas* yang cukup syarat-syaratnya. Beliau menolak *qiyas* yang tidak berasas, ataupun *qiyas* yang tidak mempunyai '*illah* yang bersamaan (antara *al-asl* dan *al-far'*), ataupun adanya pemisah yang jelas antara *al-asl* dengan *al-far'*<sup>2</sup>. Oleh kerana itulah al-Qaradawi berpendapat jihad bukan hanya terhad pada peperangan, bahkan jihad boleh berlaku dalam bentuk penulisan, percakapan dan selainnya.
- 4- Mengiktiraf *Maslahah* dan *Maqasid al-Syari'ah*. Al-Qaradawi menyatakan bahawa hukum syara' disyari'atkan demi menjaga kepentingan manusia dan kelangsungan hidup manusia, begitu juga *maqasid* ianya adalah bertujuan menjaga *maslahah* manusia dan menolak mudarat dan kebinasaan bagi manusia<sup>22</sup>. Oleh kerana itu al-Qaradawi menitik beratkan maslahah dan maqasid dalam penetapan hukum, antara contohnya adalah bila mana beliau menfatwakan bahawa harus bagi

<sup>&</sup>lt;sup>12</sup>al-Qaradawi(1996a). op. cit. hh. 47-49

<sup>&</sup>lt;sup>13</sup>Walid bin Hadi (2007, julai). Fiqh al-Taisir 'inda al-Qaradawi. Kertas kerja ini dibentangkan di Multaqa al-Imam al-Qaradawi ma'a al-Ashab wa al-Talamidh, Doha, Qatar. hh. 21-22.

<sup>&</sup>lt;sup>14</sup>al-Qaradawi(1994). Figh al-Zakat. Kaherah: Maktabah Wahbah. j. 1, hh. 16-17.

<sup>&</sup>lt;sup>15</sup>al-Qaradawi(1999). Taisir al-Figh li al-Muslim al-Mu'asir. Kaherah: Maktabah Wahbah. hh. 123-124.

<sup>&</sup>lt;sup>16</sup>Ibid. hh. 160-167.

<sup>&</sup>lt;sup>17</sup>al-Qaradawi (2009). Fatawa Mu'asirah. Kuwait: Dar al-Qalam. juz, 1. h. 10-32.

<sup>&</sup>lt;sup>18</sup>al-Qaradawi(1994). op. cit. j. 1, h. 39.

<sup>&</sup>lt;sup>19</sup>Mas'ud Sabri(2007, julai).op. cit. h. 92.

<sup>&</sup>lt;sup>20</sup>al-Qaradawi (2009). op.cit. juz. 1, hh. 301-302.

<sup>&</sup>lt;sup>21</sup>Mas'ud Sabri(2007, julai).op. cit. h. 97.

<sup>&</sup>lt;sup>22</sup>al-Qaradawi (1994). op. cit. j. 1, hh. 46-47.

- kerajaan untuk menetapkan had harga sewa bagi rumah-rumah sewa, kerana ianya termasuk dalam bab *masalih al-mursalah* kerana tidak ada nas yang mengakuinya ataupun menolaknya<sup>23</sup>.
- 5- Tidak bersikap taksub kepada sesuatu mazhab dan bersikap taklid buta. Menurut al-Qaradawi tidak taqlid kepada para imam dan fuqaha' bukanlah bermaksud merendahkan martabat mereka, tetapi sebaliknya masih berpegang dan mengikuti metodologi dan cara mereka, melaksanakan pesan mereka agar tidak taklid kepada mereka atau kepada orang lain, serta mengambil dalil-dalil yang mereka gunakan. Berkenaan perkara ini al-Qaradawi berkata:

"Saya tidak rela untuk mengekang akal saya dari bertaklid kepada mazhab-mazhab tertentu dalam segala masalah dan persoalan yang kita hadapi, baik mazhab itu benar atau salah. Sebab seorang muqallid (orang yang bertaklid) sebagaimana yang dikatakan oleh Ibnul Jauzi; "dalam taqlid terdapat perlumpuhan fungsi akal, kerana akal diciptakan untuk merenung dan berfikir dengan mendalam, dan alangkah kejinya seseorang yang diberi pelita untuk dia jadikan sebagai alat penyuluh namun dia padamkan pelita itu lalu dia berjalan di tengah gelap gelita". Sekali lagi saya tegaskan saya berusaha untuk tidak menyekat diri saya dengan mazhab yang ada di dunia Islam.Ini adalah kerana kebenaran itu tidak ada hanya pada satu mazhab."<sup>24</sup>

Terdapat beberapa perkara yang harus diperhatikan dan ditekankan oleh para ulama masa kini:

- a. Tidak mengambil sesuatu pendapat bagi satu-satu persoalan tanpa didasari oleh dalil dan hujah yang kuat.
- b. Hendaklah mempunyai kemampuan untuk melakukan pentarjihan di antara pendapat yang saling bercanggah dengan menggunakan kaedah pertimbangan antara kekuatan dalil-dalil selain merujuk kepada dalil-dalil naqli dan aqli untuk memilih satu pendapat yang sesuai dengan nas syara' dan objektifnya.
- c. Mempunyai kepakaran dalam *ijtihad juz'i* iaitu ijtihad pada satu-satu masalah sekalipun belum ada ketetapan hukum daripada ulama sebelumnya.
- 6- Bersikap mempermudahkan dan meringankan, bukannya menyulitkan manusia. Ini adalah kerana syariat Islam terbina berasaskan kemudahan dan menghilangkan kesusahan ke atas hambahambanya<sup>25</sup> oleh kerana reality, umat Islam sekarang lebih kepada bersikap negatif dalam urusan agama dan perkara kebajikan daripada bersikap positif. Al-Qaradawi menegaskan kemudahan yang dimaksudkan ialah kemudahan yang tidak bertembung dengan nas-nas yang *thabit* dan *muhkam*, juga tidak bertembung dengan kaedah syariat yang bersifat *qat'i*, bahkan hendaklah selari dan sesuai dengan syariat Islam itu sendiri. Contohnya al-Qaradawi menfatwakan berkenaan orang yang berpuasa lalu dia muntah tanpa disengajakan sebagai tidak batal puasa orang tersebut. Beliau mendasarkan pendapat beliau tersebut kepada sunnah Rasulullah dan perbuatan sahabat<sup>26</sup>.
- 7- Berkomunikasi dan berbicara dengan manusia menggunakan bahasa yang mudah difahami, lancar dan jelas. Perkara yang perlu ditekankan dalam memenuhi kaedah ini ialah:
  - a. Menyampaikan sesuatu pemikiran dengan menggunakan akal fikiran dan logik bukannya mengikut perasaan.
  - b. Mengelakkan daripada menggunakan istilah atau frasa yang asing atau sukar difahami. Menurut al-Qaradawi, bahasa yang digunakan mestilah bersifat sederhana tidak terlalu tinggi dan tidak terlalu rendah supaya ia sesuai dengan golongan berpendidikan dan juga golongan bawahan.

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<sup>&</sup>lt;sup>23</sup> al-Qaradawi (2009). op.cit. juz. 1, h. 590.

<sup>&</sup>lt;sup>24</sup>al-Qaradawi (1980). *Al-Halal wa al-Haram fi al-Islam*. Kaherah : Maktabah Wahbah. h. 9.

<sup>&</sup>lt;sup>25</sup>Lihat dalil daripada kenyataan tersebut dari surah al-Ma'idah, 5 : 6, al-Baqarah, 2 : 185, an-Nisa', 4 : 28 dan al-Hajj, 22 : 78

<sup>&</sup>lt;sup>26</sup>al-Qaradawi (1993). Taysir al-Figh fiDau' al-Qur'an wa al-Sunnah: Figh al-Siyam. Beirut: Muasasah al-Risalah. hh. 90-92.

- c. Perlu dijelaskan hikmah dan *'illah* di sebalik ketentuan sesuatu hukum dan disertai dengan falsafah Islam secara umum.
- 8- Menjauhi dari perkara-perkara yang tidak bermanfaat bagi manusia. Al-Qaradawi mengelak dari menjawab persoalan yang mengundang perdebatan sesama sendiri, sengaja memandai-mandai dan menunjuk-nunjuk, semata-mata menguji keilmuan mufti atau perkara-perkara ganjil. Kerana ia langsung tidak berfaedah bahkan mendatangkan kemudaratan dan memecahbelahkan umat.
- 9- Bersikap pertengahan di antara terlalu memperlonggarkan dan terlalu memperketatkan. Contohnya ialah tidak melonggarkan ikatan-ikatan hukum yang sudah tetap (*qat'i*) dengan alasan mengikut perkembangan zaman dan tidak kaku dalam berfatwa dengan mengatakan semua perkara atau isu yang timbul dalam kehidupan sekarang ini adalah haram.

Sebagai contoh fatwa yang dikeluarkan al-Qaradawi yang dilihat bersifat pertengahan adalah dalam persoalan perempuan yang hadir dalam pertemuan dengan lelaki asing (ajnabi).Dalam persoalan ini nyata terdapat golongan yang bersikap terlalu melonggarkan hingga membolehkan pertemuan itu secara mutlak, dan terdapat juga golongan yang terlalu memperketatkan sehingga menghukum haram perbuatan tersebut. Dalam persoalan ini al-Qaradawi berpendapat pertemuan itu dibolehkan dengan memenuhi syarat-syarat berikut:

- i. Menjaga pendangan
- ii. Menjaga pemakaian dengan memakai pakaian yang memenuhi tuntutan syariat
- iii. Sentiasa menjaga adab-adab sebagai seorang muslimah dalam setiap keadaan.
- iv. Menjauhi dari melakukan perkara yang boleh menarik perhatian orang seperti memakai wangian dan pakaian yang warnanya menjolok mata
- v. Mengelakkan daripada berduaan denga lelaki *ajnabi* tanpa mahram
- vi. Pertemuan yang mempunyai kepentingan dan bertepatan dengan dirinya sebagai perempuan<sup>27</sup>
- 10- Mengemukakan fatwa beserta dengan penjelasan dan perinciannya. Antara perkara penting dalam metodologi ini ialah, hendaklah menyertakan dalil dan hujah, menerangkan *'illah* dan hikmah hukum tersebut, melakukan perbandingan pandangan, mengemukakan alternatif yang halal bagi sesuatu perkara yang difatwakan sebagai haram, dimasukkan penjelasan perkara lain atau hukum dalam perkara lain yang mempunyai perkaitan dan sebagainya<sup>28</sup>.

#### 4. AL-QARADAWI DALAM PENETAPAN HUKUM ZAKAT PERTANIAN

Terdapat beberapa metodologi yang digunakan al-Qaradawi dalam penetapan hukum, apa yang dimaksudkan disini adalah kaedah dan metodologi al-Qaradawi dalam pembinaan kerangka hukum (*alistinbat*), pemilihan (*al-ikhtiyar*) dan melakukan pentarjihan (*al-tarjih*) di dalam zakat pertanian. Metodologi tersebut adalah seperti berikut:

a. Berpegang dengan nas-nas yang umum selagi mana tidak ada nas lain yang mengkhususkannya.

Contoh pengaplikasian metodologi ini oleh al-Qaradawi adalah di dalam penetapan sumber pertanian yang wajib dikenakan zakat. Al-Qaradawi berpendapat bahawa semua yang dikeluarkan daripada bumi wajib untuk dikenakan zakat<sup>29</sup>. Pendapat beliau ini berasaskan keumuman nas-nas daripada al-Quran dan

<sup>&</sup>lt;sup>27</sup>al-Oaradawi(1996b). Fatawa al-Mar'ah al-Muslimah. Kaherah: Maktabah Wahbah. hh. 49-68.

<sup>&</sup>lt;sup>28</sup>Penulis telah meringkaskan metodologi al-Qaradawi dalam mengeluarkan hukum atau fatwa dengan merujuk kepada dua karya berikut; Abd. Rahman Ghazaly. (2004). *Pandangan Yusuf al-Qaradawi Tentang Ijtihad Kontemporer dan Prospeknya dalam Menunjang Pengembangan Hukum Islam*. Tesis PhD dalam Bidang Ilmu Agama Islam yang tidak diterbitkan, Universitas Islam Negeri (UIN) Syarif Hidayatullah, Jakarta.hh. 119-125, dan Nasrul Hisyam Nor Muhammad. (2004). Pandangan Yusuf al-Qaradawi Terhadap Fiqh Semasa. *ISLAMIYYAT*, 26 (2).hh. 77-78.
<sup>29</sup>al-Qaradawi (1994). op. cit. j. 1, hh. 383-384.

al-Sunnah. Walaupun terdapat golongan<sup>30</sup> yang mengkhususkan dengan hadis yang yang membataskan zakat pertanian kepada empat hasil pertanian, tetapi al-Qaradawi tidak menerima pengkhususan (*takhsis*) tersebut, ini adalah kerana menurut beliau hadis tersebut dan seumpamanya tidak lepas dari cacat<sup>31</sup> dan hadis tersebut juga boleh difahami sebagai menyatakan contoh-contoh sumber pertanian yang dikenakan zakat<sup>32</sup>.

#### b. Berpegang dengan ijma' yang diyakini keabsahannya

al-Qaradawi juga berpegang dengan ijma' yang diyakini keabsahannya. Sekiranya ijma' itu tidak diyakini dan hanyalah merupakan dakwaan maka al-Qaradawi akan membuat penimbangan dan tidak terus berpegang dengan ijma' tersebut. Antara pengaplikasian al-Qaradawi terhadap metodologi ini adalah ketika beliau menerima penentuan jumlah satu *wasaq* adalah bersamaan dengan 60 *sa'*, di mana terdapat ijma' berkenaan dengan perkara ini sebagaimana yang dinukilkan oleh Imam al-Nawawi<sup>33</sup>, juga menerima ijma' para ulama' dalam mewajibkan zakat dari hasil yang dikeluarkan dari bumi<sup>34</sup>.

### c. Melihat kepada magasid dan maslahah dalam proses untuk menentukan hukum

Sebagai contoh al-Qaradawi telah menetapkan bahawa penentuan nisab bagi hasil pertanian yang tidak boleh disukat hendaklah ditentukan dengan nilai harga sederhana 5 *awsuq* hasil pertanian lain yang boleh disukat. Beliau menolak pendapat Abu Yusuf yang berpendapat menggunakan nilai harga terendah<sup>35</sup>. Al-Qaradawi menggunakan nilai harga sederhana tidak mahal dan tidak murah adalah kerana menjaga maslahah pembayar zakat dan penerima zakat<sup>36</sup>.

#### d. Meraikan realiti semasa ('Urf) dalam penetapan hukum

Metodologi ini dapat dilihat secara umum di mana beliau menetapkan bahawa semua sumber pertanian wajib dikenakan zakat, kerana secara realitinya pada hari ini (*'urf zamani*) telah wujud begitu banyak sumber pertanian yang memberikan keuntungan dan kekayaan pada pemiliknya. Beliau juga telah menerapkan kaedah pengiraan dan sukatan yang bersesuaian dengan zaman sekarang dalam pengiraan dan sukatan yang berlaku dalam zakat pertanian. Begitu juga dalam penentuan nilai harga sederhana bagi sumber pertanian yang wajib dizakatkan untuk dijadikan asas penentuan harga bagi sumber pertanian lain yang tidak boleh di sukat, oleh kerana harga yang berbeza-beza antara negara Islam, jadi penentuan itu hendaklah diserah kepada setiap ilmuwan di negara tersebut<sup>37</sup>.

#### e. Tidak taksub dengan satu-satu mazhab

Al-Qaradawi tidak taksub dengan mana-mana mazhab, Oleh kerana itulah dalam satu-satu isu beliau menguatkan pendapat satu mazhab dan dalam isu yang lain beliau menerima pendapat mazhab yang lain. Sebagai contoh dalam penentuan hasil pertanian yang wajib dikenakan zakat beliau menerima pendapat

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<sup>&</sup>lt;sup>30</sup> Iaitu pendapat Ibnu 'Umar dan sebahagian ulama' salaf seperti Musa ibn Talhah, al-Hassan, Ibn Sirin, al-Sya'bi, al-Hasan ibn Salih, Ibn Abi Laila, Ibn al-Mubarak, Abu 'Ubaid dan salah satu riwayat dari Imam Ahmad, lihat ; al-Maqdisi, Ibn Qudamah (1992). *Al-Mughni*. Kaherah : Hajar. j. 4, hh. 156-157 / 160.

<sup>&</sup>lt;sup>31</sup> Samada hadis tersebut *inqita*' ataupun sebahagian daripada perawinya dinilai *da'if* sehingga tidak dapat mengkhususkan nas yang lebih kuat dari sudut *thubut* dan *dalalah*.

<sup>&</sup>lt;sup>32</sup> al-Qaradawi (1994). op. cit. j. 1. h. 384.

<sup>&</sup>lt;sup>33</sup>al-Nawawi, Yahya bin Syaraf (t.t.). *Al-Majmu' Syarh al-Muhadhdhah.* Jeddah : Maktabah al-Irsyad. j. 5, h. 439.

<sup>&</sup>lt;sup>34</sup>al-Kasani, Abu Bakr bin Mas'ud (2003). Badai' al-Sanai' fi Tartib Syarai'. Beirut: Dar al-Kutub al-Ilmiyah. j. 2, h. 495.

<sup>&</sup>lt;sup>35</sup>*Ibid.* j. 2. h. 511.

<sup>&</sup>lt;sup>36</sup>al-Qaradawi (1994). op. cit. j. 1. h. 403.

<sup>&</sup>lt;sup>37</sup>*Ibid.* h. 403

Imam AbuHanifah<sup>38</sup> dan dalam isu lain seperti penentuan nisab dalam zakat pertanian beliau telah menerima pendapat jumhur dan menolak pendapat Imam AbuHanifah<sup>39</sup>.

#### 5. IJTIHAD AL-QARADAWI DALAM ZAKAT PERTANIAN

#### 5.1 Sumber Pertanian Yang Wajib Dikenakan Zakat

Dalam isu ini al-Qaradawi berpendapat bahawa semua yang dikeluarkan daripada bumi wajib untuk dikenakan zakat.Pendapat beliau ini berasaskan keumuman nas-nas daripada al-Quran dan al-Sunnah, dan ianya juga bertepatan dengan hikmah pensyariatan zakat. Beliau menyebut:

"Pendapat inilah bertepatan dengan al-Quran dan al-Sunnah, dan ianya juga seiring dengan hikmah pensyariatan zakat, tidaklah dikatakan suatu hikmah sekiranya Allah mewajibkan zakat kepada petani yang menanam barli dan gandum, dan mengecualikan (membayar zakat) pemilik kebun-kebun limau, mangga ataupun epal"<sup>40</sup>

Nas-nas yang terdapat di dalam al-Quran yang menyatakan kewajipan zakat pertanian adalah bersifat umum dan tidak menentukan dan mengkhususkan jenis sumber pertanian yang wajib dizakatkan sebagaimana firman Allah s.w.t di dalam surah al-Baqarah 2: 267, dan surah al-An'am 6: 141. Begitu juga di dalam hadis Rasulullah s.a.w., sabda Baginda s.a.w:

Yang bermaksud: "Pada apa-apa yang diairi (disirami) dengan air hujan, mata air atau air tanah (takungan) dikenakan (zakat) sebanyak 10%, sedangkan pada apa-apa yang diairi dengan tenaga dikenakan (zakat) sebanyak 5%" (Hadis riwayat al-Bukhari)

Pendapat al-Qaradawi ini adalah hasil penelitian beliau kepada perbincangan-perbincangan yang wujud diantara ulama'-ulama' ketika membahaskan isu ini.Beliau telah mentarjihkan pendapat yang dikemukakan oleh Imam AbuHanifah<sup>41</sup> yang juga merupakan pendapat 'Umar 'Abdul 'Aziz, Mujahid, al-Nakha'i<sup>42</sup> dan Hammad di mana mereka berpendapat bahawa semua yang dikeluarkan daripada bumi yang bertujuan untuk menyuburkan tanah (memperoleh hasil) wajib untuk dikenakan zakat padanya<sup>43</sup>.

Al-Qaradawi juga menolak dan mengkritik pendapat-pendapat yang bercanggahan yang dikemukakan oleh golongan lain mengenai isu ini. Beliau telah mengkritik golongan yang membataskan kewajipan zakat pertanian kepada empat hasil pertanian sahaja iaitu Ibnu 'Umar dan sebahagian ulama' salaf <sup>44</sup>, kritikan beliau menjurus kepada hadis-hadis yang membataskan zakat pertanian kepada empat hasil pertanian<sup>45</sup>, ini adalah kerana hadis-hadis tersebut tidak ada yang selamat dan bebas dari cacat. Samada hadis tersebut *inqita*' ataupun sebahagian daripada perawinya dinilai *da'if*, dan sekiranya hadis tersebut boleh diterima adalah mustahil untuk membataskan kepada empat hasil pertanian tersebut untuk dikenakan zakat, dan berkemungkinan bahawa penentuan tersebut hanyalah sebagai contoh (sumber

<sup>41</sup>al-Mirghinani, 'Ali bin Abu Bakr (t.t). op. cit. h. 41. lihat juga: Ibn al-Humam (2003). op. cit. j. 2, h. 248.

<sup>&</sup>lt;sup>38</sup>al-Mirghinani, 'Ali bin Abu Bakr (t.t). *Bidayat al-Mubtadi*. Kaherah : Matba'ah al-Futuh. h. 41, lihat juga : Ibn al-Humam (2003). *Fath al-Qadir*. Beirut : Dar al-Kutub al-'Ilmiyah. j. 2, h. 248.

<sup>&</sup>lt;sup>39</sup>al-Qaradawi. (1994). op. cit. j. 1. h. 389.

<sup>40</sup> Ibid. h. 384.

<sup>&</sup>lt;sup>42</sup>Ibn al-Humam (2003).op.cit. j. 2, h. 249.

<sup>43</sup>al-Qaradawi (1994). op. cit. j. 1, hh. 383-384.

<sup>44</sup> al-Maqdisi, Ibn Qudamah (1992). op. cit. j. 4, hh. 156-157 / 160.

<sup>&</sup>lt;sup>45</sup>Contohnya adalah hadis riwayat Ibn Majah dan al-Daraqutni yang bermaksud : "Sesungguhnya Rasulullah s.a.w mengenakan zakat pada gandum, barli, kurma dan kismis"

pertanian) bukan membawa pengertian yang benar, oleh kerana itu hadis ini tidak dijadikan hujah dalam menetukan sumber atau hasil pertanian yang dikenakan zakat oleh ulama' empat mazhab<sup>46</sup>.

Seterusnya beliau mengkritik pendapat golongan yang mengisyaratkan hanya hasil pertanian yang boleh disukat sahaja yang dikenakan zakat, pendapat ini didokong oleh Imam Ahmad<sup>47</sup>.Al-Qaradawi mengatakan bahawa hujah mereka ini lemah, kerana hadis<sup>48</sup> yang menjadi hujah mereka zahirnya menunjukkan nisab bagi buah-buahan dan bijian, bukan untuk menggugurkan kewajipan zakat ke atas hasil pertanian yang tidak boleh disukat<sup>49</sup>.

Seterusnya al-Qaradawi mempertikaikan golongan yang mensyaratkan bahawa hasil pertanian yang dikenakan zakat mestilah berbentuk makanan asasi<sup>50</sup>, kerana ia tidak mempunyai asas dan sandaran, dan ia juga boleh dikira sebagai satu *qiyas* yang rosak<sup>51</sup>.

Al-Qaradawi seterusnya menolak pendapat yang mengecualikan tumbuhan hijau<sup>52</sup>. Beliau berpendapat bahawa zakat pertanian dikenakan pada setiap tumbuhan yang sudah menjadi, contohnya tumbuhan yang kering dizakatkan apabila ia sudah kering, dan tumbuhan yang basah dizakatkan apabila ia sudah masak<sup>53</sup>.

Al-Qaradawi juga bersetuju dengan sebahagian ulama' yang mengambil zakat daripada tumbuhan hijau mengikut nilainya bukan fizikalnya oleh kerana tumbuhan hijau cepat rosak dan busuk.Antara ulama' tersebut adalah al-Zuhri, Maimun bin Mihran, al-Auza'i<sup>54</sup>, Ata' al-Khurasani, al-Sya'bi<sup>55</sup> dan selain mereka.

Tetapi terdapat sebahagian mereka menentukan kadar yang perlu dizakatkan adalah sebanyak 2.5% mengikut kadar zakat mata wang, dan perkara ini tidak dipersetujui oleh al-Qaradawi. Al-Qaradawi berpendapat nilai kadar zakat yang perlu dikeluarkan adalah 5% ataupun 10% sesuai dengan kadar zakat pertanian, asasnya adalah zakat menggunakan nilai bagi tumbuhan hijau itu merupakan ganti atau alternatif bagi zakat pertanian, dan ia mengambil hukumnya, berasaskan kaedah pengganti tetap sama hukumnya dengan yang digantikan<sup>56</sup>.

#### 6. KESIMPULAN

Tidak dapat dinafikan ketokohan al-Qaradawi dalam bidang fiqh, beliau mempunyai kaedah dan metodologi penetapan hukum yang tersendiri. Al-Qaradawijuga telah berusaha dengan menggunakan cara dan metodologi beliau sendiri dalam penghujahan, memilih pendapat yang lebih kuat, dan menentukan hukum dalam menyelesaikan isu-isu zakat pertanian.

Terdapat lima kaedah ataupun metodologi yang dapat dikenalpasti di dalam penetapan hukum zakat pertanian yang digunakan al-Qaradawi, iaitu berpegang dengan nas-nas yang umum selagi mana tidak ada

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<sup>46</sup>al-Qaradawi (1994). op. cit. j. 1, h. 384.

<sup>&</sup>lt;sup>47</sup>Pendapat yang mensyaratkan bahawa hanya hasil pertanian yang boleh disukat sahaja yang dikenakan zakat, lihat ; al-Maqdisi, Ibn Qudamah (1992). *op. cit.* j. 4, hh. 155-156.

<sup>&</sup>lt;sup>48</sup>Hadis muttafaq 'alaih, yang bermaksud : "*Apa-apa yang kurang daripada 5 ansuq tidak dikenakan zakal*".

<sup>&</sup>lt;sup>49</sup>al-Qaradawi (1994). op. cit. j. 1, h. 385.

<sup>&</sup>lt;sup>50</sup>Pendapat ini dikemukakan oleh Imam Malik dan Imam al-Syafi'i. Sila Lihat : al-Syafi'i (2002). *Al-Umm*.Beirut : Dar al-Kutub al-Tlmiyah. j. 2, h. 46 ; al-Qurtubi (2006). *Al-Jami' li Ahkam al-Qur'an*.Beirut : Mu'asasah al-Risalah. j. 9, h. 55 ; Ibn al-'Arabi (2003). *Ahkam al-Qur'an*.Beirut : Dar al-Kutub al-'Ilmiyah. j. 2, h. 283.

<sup>&</sup>lt;sup>51</sup>al-Qaradawi (1994). op. cit. j. 1, h. 385.

<sup>&</sup>lt;sup>52</sup>Tumbuhan hijau ini adalah seperti sayur-sayuran dan buah-buahan yang tidak tahan lama dan cepat busuk.

<sup>&</sup>lt;sup>53</sup>al-Qaradawi (1994). op. cit. j. 1, h. 386.

<sup>&</sup>lt;sup>54</sup>Lihat : Abu 'Ubaid, Al-Qasim bin Salam (1989). Kitab al-Amwal. Beirut : Dar al-Syuruq. h. 604.

<sup>&</sup>lt;sup>55</sup>Lihat : al-Qarasyi, Yahya bin Adam (1384H). *Kitab al-Kharaj*.Kaherah : Al-Matba'ah As-Salafiyyah. h. 142.

<sup>&</sup>lt;sup>56</sup>al-Qaradawi (1994). op. cit. j. 1, h. 388.

nas lain yang mengkhususkannya, berpegang dengan ijma' yang diyakini keabsahannya, melihat kepada maqasid dan maslahah dalam proses untuk menentukan hukum, Meraikan realiti semasa ('Urf) dalam penetapan hukum dan beliau tidak taksub dengan satu-satu mazhab dalam penetapan hukum. Dapat disimpulkan juga bahawa kaedah metodologi penetapan hukum yang digunakan al-Qaradawibertujuan memelihara maslahah dan meraikan realiti semasa ('urf).

Penetapan hukum al-Qaradawi dalam zakat pertanian juga dilihat lebih sesuai untuk diaplikasikan pada masa kini. Ini adalah kerana al-Qaradawi merupakan salah seorang intelektual muslim kontemporari yang arif dengan keadaan semasa zaman dan masyarakat. Kaedah, metodologi dan pendapatnya di dalam zakat pertanian juga mempunyai nilai ilmiah yang tersendiri dan boleh dimanfaatkan oleh pelbagai pihak, termasuk para ilmuan Islam, penyelidik, pelajar dan umat Islam secara amnya.

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# ANALISA KETIDAKSELARASAN TAKSIRAN ZAKAT PERTANIAN DI MALAYSIA (THE ANALYSIS OF NON-UNIFORMITY ESTIMATION OF AGRICULTURE ALMS IN MALAYSIA)

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#### **ABSTRAK**

Kajian ini bertujuan untuk menganalisis isu ketidakselarasan taksiran zakat pertanian di Malaysia Pengurusan zakat pertanian di Malaysia adalah di bawah bidang kuasa Majlis Agama Islam Negeri-Negeri berdasarkan peruntukan di dalam Perlembagaan Persekutuan. terdapat kepelbagaian dasar dan hukum yang ditetapkan oleh Jabatan Mufti Negeri melalui Jawatankuasa Fatwa dan Majlis Agama Islam Negeri (MAIN) berpandukan kepada Enakmen atau Ordinan Pentadbiran Agama Islam Negeri masing-masing. Misalnya ketidakselarasan penetapan nisab bagi timbangan metrik gantang iaitu 363 gantang, 375 gantang dan 400 gantang. Begitu juga kepelbagaian kadar yang diaplikasikan di negeri-negeri yang sebahagiannya hanya mengenakan kadar tunggal sama ada 5% atau 10% sahaja dan sebahagian negeri yang lain mengehadkan kepada kadar alternatif 7.5%. Objektif kajian ini adalah untuk menganalisis punca kepelbagaian taksiran nisab dan meneliti faktor penetapan kadar zakat tanaman di Malaysia serta mengkaji pelepasan kos operasi tanaman dan kos sara diri petani sebelum diwajibkan zakat pertanian. Metodologi kajian menggunakan data primer dengan menggunakan 5 buah sampel kajian iaitu negeri Selangor, Pulau Pinang, Perlis, Terengganu dan Sarawak. Data diperoleh dengan menemu bual responden yang terdiri daripada pegawai zakat dan pegawai jabatan mufti di lima buah negeri. Penganalisisan data menggunakan kaedah deskriptif dan komparatif. Implikasi kajian ini mendapati setiap fatwa yang telah dikeluarkan perlu dinilai semula dari semasa ke semasa agar hukum zakat pertanian senantiasa bersifat semasa, dinamis dan praktikal.

Kata Kunci: Zakat Pertanian, Ketidakselarasan, Nisab, Kadar, Pelepasan Kos-Kos

#### **ABSTRACT**

This research analyzed the issue of non-uniformity estimation of agriculture alms in Malaysia. The administration and management of almsis under the jurisdiction of State Islamic Council (MAIN) as stated in Federal Contitutions. Thus, there are diversity policies and laws set by the State Mufti Department through the Fatwa Committee and the State Islamic Religious Council (MAIN) based on the Administration of Islamic Law Enactment or Ordinance respectively, for example inconsistency nisab setting for metric weights of 363 bushels, 375 bushels and 400 bushels. Similarly, the applied rate variability in some states only charge a single rate either 5% or 10% and most other states limit the alternative rate of 7.5%. The objectives of this study are to research the causes of diversity assessment and examine factors of agriculture alms in Malaysia such as nisab, rate and to study the deduction of costs in Malaysia. Therefore, this study analyses the non-uniformity estimation of agriculture alms involving policy makers, namely the State Mufti Department and officers in charge of the alms management namely the State Baitulmal. The methodology of this study is done using the primary data which is the interview with the State Mufti

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Department and the State Baitulmal in states of Selangor, Penang, Perlis, Terengganu and Sarawak. The data analysis uses the descriptive and the comparative methods. This study carries an important implication, where every fatwa that has been issued needs to be reassessed from time to time, so that the law of alms-granting will continuously be current, dynamic and more importantly, practical to be used by from one generation to another.

Keywords: Agriculture Alms, Non-uniformity, Nisab, Rate, Deduction of Costs

#### 1. PENDAHULUAN

Realiti pengurusan zakat di Malaysia terletak di bawah bidang kuasakerajaan negeri, berdasarkan peruntukan Perlembangaan Persekutuan dalam Jadual Kesembilan Senarai II Senarai Negeri (Perlembangaan Persekutuan, 2006). Pentadbiran zakat terletak di bawah Majlis Agama Islam Negeri-negeri MAIN dan terdapat juga di sesetengah negeri diletakkan di bawah institusi khas yang terasing dari MAIN. Pelaksanaan segala dasar dan kegiatan Majlis Agama Islam di sesebuah negeri berpandukan kepada Enakmen atau Ordinan Pentadbiran Agama Islam Negeri dan Jawatankuasa Fatwa Negeri. MAIN adalah sebuah badan yang terletak di bawah DYMM Sultan atau Yang Dipertuan Agong yang mana ia bertanggungjawab ke atas segala urusan berkaitan dengan kegiatan Islam di negeri berkenaan termasuklah Jabatan Mufti dan Pusat Pengurusan Zakat.

Pentadbiran pengurusan agihan zakat di Malaysia terbahagi kepada dua kategori. Pertama, agihan zakat di bawah Baitulmal Majlis Agama Islam Negeri masing-masing seperti yang dipraktikkan di negeri Perlis, Kedah, Perak, Johor, Sabah, Kelantan, Pahang, Melaka, Negeri Sembilan, Sarawak, Wilayah Persekutuan dan Terengganu. Walaupun MAIN telah menubuhkan anak syarikat korporat (corporate governance) yang menguruskan zakat di negeri masing-masing seperti Pusat Pungutan Zakat Wilayah Persekutuan, Puzat Zakat Melaka, Pusat Kutipan Zakat Pahang dan Pusat Zakat Negeri Sembilan, namun begitu kuasa agihan zakat masih dikekalkan di bawah Baitulmal MAIN. Kategori kedua ialah agihan yang dilakukan oleh syarikat korporat atau anak syarikat yang ditubuhkan khusus oleh MAIN untuk mengurus kutipan dan agihan zakat bagi pihak MAIN secara serentak dan bersepadu seperti di Lembaga Zakat Selangor dan Pusat Urus Zakat Pulau Pinang sahaja.

Pengkaji akan menganalisa zakat pertanian dan pengurusannya di lima buah negeri yang menjadi sampel kajian iaitu di Selangor, Sarawak, Pulau Pinang, Terengganu dan Perlis. Jadual (1) menunjukkan pengurusan dan pentadbiran zakat pertanian di negeri-negeri yang menjadi sampel kajian:

Jadual 1: Pentadbiran Zakat Pertanian Di Malaysia

Bil	Negeri	Pengurusan Zakat Pertanian
1	Selangor	Lembaga Zakat Selangor (LZS)
2	Pulau Pinang	Pusat Urus Zakat Majlis Agama Islam Pulau Pinang
		(PUZ MAINPP)
3	Sarawak	Tabung Baitulmal Sarawak (TBS)
4	Terengganu	Majlis Agama Islam Dan Adat Melayu Terengganu (MAIDAM)
5	Perlis	Baitulmal, Majlis Agama Islam Dan Adat Istiadat Melayu Negeri Perlis
		(MAIPs)

Sumber: Laman Sesawang Majlis Agama Islam Negeri.

#### 2. DEFINISI ZAKAT PERTANIAN DI MALAYSIA

Di Malaysia, kesemua negeri hanya mengenakan zakat ke atas tanaman padi sahaja berdasarkan pandangan Imam al-Syafi'e yang mengenakan terhadap makanan asasi sesuatu tempat, tahan disimpan lama dan boleh dikeringkan. Namun, tidak ditetapkan pendefinisan yang khusus di negerinegeri, ini kerana tafsiran zakat tanaman sedia ada terlalu umum(Temubual bersama Ustaz Mohd Farid Bin Mohd Zainal, Eksekutif Sektor Penerangan Korporat, Lembaga Zakat Selangor bertarikh 12 September 2012) berdasarkan dalil daripada surah al-Baqarah 2:267 dan pendapat mazhab Syafi'e sahaja. Misalnya di LZS mendefinisikan zakat pertanian sebagai:

"Satu zakat yang dikenakan ke atas makanan asasi yang mengenyangkan ke atas sebuah negeri yang telah cukup nisab. Hasil tanaman yang wajib dizakatkan adalah bijirin—bijirin daripada jenis makan asasi yang mengenyangkan dan tahan lama jika disimpan seperti padi, kurma, jagung, gandum dan sebagainya. Makanan asasi bagi penduduk di Malaysia adalah nasi dan nasi dihasilkan daripada padi" (Lembaga Zakat Selangor, 2012).

Di PUZ MAINPP dan Baitulmal MAIPs menambah syarat hasil tanaman "yang diusahakan oleh manusia" (Pusat Urus Zakat Pulau Pinang, 2012) dan "di atas tanah milik sendiri, sewa atau sebagainya" (Baitulmal MAIPs, t.t) dalam pendefinisian zakat tanaman mereka. Manakala di TBS mendefinisikan sebagai sebahagian daripada "pendapatan bersih" dan "hasil pertanian yang bermanfaat" (Tabung Baitulmal Sarawak, 2012). Pengkaji beranggapan sesuatu pentafsiran itu berhubung rapat dengan perlaksanaannya contohnya di Sarawak mengenakan istilah "pendapatan bersih" disebabkan TBS membenarkan penolakan kos operasi sebelum dikenakan zakat berbanding Selangor yang hanya mengenakan ke atas hasil kasar. Namun istilah "hasil pertanian yang bermanfaat" telah membuka dimensi *maslahah* dalam memperluaskan hasil tanaman selain padi kepada hasil tanaman yang mendatangkan keuntungan yang lumayan dan manfaatnya kepada para asnaf.

Namun terdapat isu di Baitulmal MAIPs berkenaan definisi zakat pertanian, ini kerana berdasarkan fatwa mengkategorikan zakat pertanian termasuk di bawah zakat gaji atas dasar memperolehi hasilnya pada musim dan waktu tertentu (Fatwa Negeri Perlis, t.t), ini bertentangan dengan definisi yang dikeluarkan oleh pihak Baitulmal Perlis (Baitulmal Perlis, t.t). Berdasarkan kepada kepelbagaian pentakrifan ini, sewajarnya pihak-pihak yang berwajib negeri membangunkan sistem garis panduan tafsiran setiap istilah jenis-jenis harta dan asnaf zakat agar perlaksanaannya selari dengan terminologi yang ditetapkan.

#### 3. NISAB ZAKAT PERTANIAN DI MALAYSIA

Jumhur fuqaha bersepakat nisab tanaman adalah 5 *awsuq* bersandarkan kepada hadith *sahih* dari Abu Sa'id al-Khudri r.a. Walau bagaimanapun pendapat ini tidak dipersetujui oleh Imam AbuHanifah yang tidak menghadkan nisab tanaman, dan diwajibkan zakat atas hasil produktiviti tanpa melihat kepada kuantiti.

Di Malaysia kesemua negeri berpegang kepada pendapat jumhur ulama (Ibn Qudamah,1994)dengan mengenakan nisab dengan kadar 5 awsuq sebagai kayu ukur kemampuan dan kelayakan muzakkiuntuk mengeluarkan zakat tanaman padi. Penetapan kadar nisab adalah bagi hasil tanaman padi yang telah dibersihkan iaitu dibuang kulit dan jeraminya. Oleh itu, timbangan nisab 5 awsuq yang dipraktikkan adalah berasaskan timbangan beras, adapun padi yang belum dibersihkan yakni belum dibuang kulit maka ketetapan nisabnya adalah diganda dua iaitu 10 awsuq.

Walaupun begitu, negeri-negeri di Malaysia tidak bersepakat dalam penetapan kadar timbangan metrik gantang dan kilogram, seperti jadual(2) di bawah:

Jadual 2: Ketidakselarasan Nisab Zakat Padi Di Malaysia

Bil	Negeri	Gantang	Kilogram (kg)
1	Lembaga Zakat Selangor	363 gantang	1306kg / 1.306tan
2	Pusat Urus Zakat Penang	363 gantang	1300kg / 1.3tan
3	Baitulmal Majlis Agama Islam Perlis	363 gantang / 2 kunca 7 naleh	1300kg / 1.3tan
4	MAIDAM Terengganu	375 gantang / 600 gantang Madinah	937kg / 0.937tan
5	Tabung Baitulmal Sarawak	400 gantang / 50 pasuk	1080kg / 1.08tan

Sumber: Hasil temubual bersama Pengurusan Zakat Negeri

Berdasarkan jadual (2)di atas terdapat tiga kepelbagaian kadar gantang Malaysia iaitu 363 gantang, 375 gantang dan 400 gantang. Begitu juga dengan kepelbagaian takaran kilogram iaitu 987kg, 1080kg, 1300kg dan 1306kg.

Pengkaji berpendapat kepelbagaian ini berlaku disebabkan oleh beberapa faktor. Faktor pertama ialah tidak terdapat keselarasan timbangan gantang di setiap negeri dan *converter* peralihan timbangan daripada 5 *awsuq* kepada timbangan gantang dan kilogram. Asasnya kerana gantang adalah alat untuk menyukat dan bukan untuk ditimbang berdasarkan hadith diriwayatkan oleh Ibn 'Umar (Al-Nasa'i, t.t). Sukatan satu *sa*' berbeza berdasarkan keadaan dan semasa misalnya berbeza sukatan gantang Madinah dan Mesir, ini kerana setiap negeri berijtihad menetapkan takaran *sa*' ini berdasarkan bentuk dan saiz model gantang yang diwarisi.

Di Sarawak menurut Ustaz Zulhazmi Bin Bohari (Temubual bersama Ustaz Zulhazmi Bin Bohari, Pengawai Eksekutif Tabung Baitulmal Sarawak Cawangan Bandar Sri Aman bertarikh 24 September 2012) masih menggunakan timbangan traditional 40 sehingga 55pasukyang telah diamalkan oleh pengusaha padi terdahulu sebelum wujudnya Tabung Baitulmal Sarawak dan kadar ini masih dipraktikkan sehingga sekarang, walaupun pada tahun 2007 pihak Baitulmal telah menetapkan kadar timbangan moden 400 gantang bersamaan 1080 kg (1gantang= 2.7kg). Penetapan gantang ini disokong oleh Mujaini Tarimin (Mujaini Tarimin, 1987) dan Mahmood Zuhdi (Mahmood Zuhdi, 1996) 400 gantang Malaysia menyamai 1600 kati dengan kiraan satu gantang menyamai 4 kati, akan tetapi mereka berbeza dari segi penetapan kilogram iaitu masingmasing 960kg (1 gantang = 2.4kg) dan 1000kg (1 gantang = 2.5kg).

Di Terengganu kadar takaran nisab berjumlah 375 gantangatau 600 gantang Madinah bersamaan dengan 937 kg (1 gantang = 2.5kg). Manakala di Perlis, Selangor dan Pulau Pinang mengenakan sebesar 363 gantang atau 2 kunca 7 nalehbersamaan 1300kg dan 1306kg (1 gantang = 3.58kg).

Kepelbagaian ini jelas disebabkan oleh timbangan traditional lokaliti yang masih digunakan seperti pasuk, kunca dan naleh. Pentaksiran takaran kadar satu gantang yang berbeza sama ada 2.5kg atau 2.7kg atau 3.58kg menyumbang kepada perbezaan ini. Asas perbezaan ini berlaku disebabkan oleh jenis padi yang ditanam di sesuatu kawasan, kerana setiap jenis padi mempunyai timbangan berat yang berbeza bergantung kepada kualiti *grade* padi serta ketumpatannya.

Perselisihan pendapat ini bukan sahaja berlaku di Malaysia, bahkan di seluruh dunia, begitu juga para ulama berbeza pendapat berapa kilogramkah satu gantang Baghdad? misalnya perbezaan kadar timbangan Imam AbuHanifah dan Imam Syafi'e masing-masing dengan lapan (8) kati dan lima satu pertiga (5 1/3) kati (Abu 'Ubaid, 1988). Pengkaji berpendapat perbezaan ini berlaku disebabkan oleh faktor setempat dan semasa contohnya Imam AbuHanifah menetap di Iraq manakala Imam Syafi'e di Hijaz.

Faktor kedua membabitkan bidangkuasa pembuat dasar iaitu Jabatan Mufti dan Baitulmal negeri perlu menilai semula isu ini sepertimana penilaian yang dilakukan Muzakarah Fatwa Majlis

Kebangsaan Bagi Hal Ehwal Ugama Islam Malaysia kali ke-57membincangkan cara penetapan harga zakat firtah seluruh Malaysia (Institut Pengurusan dan Penyelidikan Fatwa Sedunia INFAD, 2012). Hasil daripada perbincangan Muzakarah telah memutuskan harga zakat fitrah bagi negerinegeri di Semenanjung Malaysia adalah berdasarkan harga setempat yang ditetapkan oleh Padi Beras Nasional Berhad BERNASbagi beras Super Tempatan Gred A mengikut timbangan satu gantang Baghdad bersamaan 2.6kg. Manakala zakat fitrah bagi negeri-negeri Sabah dan Sarawak adalah berdasarkan harga beras Vietnam White Rice bagi negeri Sabah dan Thai White Ride bagi negeri Sarawak mengikut timbangan 1 baqhdad bersamaan 2.7kg. Gantang yang disukat kepada timbangan metrik digital menggunakan replika kayu gantang baqhdad dari Negeri Sembilan dan replika tembaga gantang baqhdad dari Majlis Agama Islam Kelantan.

Jika dibandingkan dengan keputusan Muzakarah mengenai ketetapan kadar zakat fitrah dengan amalan yang diaplikasi di negeri-negeri menunjukkan negeri Sarawak sahaja menyamaratakan timbangan kadar zakar fitrah dengan zakat hasil pertanian iaitu satu gantang bersamaan 2.7kg, yang membezakan hanya kuantiti yang perlu dikeluarkan iaitu zakat fitrah hanya 1 gantang manakala hasil tanaman 400 gantang. Negeri–negeri di Semenanjung Malaysia sepertimana keputusan muzakarah mensyorkan takaran satu gantang baqhdad zakat fitrah bersamaan 2.6kg, akan tetapi dari sudut amalannya sukatan 1gantang bagi hasil tanaman berbeza di setiap negeri misalnya di Terengganu satu gantang bersamaan 2.5kg, manakala di Perlis, Pulau Pinang dan Selangor menetapkan 3.58kg segantang.

Timbul persoalan menyamaratakan takaran satu gantang zakat fitrah dengan satu gantang zakat hasil tanaman? Ini kerana timbangan satu gantang yang dimaksudkan dalam zakat fitrah adalah gantang baqhdad. Manakala gantang yang digunakan dalam zakat tanaman di Malaysia sudah diubah kepada timbangan gantang Malaysia. Misalnya di Sarawak 400 gantang (Tabung Baitulmal Sarawak, 2012) hasil tanaman yang dimaksudkan adalah gantang Malaysia.

Pengkaji berpendapat perlunya ditetapkan satu standard keselarasan timbangan metrik moden iaitu gantang dan kilogram. Fatwa penetapan nilai nisab ini perlu dinilai semula dari semasa ke semasa bagi mendapatkan nilai yang tepat, ini disebabkan perbahasan mengenai nisab zakat kurang ditekankan di peringkat Baitulmal Negeri dan Jawatankuasa Fatwa. Berdasarkan temubual yang telah dijalankan, fatwa atau keputusan nisab zakat pertanian selepas pertama kali difatwakan tidak dinilai semula dalam tempoh yang lama, misalnya di Selangor, Pulau Pinang dan Terengganu hanya membahaskan isu penetapan kadar, penolakan kos-kos dan subsidi sahaja. Penilaian semula hukum nisab berlaku di Sarawak daripada 363 gantang ditukar kepada 400 gantang pada tahun 2007, akan tetapi tidak menitikberatkan secara terperinci perakaunan atau taksiran nilai semasa satu gantang. Begitu juga di Perlis, fatwa menetapkan nisab padi 2 kunca 7 naleh bersamaan 937 kilogram, namun pihak Baitulmal telah meminda timbangan kilogram kepada 1300kg berdasarkan situasi semasa tanpa melibatkan Jawatankuasa Fatwa Negeri Perlis (Temubual bersama Ustaz Roslan bin Isa, Timbalan Mufti Negeri Perlis bertarikh 5 September 2012).

Hasil temubual pengkaji bersama Jabatan Mufti Negeri berkenaan fatwa-fatwa zakat pertanian yang pernah diputuskan amat mendukacitakan sekali kerana fatwa-fatwa tersebut tidak disimpan dan didokumenkan secara sistematik dan menyukarkan pengkaji dan penyelidik meneliti tarikh yang tepat keputusan pernah dikeluarkan, salinan minit mesyuarat muzakarah, hasil perbicangan secara terperinci dan sebagainya. Fakta ini diperakui oleh Ahmad Hidayat buang dalam analisa beliau terhadap fatwa-fatwa semasa syariah di Malaysia (Ahmad Hidayat Buang, 1988).

Penilaian pengkaji berkenaan dengan isu perubahan fatwa timbangan gantang di Sarawak dan Perlis, bukanlah disebabkan oleh perubahan ekonomi dan teknologi semasa, ini kerana dalil nisab 5 awsuq sangat sarih dan thabit. Kemungkinan perubahan fatwa nisab adalah sebagai penambahbaikan terhadap hukum yang kurang tepat yang telah diputuskan oleh Jawatankuasa Fatwa terdahulu.

Dalam arus globalisasi serba canggih ini, masalah ini boleh diatasi dengan kaedah timbangan metrik yang moden seperti penimbang jenis 'digital' yang disediakan oleh Unit Metrik Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna KPDNHEP dipraktikkan bagi memastikan ketepatan timbangan menyamai 5 *awsuq* atau 300 gantang baqhdad kepada takaran gantang Malaysia.

Dalam timbangan sistem metrik *mud* (cupak)ditimbang dengan istilah gram (g), manakala *sa'* (gantang) dan *wasaq* ditimbang dengan kilogram (kg). Walaupun begitu terdapat kesukaran dalam mendapatkan timbangan yang tepat, walaupun menggunakan sukatan satu gantang yang sama timbangannya, akan tetapi hasil timbangan akan berbeza disebabkan jenis dan ketumpatan misalnya timbangan kacang lebih berat daripada jagung, dan jagung lebih berat daripada padi dan tepung. Selain itu, ulama juga berbeza pendapat dalam menetapkan timbangan satu gantang.

Takaran gantang adalah untuk sukatan, oleh itu timbangan yang lebih tepat adalah dalam liter dan bukan kilogram, akan tetapi dengan peredaran zaman timbangan kilogram adalah lebih *efficient* serta memudahkan urusan muamalat manusia. Justeru *maqasid* syariah mengiktiraf unsur setempat iaitu Negara seperti perbezaan yang berlaku di Madinah dan Baqhdad, maka pengkaji berpendapat di Malaysia secara lokalitinya perlu dibahagikan kepada dua bahagian iaitu Semenanjung Malaysia dan Sabah Sarawak. Penilaian semula perlu bagi menetapkan satu anggaran tepat timbangan diantara jenis-jenis padi yang ditanam di sesuatu kawasan, kerana ia bersifat ijtihad semasa. Pembahagian dua jenis kawasan ini disebabkan faktor geografi yang berbeza, teknologi yang digunapakai serta taraf ekonomi petani, ini kerana pertanian yang diamalkan di Sarawak dan Sabah berbeza daripada yang diamalkan di Semenanjung Malaysia.

Penetapan kadar gantang bolehlah merujuk kepada kaedah keselarasan kadar zakat fitrah oleh Muzakarah Fatwa Kebangsaan iaitu satu gantang baqhdad bersamaan 2.6kg bagi negeri di Semenanjung dan 2.7kg bagi negeri di Sabah dan Sarawak. Namun perbezaan berapa gantang yang seharusnya ditakar sama ada 363 gantang, 375 gantang atau 400 gantang Malaysia haruslah dipanjangkan kepada peringkat Suruhanjaya Pentadbiran Zakat Negeri-Negeri SPZN untuk menilai *conversion* yang tepat takaran satu gantang baqhdad jika diterjemahkan dalam timbangan kilogram Malaysia. Manakala penetapan harga semasa bergantung kepada jenis padi yang ditanam berdasarkan kualiti dan ketumpatannya misalnya padi sawah dan padi huma dan boleh dirujuk kepada pihak BERNAS.

#### 4. KETETAPAN HAUL (CUKUP SETAHUN) BAGI ZAKAT PERTANIAN

Berbanding jenis-jenis harta lain yang dikenakan zakat, zakat pertanian dikecualikan daripada ketetapan haul kerana hasil pertanian dikutip apabila tiba waktu menuainya sahaja, berdasarkan firman Allah s.w.t dalam surah al-An'am ayat 141 "Dan keluarkanlah haknya (zakatnya) pada hari memetik atau menuainya". Namun amalan di Selangor, Sarawak dan Pulau Pinang jika nilai jualan padi pada musim pertama kurang dari nisab, maka hendaklah dicampurkan ke musim kedua di dalam tahun yang sama. Ini kerana berdasarkan temubual bersama pihak LZS, TBS dan PUZ MAINPP, kebanyakan petani akan membayar zakat tanaman diakhir tahun bagi memudahkan urusan mereka. Pengkaji berpendapat kaedah yang ditetapkan ini seolah-olah mengaplikasikan tempoh haul yang bertentangan dengan nas. Maqsad dalam penentuan nisab adalah sebagai kayu ukur kemampuan seseorang dalam mengeluarkan zakat, namun kaedah ini dilihat sebagai menekan para petani dengan mewajibkan zakat tanaman walaupun hasil tanaman tidak melepasi kadar nisab sesuatu musim.

#### 5. KADAR ZAKAT PERTANIAN DI MALAYSIA

Di Malaysia kesemua negeri di Semenanjung bersepakat menggunakan asas penetapan kadar 10% dan 5% bersumberkan hadith sarih Ibn 'Umar dan hadith Mu'az (al-Asqalani, t.t). Penentuan kadar zakat tanaman dibahagikan kepada dua kategori berasaskan metode pengairan dan tenaga yang digunakan iaitu sama ada pengairan secara semula jadi atau menggunakan jentera serta tenaga manusia. Namun, sebahagian negeri menghadkan kadar dengan mengenakan kadar tunggal sama ada 10% atau 5% sahaja. Manakala di Sarawak kadar alternatif ketiga dikenakan iaitu 7.5% berdasarkan pendapat Ibn Qudamah, seperti jadual (3)di bawah:

Jadual 3: Ketidakselarasan Kadar Zakat Pertanian Di Malaysia

Bil	Negeri	Kadar Zakat
1	Lembaga Zakat Selangor	5% sahaja
2	Pusat Urus Zakat Penang	10% sahaja
3	MAIDAM Terengganu	5% dan 10%
4	Baitulmal MAIPs	5% dan 10%
5	Tabung Baitulmal Sarawak	5%, 10%dan 7.5%
	-	

Berdasarkan jadual(3) di atas dapat disimpulkan terdapat tiga kategori penetapan kadar zakat tanaman. Pertama, penetapan kadar tunggal sama ada 5% atau 10% sahaja yang diamalkan di negeri Selangor dan Pulau Pinang. Di Selangor pada tahun 1989 kadar zakat tanaman yang dibenarkan pada awalnya adalah pilihan sama ada 5% atau 10% mengikut kerelaan petani. Oleh kerana tidak terdapat satu panduan yang khusus, pihak Jawatankuasa Perunding Hukum Syara' telah memutuskan kadar zakat tanaman padi ialah 10% sahaja berdalilkan kitab *Majmu' Syarh al-Muhazzab* menyatakan parit dan tali air yang dikorek berhubung dengan sungai yang besar dan memakan belanja yang tinggi zakatnya masih dikenakan sebesar 10% (Jawatankuasa Perunding Hukum Syara' Selangor, 1989). Kini dengan penggunaan teknologi pertanian moden Ustaz Mohd Farid Bin Mohd Zainal (Temubual bersama Ustaz Mohd Farid Bin Mohd Zainal, Eksekutif Sektor Penerangan Korporat, Lembaga Zakat Selangor bertarikh 12 September 2012) menegaskan Lembaga Zakat Selangor telah menilai semula dan menetapkan kadar 5% bagi zakat tanaman dengan alasan realiti di Selangor kesemua 100% petani yang mengusahakan tanaman padi sawah menggunakan saliran yang disediakan oleh pihak Jabatan Pengairan dan Saliran JPS Selangor melibatkan saliran yang sistematik dan terancang serta tidak lagi menggunakan saliran semulajadi.

Fuqaha juga berbeza pendapat dalam isu pembelian air ini sepertimana al-Rafi'e berbeza pendapat dengan al-Dusuqi dengan mengenakan kadar 5% jika melibatkan pembelian air (cukai tali air), beliau berpendapat pembelian air tergolong dalam tanggungan kos (al-Nawawi, t.t) walaupun terdapat syarat-syarat yang perlu dipatuhi sebelum dikurangkan kadar zakat iaitu kos tersebut mestilah kos yang besar dengan melihat kepada 'urf pertanian semasa dan kos tersebut secara langsung mempengaruhi produktiviti hasil pertanian. Ini kerana para fuqaha tidak memasukkan kos mewujudkan saliran atau takungan sebahagian daripada kos tanaman berdasarkan pendapat Imam Nawawi disokong oleh Imam Haramain.

Di Pulau Pinang berlaku juga penilaian semula hukum penetapan kadar semasa. Kadar 5% adalah kadar yang sediakala dipakai sebelum ini oleh Majlis Agama Islam Negeri Pulau Pinang (Majlis Agama Islam Negeri Pulau Pinang, 2005), namun pada tahun 2005 Muzakarah Fatwa Negeri telah memutuskan kadar zakat tanaman padi sebesar 10% dengan memberi pelepasan kos operasi. Pengkaji berpendapat Mufti Pulau Pinang dalam memutuskan keputusan ini berpegang kepada *qaul* al-Dusuqi (al-Dusuqi, 1996), ini berdasarkan hasil temubual bersama Y.Bhg. *Sahibul Samahah* Dato' Seri Haji Hassan Bin Haji Ahmad (Temubual bersama *Sahibul Samahah* Dato' Seri Haji Hassan Bin Haji Ahmad, Mufti Negeri Pulau Pinang bertarikh 20 September 2012), seperti berikut: "Timbul juga isu berkenaan dengan cukai tali air JPN (Jabatan Pengairan dan Saliran Negeri), cukai air tidak banyak dan tidak padan dan tidak boleh dimasukkan dalam usaha pengairan yang

menjadikan kadarnya 5%. Contohnya satu relong berapa RM sahaja. Oleh itu ia dikira sebagai cukai biasa sahaja. Kadar 10% lebih menguntungkan kepada asnaf dan lebih sesuai".

Ulasan pengkaji berkenaan kenyataandi atas seolah-olah Y.Bhg *Sahibul Samahah* hanya mengutamakan *maslahah* para asnaf berbanding melihat dengan lebih menyeluruh kedua-dua entiti zakat termasuklah *muzakki* (petani) itu sendiri. Namun, berdasarkan keputusan Jawatankuasa Fatwa Pulau Pinang dalam menetapkan kadar 10% dengan mengambil kira penolakan kos-kos operasi, adalah hampir menyamai kadar 5% sepertimana yang diaplikasikan di Selangor ke atas kos kasar iaitu tanpa penolakan sebarang kos-kos.

Kategori kedua penetapan kadar zakat tanaman adalah berlandaskan zahir hadith iaitu dengan kadar 10% bagi saliran semula jadi dan 5% bagi yang melibatkan tenaga kerja sepertimana yang dipraktikkan di Perlis dan Terengganu. Di Perlis kadar zakat yang telah ditetapkan pada tahun 1980an adalah sebanyak 5% sahaja iaitu kadar tunggal (Fatwa Negeri Perlis, t.t). Namun Baitulmal MAIPs telah mengemaskini kaedah dengan mengenakan kadar 5% sekiranya tidak menolak sebarang kos dan 10% sekiranya ditolak kos-kos bagi menepati dengan kehendak syarak (Baitulmal MAIPs, t.t). Kaedah terkini yang digunapakai oleh Baitulmal MAIPs lebih menitikberatkan nilai keadilan kepada para petani dan asnaf zakat dengan mengimbangi diantara kadar penetapan zakat tanaman dengan penolakan kos-kos tertentu.

Di Terengganu kadar tunggal 10% telah dikenakan pada tahun 1990 (Mesyuarat Jawatankuasa Fatwa Negeri Terengganu, 1990)kerana saliran air ketika itu didapati dari parit dan saliran air yang percuma dan cukai air yang dikenakan ketika itu tidak membebankan maka tidak mengubah kadar zakat. Keadaan berubah pada tahun 1994 (Mesyuarat Jawatankuasa Fatwa Negeri Terengganu, 1994) apabila wujudnya usaha menggunakan jentera moden dalam sektor pengairan maka ia dikenakan 5%, dan kadar 10% masih dikenakan bagi petani yang menggunakan saliran air traditional menggunakan parit, takungan air dan tadahan hujan.

Kategori ketigayang menetapkan kadar alternatif ketiga iaitu 7.5% selepas 5% dan 10%. Meskipun kadar yang telah ditetapkan *nas* 5% dan 10% sahaja, namun menurut Ustaz Zulhazmi Bin Bohari secara praktikalnya pihak Tabung Baitulmal Sarawak mengenakan secara puratanya dengan kadar 7.5% sahaja berdasarkan pandangan Ibnu Qudamah (Temu bual bersama Ustaz Zulhazmi Bin Bohari, Pengawai Eksekutif Tabung Baitulmal Sarawak Cawangan Bandar Sri Aman bertarikh 24 September 2012). Ini kerana faktor geografi di Sarawak berbeza disamping jenis tanaman seperti padi huma dan padi sawah, begitu juga kawasan tanaman yang berbukit bukau yang menghadkan penggunaan teknologi moden dalam sistem pengairan dan pertanian.

Pengkaji berpendapat perbahasan penetapan kadar 7.5% hanya jika melibatkan dua jenis tanaman atau lebih, dijirus secara bercampur-campur dan sekiranya nisbah kedua-dua pengairan sama banyak (Ibn Qudamah, 1994). Ini kerana berkenaan kerja-kerja menggali parit atau tali air Ibnu Qudamah tidak memasukkannya dalam takrif penjirusan dan tidak mengurangkan kadar zakat, oleh kerana istilah "kerja berat" terlalu subjektif dan sukar ditentukan (Al-Nawawi, t.t).

Berpandukan analisa ketiga-tiga kategori di atas, disimpulkan kadar zakat pertanian di Malaysia berbeza mengikut persekitaran negeri masing-masing. Ini kerana perbezaan disebabkan oleh pengaruh faktor-faktor kapasiti pengairan saliran air, cuasa, sumber tenaga (teknologi) dan perubahan geografi sesetengah tempat. Tidak dinafikan asas penetapan kadar zakat tanaman bertunjangkan nassarihhadith Ibn 'Umar dan hadith Mu'az yang berasaskan pengairan sama ada 10% ataupun 5%, namun objektif syariah meraikan keadaan setempat (lokaliti).

Kesemua fuqaha mazhab telah memperincikan kaedah penetapan kadar ini seperti al-Kasani (al-Kasani, 2002) mengiyaskan bebanan sebagai 'illah penentuan begitu juga al-'Imrani ('Imrani, 2000) dan Ibn Qudamah (Ibn Qudamah, 1994) dengan mendatangkan contoh haiwan sa'imah diwajibkan

zakat, ini kerana zakat diwajibkan ke atas hasil usaha manusia dan bebanan akan mengurangkan produktivitinya. Walaupun begitu, al-Dusuqi(al-Dusuqi, 1996) menegaskan penetapan kadar 10% jika membeli air atau mengupah pengairan disebabkan bebanan yang sangat sedikit.

Dalam arus globalisasi kini yang menuntut setiap tindakan diurus tadbir, maka kadar zakat pertanian tidak lagi diputuskan oleh petani sendiri sepertimana yang diamalkan secara traditional dahulu. Kini, urusan pengairan pertanian diurus oleh Jabatan Pengairan dan Saliran Negeri, oleh itu sudah menjadi tanggungjawab Baitulmal Negeri dari semasa ke semasa berhubung dengan pihak yang secara lansung mengurus sektor pertanian ini, bagi mengemaskini hukum dan menetapkan kaedah berasaskan pengairan yang bersesuain dengan keadaan semasa.

#### 6. PENOLAKAN PERBELANJAAN KOS-KOS ZAKAT PERTANIAN DI MALAYSIA

Di Malaysia, taksiran zakat tanaman padi termasuklah wang subsidi (kupon) yang diperolehi dikira sebagai *al-Mal al-Mustafad* dan wajib dikeluarkan 2.5% jika mencukupi nisab sepertimana amalannya di Selangor, Sarawak, Perlis dan Pulau Pinang. Oleh itu, pelepasan kos-kos tertentu sebelum dikenakan zakat pertanian sudah diaplikasikan di sebahagian negeri di Malaysia sebagai keringanan kepada petani dengan membenarkan penolakan kos operasi tanaman dan hanya di negeri Perlis secara rasminya membenarkan pelepasan kos operasi tanaman dan kos sara hidup seperti jadual (4)di bawah:

Jadual 4: Ketidakselarasan Tolakan Kos-Kos Sebelum Diwajibkan Zakat Padi

Bil	Negeri	Tolakan Kos-Kos
1	Lembaga Zakat Selangor	-
2	Pusat Urus Zakat Penang	Tolak kos operasi dan sara hidup (jika tiada punca pendapatan lain)
3	MAIDAM Terengganu	Tolak kos operasi
4	Baitulmal MAIPs	Tolak kos operasi dan kos sara diri
5	Tabung Baitulmal Sarawak	Tolak kos operasi sahaja

Berdasar hasil temubual didapati hanya di negeri Selangor sahaja tidak membenarkan sebarang penolakan kos dan dikenakan zakat tanaman ke atas kos kasar sahaja. Sebahagian negeri pula hanya memberikan pelepasan kos-kos operasi sahaja seperti yang dipraktikkan di negeri Terengganu dan Sarawak. Manakala pelepasan kesemua kos termasuk kos operasi dan kos sara diri dibenarkan sebelum pengeluaran zakat tanaman di negeri Pulau Pinang dan Perlis.

Di Selangor zakat tanaman dikenakan ke atas pendapatan kasar sahaja. Ini berdasarkan keputusan yang telah diputuskan oleh Jawatankuasa Perunding Hukum Syara' pada tahun 1989 berpandukan kitab *al-'Ubab* menyatakan:

"Apabila sesudah menuai hasil tanaman, para petani tidak dibenarkan memakan hasil tersebut, membayar upah mengetam atau mengeluarkan sedekah sebelum dikeluarkan zakat tanaman. Hukuman takzir akan dikenakan sekiranya petani ingkar. Manakala segala perbelanjaan kos-kos tanaman ditanggung sendiri oleh para petani." (Jawatankuasa Perunding Hukum Syara' Negeri Selangor, 1989)

Keputusan ini masih diaplikasikan sehingga kini, walaupun kebanyakan negeri seperti Perlis, Pulau Pinang, Terengganu dan Sarawak sudah memberi pelepasan sama ada penolakan kos operasi sahaja atau dengan kos sara diri. Berdasarkan temubual pengkaji bersama Ustaz Mohd Farid Bin Mohd Zainal (Temubual bersama Ustaz Mohd Farid Bin Mohd Zainal, Eksekutif Sektor Penerangan Korporat, Lembaga Zakat Selangor bertarikh 12 September 2012) mendapati isu ini masih belum dilakukan kajian semula oleh pihak Penyelidikan Syariah LZS, walaupun terdapat permintaan penilaian semula berkenaan dengan penolakan kos *had kifayah* para petani yang membayar zakat tanaman.

Kategori kedua adalah negeri-negeri yang membenarkan pelepasan kos-kos tertentu sebelum dikenakan zakat tanaman iaitu seperti yang dipraktikkan di Terengganu, Sarawak, Pulau Pinang dan Perlis.

Negeri Perlis, Pulau Pinang, Terengganu dan Sarawak bersepakat memberikan pelepasan kos-kos kepada pengusaha padi seperti kos baja, racun, sewa tanah, upah tenaga dan mesin tuaian dan upah membajak tanah. Manakala penolakan kos pengangkutan dibenarkan di semua negeri di atas kecuali negeri Terengganu. Walaupun hukum penolakan kos sudah diputuskan, hakikatnya di Terengganu hukum ini tidak dipraktikkan oleh golongan petani, sehinggakan ia tidak dicatatkan di dalam pamplet panduan zakat pertanian MAIDAM 2012. Menurut Tuan Zuhaimi Bin Tuan Sembok (Temubual bersama Tuan Zuhaimi Bin Tuan Sembok, Pengawai Eksekutif Taksiran Zakat, Majlis Agama Islam Dan Adat Melayu Terengganu MAIDAM bertarikh 3 Oktober 2012)kebanyakan petani membayar zakat berniatkan *'ibadah mahdah* yang bersifat *ta'abbud* yang terdiri daripada golongan petani yang berumur. Oleh itu, mereka berpegang kepada *qaul* jumhur fuqaha yang mentakrifkan kekayaan seseorang dengan hanya cukup kadar nisab. Golongan ini tidak menerima pakai pendapat berasaskan *qaul* Ibnu 'Abbas dan Ibnu 'Umar tentang keharusan penolakan kos-kos *daruriyyat* dan keperluan asasi walaupun telah dimaklumkan oleh pihak MAIDAM.

Di Pulau Pinang terdapat satu lagi pelepasan yang dibenarkan pada tahun 2005 iaitu potongan luar jangka sebanyak ¼ seperti serangan burung, bencana alam dan lain-lain. Walaupun begitu, berdasarkan pendapat Ustaz Azhari Bin Ahmad (Temubual bersama Ustaz Azhari Bin Ahmad, Pengawai Eksekutif Dakwah Dan Rundingan Syara', Jabatan Kutipan Dan Pemasaran, Pusat Urus Zakat MAINPP bertarikh 18 September 2012) dan juga pamphlet zakat tanaman padi 2012 tidak dinyatakan pelepasan ini, ini jelas menunjukkan ia sudah tidak diamalkan oleh Pusat Urus Zakat, Majlis Agama Islam Pulau Pinang.

Berkenaan dengan penolakan kos sara hidup, hasil temubual yang telah dijalankan mendapati hanya negeri Perlis dan Pulau Pinang sahaja yang membenarkan penolakan kesemua kos iaitu kos pengeluaran dan keperluan sara diri. Di Perlis penolakan kedua-dua kos ini telah diputuskan semenjak tahun 1980an oleh Jawatankuasa Fatwa Perlis ketika itu. Mereka mengistinbat keharusan ini berdasarkan *qaul* Ibnu 'Abbas, Ibn 'Umar, Ahmad Ibnu Hanbal dan lain-lain dengan alasan hutang *daruriyyat* bagi persoalan penolakan kos operasi adalah masalah *ijtihadiyyah* berpandukan hadith, maksudnya:

"Diriwayatkan oleh Abu 'Ubaid dalam bab al-Amwal dengan sanadnya daripada Jabir bin Zaid dengan katanya kepada lelaki yang berhutang untuk digunakan bagi keperluan keluarganya dan ladangnya, katanya: Ibnu 'Abbas berkata dipotong hutang yang bersangkutan dengan ladangnya, Ibnu 'Umar berkata: dipotong hutang pengeluaran dan juga untuk keluarganya (sara diri)."

Yahya bin Adam telah juga meriwayatkan seperti di atas, katanya: Ibnu 'Umar berkata: hendaklah hasil daripada tanaman digunakan untuk membayar hutang terlebih dahulu dan dikeluarkan zakat yang baki daripadanya. Ibnu Abbas berkata: Ditunaikan terlebih dahulu apa yang dihutangkan sebagai kos pengeluaran dan bakinya dikeluarkan zakat.

Manakala penolakan keperluan asasi dan perbelanjaan daruriyyat berasaskan pendapat Ibnu 'Umar yang menyatakan bahawa zakat dikenakan ke atas orang-orang kaya sahaja berdasarkan hadith Rasulullah s.a.w yang bermaksud "Tidaklah bersedekah (berzakat) melainkan ke atas orang kaya" (al-Bukhari,1993), ini selari dengan hadith "Diambil zakat dari orang kaya mereka dan dipulangkan ke atas orang fakir mereka" (al-Bukhari,1993). Ini kerana salah satu asnaf yang menjadi objektif kutipan zakat adalah membantu golongan fakir miskin sepertimana firman Allah s.w.t dalam surah at-Taubah ayat 60.

Secara amalannya di Perlis, penolakan kos pengeluaran secara amnya dibenarkan kepada seluruh warga petani, namun penolakan kesemua kos iaitu kos operasi dan sara diri hanya dibenarkan jika petani tersebut tidak mempunyai pendapatan yang lain selain daripada bertani. Baitulmal MAIPs mengimbangi diantara penetapan kadar dan penolakan kos-kos, misalnya sekiranya berlaku penolakan kos sebelum dizakatkan maka kadar yang dikenakan adalah sebanyak 10% (kadar asal). Keadaan kedua, sekiranya petani tidak menolak sebarang kos, maka kadar yang ditetapkan adalah sebesar 5% (kadar *ruksah*).

Baitulmal MAIPs telah menetapkan formula yang khusus bagi penolakan kos keperluan sara diri meliputi keperluan diri petani dengan kadar sehari RM14.12, kadar keperluan sehari isteri RM8.47 dan kadar sehari bagi anak-anak adalah RM3.28. Manakala jumlah penolakan maksima setahun yang dibenarkan bagi keperluan diri petani, isteri dan anak-anak masing-masing RM5,000, RM3,000 dan RM1,200. Selain itu penolakan hutang *daruriyyat* seperti kenderaan dan kediaman juga dibenarkan, begitu juga kos perubatan dan pemberian ehsan kepada ibu bapa. Di Pulau Pinang, Mesyuarat Jawatankuasa Syariah, Majlis Agama Islam Negeri Pulau Pinang Bil.1/2005, Perkara 3.0 (e) telah mengsyorkan penolakan kos sara diri jika tidak mempunyai pendapatan yang lain sepertimana amalan di Perlis. Berdasarkan temubual bersama Ustaz Azhari Bin Ahmad (Temubual bersama Ustaz Azhari Bin Ahmad, Pengawai Eksekutif Dakwah Dan Rundingan Syara', Jabatan Kutipan Dan Pemasaran, Pusat Urus Zakat MAINPP bertarikh 18 September 2012), realitinya hukum ini tidak diaplikasikan oleh Pusat Urus Zakat Majlis Agama Islam Pulau Pinang walaupun sudah terdapat ketetapan Jawatankuasa Syariah dan ia tidak dimuatkan dalam pamplet zakat tanaman padi 2012 PUZPP.

#### 7. RUMUSAN DAN CADANGAN

Cadangan serta intipati yang dapat diambil daripada perbincangan kajianini ialah penilain sesuatu fatwa zakat pertanian yang telah diputuskan perlu dinilai semula dari semasa ke semasa sepertimana peruntukan di dalam seksyen 50 Enakmen Pentadbiran Agama Islam Negeri EPAI dengan memberi bidangkuasa kepada Jawatankuasa Fatwa dalam meminda, mengubahsuaikan atau membatalkan sesuatu fatwa dari semasa ke semasa. Namun, amalannya di Malaysia sesuatu fatwa yang pernah diputuskan tidak dinilai semula, kecuali jika ia menjadi isu kontrovesi sepertimana termaktub di bawah seksyen 47 EPAI. Hal ini perlu diatasi segera kerana mengeluarkan sesuatu fatwa yang bersifat *ad-hoc* akan mengakibatkan sesuatu fatwa itu tidak menepati *maqasid* semasa dan setempat yang kemungkinan hanya relevan pada masa dan ketika isu kontroversi itu timbul dan demi kepentingan sesetengah pihak sahaja.

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# PERANAN INSTITUSI ZAKAT DALAM PEMBANGUNAN PENDIDIKAN ASNAF FAKIR DAN MISKIN DI MALAYSIA

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#### **ABSTRAK**

Zakat merupakan satu ibadah yang wajib dilaksanakan oleh umat Islam yang telah mencukupi syarat. Segala urusan berkaitan kutipan zakat dikendalikan oleh institusi zakat setiap negeri di Malaysia. Seterusnya institusi zakat bertanggungjawab dalam mengagihkan zakat kepada lapan golongan asnaf sepertimana yang telah ditetapkan di dalam al-Quran iaitu kepada fakir, miskin, muallaf, fi sabilillah, ibnu sabil, gharimin, riqab dan amil. Pengagihan zakat kepada lapan golongan asnaf ini terdapat dalam pelbagai skim dan bentuk termasuklah bantuan pendidikan. Bantuan pendidikan merupakan salah satu bentuk bantuan terpenting kepada golongan asnaf fakir dan miskin kerana pendidikan salah satu kaedah yang dapat mengubah kehidupan dan mengeluarkan golongan ini dari kepompong kemiskinan. Disebabkan oleh kepentingan pendidikan ini kepada golongan asnaf fakir dan miskin, maka institusi zakat memainkan peranan yang penting dalam memastikan golongan asnaf fakir miskin ini mendapat peluang pendidikan dan berjaya seperti orang lain. Terdapat beberapa kes dilaporkan pada awal tahun 2013 di mana anak-anak fakir miskin ini tidak dapat meneruskan persekolahan kerana gagal melunaskan yuran persekolahan mereka. Dengan wujudnya kes-kes keciciran dalam pelajaran seperti ini, institusi zakat memainkan peranan yang sangat penting dalam menyalurkan bantuan zakat dari segi pendidikan kepada gologan ini. Justeru itu, kajian ini dijalankan bagi mengenalpasti skim dan bentuk bantuan pendidikan yang telah diberikan oleh institusi zakat di Malaysia kepada golongan asnaf di samping peranan yang dilakukan oleh institusi zakat dalam memastikan pelajar fakir dan miskin tidak ketinggalan dalam pelajaran khususnya di Lembaga Zakat Selangor. Diharapkan kajian ini dapat memberi gambaran kepada masyarakat terhadap usaha yang telah dilakukan oleh institusi zakat dalam membantu fakir dan miskin dalam pembangunan pendidikan di Malaysia.

Kata Kunci: Zakat Pendidikan, Fakir dan Miskin, Skim dan Bantuan

### Abstract

Zakat is an obligation that must be done by all the Muslims who fulfilled the conditions of zakat. All the matters related to the zakat collection are administered by the zakat institution in Malaysia. Therefore, this zakat institution is responsible in distributing the zakat to eight asnaf as has been decreed in the Quran which are to the poor, needy, muallaf, fi sabilillah, ibnu sabil, gharimin, riqab and amil. The distribution of zakat is in various forms and schemes which includes the educational aid. The educational aid is one of the most important aids given to the poor and needy because with education only they can change their life and bring them out of poverty. Due to the importance of education in the life of the poor and needy, the zakat institutions play a vital role in ensuring that the poor and needy being given an opportunity in education and opportunity to be a successful person in the future. There were a few cases reported in the early year of 2013 whereby the kids from the poor and needy family cannot continue their study due to their failure to pay the school fee. By looking at this situation, the zakat institutions play an important role in giving the educational aids to them. Therefore, this research is to examine the scheme and educational aids given to the poor and needy in Malaysia besides the role play by the zakat institutions in ensuring the poor and needy not to be left behind in term of education especially by the Lembaga Zakat Selangor (LZS). It is hope that this

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research will gives a better overview to the society at large on the efforts done by the zakat institution in helping the poor and needy in term of the educational enhancement in Malaysia.

**Keywords**: Zakat – Education – Poor – Needy – Scheme and Aids

### 1. PENDAHULUAN

Zakat memainkan peranan penting dalam pembangunan pendidikan pelajar fakir dan miskin di Malaysia. Terdapat beberapa kes melibatkan golongan fakir dan miskin yang berhenti sekolah dan tidak dapat meneruskan persekolahan disebabkan oleh masalah kewangan. Kes seperti ini telah direkodkan dan mendapat liputan yang meluas oleh pihak media massa dan elektronik. Sebagai contoh, seorang anak sulung daripada lima beradik di Kuantan iaitu Mohd Abu Khir Abu Bakar yang merupakan pelajar di Sekolah Menengah Kebangsaan (SMK) Sultan Abu Bakar tidak dapat meneruskan pelajaran kerana gagal menjelaskan yuran Peperiksaan Sijil Tinggi Pelajaran Malaysia (STPM) manakala dua adiknya yang lain sering kali tidak menghadirkan diri ke sekolah kerana malu dengan rakan-rakan mereka yang mereka adalah orang miskin (Sinar Harian, 28 Februari 2013).

Berdasarkan tinjauan awal yang dibuat oleh penyelidik terhadap institusi zakat negeri-negeri dan unit baitulmal di bawah Majlis Agama Islam Negeri di Malaysia. Mereka mempunyai skim dan bentuk bantuan atau sumbangan pendidikan kepada golongan asnaf khususnya fakir dan miskin seperti bantuan persekolahan, bantuan melanjutkan pelajaran ke Institut Pengajian Tinggi Tempatan (IPT), biasiswa kecil pelajaran, bantuan kepada sekolah pondok dan juga bantuan pengajian tinggi ke luar negara (Dasar Agihan Zakat Majlis Agama Islam dan Adat Istiadat Melayu Kelantan, 1994; Hak Asnaf: Asnaf Fakir dan Miskin, Pusat Urus Zakat Pulau Pinang; Bantuan: Pendidikan, Lembaga Zakat Selangor; Skim Bantuan, Jabatan Zakat Negeri Kedah Darul Aman; Buku Panduan Skim Agihan Bantuan Zakat, Majlis Agama Islam dan Adat Melayu Terengganu)

Isu ini disokong oleh kajian yang dilakukan oleh Abd Halim dan Mohd Saladin (2011) yang bertajuk 'Pengurusan Agihan Zakat', ia menerangkan kaedah yang dilaksanakan dalam mengelola dana zakat yang telah dikumpul supaya dapat diagihkan kepada asnaf yang berhak. Memandangkan peningkatan prestasi kutipan zakat semakin meningkat maka pengagihan seharusnya meningkat sama supaya dapat mengurangkan bilangan yang tidak berkemampuan. Kajian ini mendapati bentuk bantuan kepada asnaf perlu dimantapkan lagi terutamanya dari segi pengagihan pendidikan. Ini kerana bantuan berterusan dari segi pendidikan kepada golongan asnaf sehingga mereka berjaya adalah sangat penting, ia dapat mengubah kehidupan dan meningkatkan lagi ekonomi negara.

Berdasarkan Manual Pengurusan Agihan Zakat yang diterbitkan oleh Jabatan Wakaf, Zakat dan Haji (JAWHAR) (2008), ia menerangkan tentang bentuk bantuan dan skim pendidikan yang diberikan kepada golongan asnaf seperti skim bantuan pelajaran, skim bantuan Am pelajaran/ dermasiswa, skim bantuan yuran persekolahan dan peperiksaan sekolah rendah/menengah, skim bantuan aktiviti dan lawatan belajar. Tujuan skim seperti ini diwujudkan adalah untuk memberi bantuan pelajaran kepada anak golongan asnaf supaya tidak tercicir dalam pelajaran serta dapat memperbaiki taraf hidup keluarga.

Menurut kajian Ab. Halim Tamuri, Zuria Mahmud dan Safani Bari (2005) yang bertajuk 'Permasalahan Pelajar-pelajar Fakir Miskin di Daerah Sabak Bernam' dalam Jurnal Pendidikan. Kajian ini adalah satu tinjauan yang bertujuan untuk mengkaji permasalahan yang dihadapi oleh pelajar-pelajar dari golongan fakir miskin di negeri Selangor, khususnya di daerah Sabak Bernam. Pelajar yang terlibat adalah terdiri daripada 19 pelajar yang tinggal di tiga buah Desa Kasih Pusat Zakat Selangor dan 23 orang pelajar yang tinggal di luar Desa Kasih. Dapatan kajian menunjukkan pelajar-pelajar fakir miskin dalam kajian ini mempamerkan aspirasi yang sihat, serta nilai yang positif walaupun mereka menghadapi masalah kewangan. Aspek yang ketara menjadi penghalang kepada

aspirasi pelajar-pelajar miskin ini adalah cara gaya hidup mereka seperti menonton televisyen secara berlebihan, berbual kosong, peruntukan masa yang sangat sedikit bagi mengulangkaji, menyiapkan kerja rumah, ataupun membaca bacaan berunsur akademik, kerohanian, dan pengetahuan am.

Tidak dapat dinafikan bahawa institusi zakat di Malaysia telah memberikan beberapa bentuk skim dan bantuan pelajaran kepada fakir dan miskin di Malaysia. Tetapi permasalahan lain yang timbul adalah seperti golongan fakir dan miskin ini tidak diberikan pendedahan dan pengetahuan tentang cara-cara untuk memohon bantuan tersebut yang menyebabkan hanya segelintir sahaja golongan fakir dan miskin yang mendapat manfaat daripada skim dan bantuan tersebut. Isu ini turut dibincangkan juga dalam kajian yang dijalankan oleh Azman Ab Rahman dan Ahmad Wifaq Makhtar (2011) yang bertajuk 'Kelayakan dan Kedudukan Pelajar sebagai Penerima Zakat Menurut Perspektif Islam' dalam Jurnal Pengurusan Jawhar, Jabatan Wakaf, Zakat & Haji, Jabatan Perdana Menteri. Kajian ini menjelaskan bahawa salah satu faktor kegagalan dan kesukaran permohonan bantuan pendidikan adalah disebabkan oleh pemohon tidak memenuhi syarat kelayakan yang perlu dipenuhi sebelum membuat permohonan.

# 2. SKIM DAN BANTUAN PENDIDIKAN YANG DIBERIKAN OLEH INSTITUSI ZAKAT DI MALAYSIA

Terdapat pelbagai skim dan bentuk bantuan pendidikan yang telah ditawarkan kepada golongan asnaf fakir dan miskin oleh institusi zakat di seluruh negeri di Malaysia. Skim dan bentuk bantuan pendidikan ini dapat diringkaskan seperti dalam jadual (1) di bawah:

Jadual 1: Jenis Skim dan Bentuk Bantuan Pendidikan oleh Institusi Zakat di Malaysia

No	NEGERI	SKIM DAN BENTUK BANTUAN PENDIDIKAN	ASNAF
1	Selangor	Keperluan Pendidikan, Bantuan Yuran Sekolah Rendah dan Menengah, Biasiswa Pelajaran, Elaun Kehadiran Kelas Agama Asas, Dermasiswa, Bantuan Umum Pelajaran, Elaun Guru KAFA, Bantuan Umum Pelajaran Dalam dan Luar Negara, Dermasiswa Pelajar Belajar di Timur Tengah, Dermasiswa Hufaz Quran.	Fakir dan Miskin, <i>Mualaf,</i> Fisabilillah
2	Negeri Sembilan	Pinjaman dan bantuan zakat pelajar Timur Tengah tajaan MAINS kali ke-2 dan bantuan perkapita Sekolah SMAN, SABK, SAR, KAFA, Tahfiz dan Tadika Islam Tahun 2013 di Royale Bintang, Seremban.	Fakir dan Miskin, Fisabilillah
3	Johor	Skim Bantuan Pelajaran, Skim Bantuan Pendidikan Pendaftaran IPTA, Skim Bantuan Awal Tahun Persekolahan (Pakaian Seragam), Skim Bantuan Basikal Pelajar, Skim Bantuan Cermin Mata, Skim Bantuan Pendidikan di Universiti, Skim Bantuan Pembiayaan Tambang Ke Pusat Pengajian, Skim Pinjaman Pengajian.	Fakir dan Miskin
4	Kelantan	Bantuan Persekolahan, Bantuan Melanjutkan Pelajaran ke Institut Pengajian Tinggi Tempatan (IPT), Biasiswa Kecil Pelajar Yayasan Islam Kelantan (YIK), Bantuan Kepada Sekolah Pondok, Biasiswa Tengku Anis.	Fakir dan Miskin
5	Terengganu	Bantuan Persekolahan, Skim Bantuan Dermasiswa (IPTA/IPTS), Skim Bantuan Pondok/Madrasah.	Fakir dan Miskin

6	Kuala Lumpur	Bantuan Tambang Dalam/ Luar Negeri, Bantuan Am Pelajaran IPT, Bantuan Pelajar Institut Profesional Baitulmal (IPB), Biasiswa Baitulmal/Insentif Khas Pelajar Cemerlang, Bantuan Peralatan dan Kecemasan Persekolahan, Bantuan Tuisyen, Bantuan Galakan Hafaz Al-Quran, Bantuan Pelajaran Kolej Kejururawatan PUSRAWI, Bantuan Persediaan IPT.	Fakir dan Miskin
7	Perlis	Bantuan Pakaian Sekolah, Bantuan Persekolahan Menengah dan Rendah, Bantuan Sekolah, bantuan Pelajaran, Bantuan Pelajaran Timur Tengah, Bantuan Sekolah dan Institusi Agama.	Fakir dan Miskin
8	Pulau Pinang	Bantuan Pendidikan, Persekolahan, Pakaian Seragam, Permulaan ke IPT Dalam dan Luar Negara, Biasiswa Kecil Sekolah Agama Rakyat, Pendidikan Khusus Kecemerlangan Minda, Kelas Persediaan Belajar, Bantuan Yuran Sekolah Rendah/Menengah, Bantuan Keperluan Pendidikan.	Fakir dan Miskin
9	Sarawak	Bantuan Kemasukan ke Institusi Pengajian Tinggi, Bantuan Pengajian Sekolah Rendah/Menengah, Yuran/Kelengkapan Persekolahan, Bantuan Pengajian ke Timur Tengah, Bantuan Pengajian IPT Bidang Agama, Bantuan Pengajian Sekolah Agama/Arab, Bantuan Pengajian Maahad Tahfiz Al- Quran, Bantuan Kertas Kerja Projek (Tesis).	Fakir dan Miskin, Fisabilillah
10	Kedah	Bantuan Yuran Peperiksaan Penuntut Miskin Sekolah Agama Nidzomi, Bantuan Penuntut Miskin Sekolah Agama Nidzomi, Bantuan Persekolahan Bulanan, Bantuan Persekolahan Sekaligus Penuntut Miskin, Bantuan Pakaian Seragam Sekolah Penuntut Miskin, Bantuan Penuntut Miskin Maktab Mahmud, Bantuan Yuran Penuh Ke IPT Tempatan Penuntut Miskin.	Fakir dan Miskin
11	Melaka	Bantuan Kelas Tuisyen dan Motivasi Pelajar, Pembiayaan Pinjaman Biasiswa Pengajian Tinggi Islam, Bantuan Yuran Persekolahan.	Fakir dan Miskin
12	Sabah	Yuran Pendaftaran Pengajian IPT/S, Dermasiswa Pengajian IPT/S, Tiket Penerbanagan ke IPT/S di Semenanjung Malaysia.	Fakir dan Miskin, Fisabilillah
13	Perak	- Masih dalam proses pengumpulan maklumat	-

Berdasarkan kepada jadual (1) di atas ia menunjukkan bahawa hampir kesemua insitusi zakat negerinegeri di Malaysia seperti di Selangor, Johor, Kelantan, Kuala Lumpur, Perlis, Pulau Pinang dan Sarawak yang memberikan bantuan persekolahan rendah dan menengah, bantuan yuran pengajian di institusi pengajian tinggi (IPT) dalam dan luar negara (Pengajian ke timur tengah). Begitu juga bantuan sampingan yang lain seperti bantuan persediaan persekolahan, bantuan pakaian seragam sekolah, bantuan galakan hafaz Quran.

Institusi zakat di negeri Johor memberikan bantuan pendidikan yang berbeza daripada institusi zakat lain di Malaysia iaitu dari segi Skim bantuan basikal pelajar dan Skim bantuan cermin mata. Manakala di negeri Sarawak, bantuan pendidikan yang berbeza yang diberikan oleh institusi zakat Sarawak ialah

bantuan kertas kerja projek (thesis). Terdapat juga keistimewaan dan bantuan zakat pendidikan khusus bagi pelajar yang mengambil bidang kejururawatan di Kuala Lumpur yang dinamakan Bantuan Pelajaran Kolej Kejururawatan PUSRAWI. Secara keseluruhannya, institusi zakat di Kuala Lumpur memberikan pelbagai jenis bantuan dari pelbagai aspek yang dilihat telah banyak membantu dan memenuhi keperluan golongan asnaf fakir dan miskin di Kuala Lumpur.

Walaubagaiamanapun, terdapat sedikit perbezaan berkaitan syarat permohonan bagi bantuan pendidikan tersebut mengikut negeri-negeri di Malaysia. Sebagai contoh, bantuan pendidikan di Sabah dan Sarawak dari segi bantuan yuran pengajian adalah dibezakan mengikut bidang pengajian yang diambil. Kedua-dua institusi zakat ini mensyaratkan bidang agama sebagai syarat utama untuk memohon dermasiswa dan bantuan ini akan diberikan pada setiap semester di sepanjang pengajian. Berbeza dengan bidang pengajian yang lain di mana bantuan yuran pengajian hanya akan diberikan sekali sahaja iaitu ketika pendaftaran pengajian. Institusi zakat lain selain Sabah dan Sarawak tidak memberikan syarat yang khusus seperti yang digunapakai di Sabah dan Sarawak kerana objektif bantuan pendidikan tersebut adalah lebih bersifat menyeluruh dan saksama kepada semua golongan asnaf fakir dan miskin.

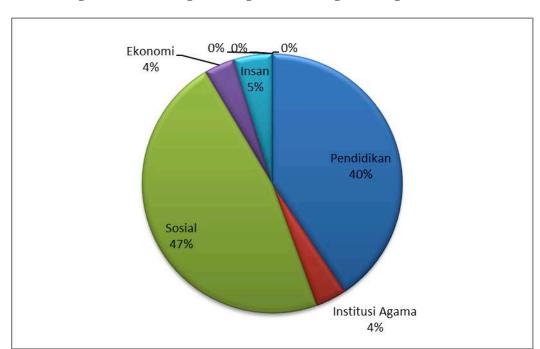
# 3. PERANAN LZS DALAM PEMBANGUNAN PENDIDIKAN FAKIR DAN MISKIN DI NEGERI SELANGOR DARUL EHSAN

Mengikut laporan kutipan dan agihan zakat di Selangor bagi tahun 2012, jumlah kutipan zakat di negeri Selangor adalah sebanyak RM394.1 juta manakala jumlah agihan zakat adalah sebanyak RM 401.7 juta. Perkara ini boleh dirujuk dalam jadual (2) di bawah:

Jadual 2: Jumlah Kutipan dan Agihan Zakat di Selangor Bagi Tahun 2012

		2012	2011	Peratus Peningkatan
Kutipan	Kutipan Zakat (RM)	RM451.3 Juta	RM394.1 Juta	15
	Bil. Pembayar (Orang)	210,307	180,617	16
Agihan	Agihan Zakat (RM)	RM401.7 Juta	RM 373.5 Juta	8

Berdasarkan jadual 2 di atas, kutipan zakat pada tahun 2012 telah meningkat sebanyak 15 peratus berbanding tahun 2011 dengan jumlah pengagihan sebanyak 89 peratus daripada jumlah keseluruhan kutipan zakat. Manakala laporan kutipan dan agihan zakat di Selangor bagi tahun 2012 di bawah program pembangunan pendidikan turut menjelaskan jumlah agihan zakat mengikut program pembangunan bagi tahun 2013 seperti jadual 3 dan 4 di bawah.



Jadual 3: Agihan Zakat Mengikut Program Pembangunan Bagi Tahun 2012

Jadual (3) di atas menunjukkan bahawa pendidikan merupakan agihan zakat kedua terbesar selepas program pembangunan sosial iaitu mewakili 40% daripada keseluruhan agihan program zakat. Manakala pembangunan ekonomi dan Institusi agama adalah sebanyak 4% daripada jumlah keseluruhan agihan. Sebanyak 5% daripada kutipan zakat diperuntukkan bagi pembangunan insan.

Kajian juga mendapati terdapat beberapa jenis bantuan yang diberikan di bawah program pembangunan pendidikan bagi tahun 2012 di Selangor sebagaimana yang terdapat dalam jadual (4) di bawah.

Jadual 4: Jenis Bantuan Terbesar di Bawah Program Pembangunan Pendidikan Bagi Tahun 2012 di Selangor

NO	ASNAF	JENIS BANTUAN	JUMLAH AGIHAN (RM JUTA)	BILANGAN PENERIMA
		Keperluan Pendidikan	33.4	13,629
1	Fakir dan Miskin	Bantuan Yuran Sekolah Rendah / Menengah	5.1	13,195
		Biasiswa Pelajaran	5.3	1,487
		Elaun Kehadiran Kelas Agama Asas	2.9	2,755
2	Mualaf	Dermasiswa	1.6	492
		Bantuan Umum Pelajaran	0.6	140
3	Fisabilillah	Elaun Guru KAFA	27.7	3,710

	Bantuan Umum Pelajar Dalam dan Luar Negara	21.1	17,352
	Dermasiswa Pelajar Belajar di Timur Tengah	12.5	850
	Dermasiswa Hufaz Quran	1.6	1,115

Jadual (4) di atas menjelaskan bahawa seramai 54,725 orang menerima bantuan pendidikan di bawah program pembangunan pendidikan di Selangor dan ia melibatkan duit zakat sebanyak RM 140,103,080 iaitu sebanyak 40% daripada jumlah keseluruhan agihan zakat mengikut program pembangunan pada tahun 2012. Jumlah ini dikatakan telah meningkat berbanding tahun yang sebelumnya iaitu seramai 27,583 orang sahaja penerima bantuan pendidikan pada tahun 2008. Jumlah penerima agihan tertinggi adalah dari kalangan asnaf *fisabililah* yang mendapat bantuan umum pelajaran di dalam dan luar Negara.

Di samping bantuan pendidikan yang diberikan, Lembaga Zakat Selangor juga telah mensasarkan dan merancang beberapa aktiviti dan program khusus kepada golongan asnaf fakir dan miskin di Selangor dari segi bantuan pendidikan. Antaranya ialah seperti yang dilakukan oleh Lembaga Zakat Selangor pada tahun 2013 iatu sebanyak RM 17.9 juta zakat pendidikan telah diagihkan kepada golongan asnaf yang melibatkan seramai 32,919 orang asnaf. Menurut ketua sektor pengurusan daerah LZS iaitu Mohd Basir Hasan Basri, agihan bantuan zakat pendidikan ini bertujuan untuk memperkasa pendidikan dan juga memenuhi keperluan persekolahan supaya anak-anak dapat menumpukan pembelajaran sehingga ke peringkat universiti (Laporan Kutipan dan Agihan Zakat, Info Zakat, Lembaga Zakat Selangor, 2013).

LZS turut memperuntukkan zakat berjumlah RM2.5 juta melalui Program Sekolah Angkat (Prosa2012) untuk dimanfaatkan kepada 15,220 anak asnaf yang menuntut di sekolah rendah dan menengah di Selangor. Program ini dijalankan dengan usahasama LZS bersama Jabatan Pelajaran Selangor (JPS) dengan memfokuskan anak asnaf yang bakal menduduki peperiksaan utama iaitu Ujian Penilaian Sekolah Rendah (UPSR), Ujian Penilaian Menengah Rendah (PMR), Sijil Pelajaran Malaysia (SPM), Sijil Tinggi Pelajaran Malaysia (STPM) dan Sijil Tinggi Agama Malaysia (STAM) (Laporan Kutipan dan Agihan Zakat di Selangor Bagi Tahun 2012).

Menurut laporan kutipan dan agihan zakat di Selangor bagi tahun 2012, sebanyak 26,069 keluarga asnaf fakir dan miskin telah dicatatkan. Oleh yang demikian, beberapa program giat dijalankan bagi mengurangkan bilangan keluarga asnaf fakir dan miskin dari tahun ke tahun iaitu melalui program pembangunan sosial, program pembangunan ekonomi, program pembangunan pendidikan, program pembangunan insan dan juga program pembangunan institusi agama. Tujuan diadakan program pembangunan pendidikan oleh LZS adalah untuk melahirkan generasi asnaf yang cemerlang dan bebas daripada kemiskinan di Selangor (Laporan Pengurusan Zakat Selangor, 2008).

Manakala sumbangan yang berterusan yang diberikan oleh LZS semenjak tahun 2008 sehingga kini ialah sumbangan pakaian sekolah di awal tahun persekolahan. LZS telah memberikan sumbangan pakaian kepada 48 pelajar Sekolah Menengah Kebangsaan (SMK) Sijangkang Jaya secara tahunan. Penyerahan sumbangan pakaian atau uniform sekolah ini diharapkan dapat menyuntik semangat para pelajar dari golongan asnaf fakir dan miskin supaya lebih bersungguh-sungguh dalam pelajaran dan

belajar lebih tekun dalam meningkatkan prestasi pelajaran mereka (Laporan Pengurusan Zakat Selangor, 2008).

Usaha LZS ini dilihat telah menampakkan hasil apabila bilangan anak-anak fakir dan miskin yang mendapat keputusan cemerlang dalam peperiksaan meningkat dari tahun ke tahun. Ia memberikan gambaran bahawa kemiskinan bukan lagi menjadi penghalang untuk golongan asnaf fakir dan miskin ini untuk melanjutkan pelajaran ke peringkat yang lebih tinggi. Kejayaan anak-anak asnaf fakir dan miskin ini menjadi kebanggaan kepada LZS serta pembayar zakat seterusnya mereka menjadi contoh kepada anak asnaf yang lain dalam membuktikan bahawa dana zakat dapat melahirkan lebih ramai lagi anak-anak asnaf yang berjaya dan cemerlang dalam pendidikan. (Laporan Kutipan dan Agihan Zakat, Info Zakat, Lembaga Zakat Selangor, 2013).

### 4. PENUTUP

Berdasarkan kajian yang telah dijalankan oleh penyelidik, penyelidik mendapati bahawa institusi zakat di Malaysia memainkan peranan yang sangat penting dalam pembangunan pendidikan anak-anak golongan fakir dan miskin iaitu melalui skim dan bantuan pendidikan yang telah diberikan. Institusi zakat di Malaysia juga telah berusaha keras dalam melaksanakan aktiviti dan program pembangunan pendidikan kepada golongan asnaf fakir dan miskin dan usaha yang berterusan ini seharusnya mendapat pujian daripada semua pihak. Seharusnya anak-anak golongan fakir dan miskin juga dapat memanfaatkan skim dan bentuk bantuan yang telah ditawarkan supaya dapat membantu meringankan beban mereka dalam membayar yuran persekolahan dan pengajian di institusi pengajian tinggi. Diharapkan bahawa dengan adanya skim dan bantuan pendidikan yang telah diberikan oleh institusi zakat di Malaysia dapat menggalakkan golongan asnaf supaya mementingkan pendidikan dan ilmu pengetahuan sebagaimana yang digalakkan dalam Islam iaitu menuntut ilmu adalah satu kewajipan kepada semua umat Islam. Dengan usaha seperti ini, ia seharusnya dapat menaikkan lagi martabat golongan asnaf, memperbaiki taraf hidup golongan fakir dan miskin, melahirkan lebih banyak lagi pelajar asnaf fakir dan miskin yang berjaya di dalam dan luar negara dan seterusnya menjadikan Malaysia sebagai sebuah negara yang kurang masalah dalam keciciran pelajaran.

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## IN SEARCH OF DEBT FREE ECONOMIC DEVELOPMENT: THE ROLE OF ZAKAH AND AWOAF FUNDS

Nor Asmat Ismail<sup>1</sup>

### **ABSTRACT**

Most Islamic countries today have large amounts of external debts or public borrowing. The concrete reason for public borrowing is that most Islamic countries still need enormous expenses for building economic infrastructure in order to alleviate poverty. However, in spite of huge amount of public sector expenditure financed through borrowing, most of these countries have not been able to alleviate poverty. Majority of the population in these countries are facing extremely low literacy rate and they are living in underdeveloped rural areas with extremely limited transport facilities, severely deficient health care facilities, very serious housing problems and no civic facilities, such as no safe drinking water, electricity, sewerage etc. This seems to indicate that external debt does not play a role in enhancing economic development. As a result, large external debts have become a severe chronic problem in these countries. To overcome large external debts problem, this paper suggest that these countries use internal funds, such as zakah and awqaf funds to accelerate economic growth.

**Keywords**: public expenditure, zakah, awqaf, poverty reduction, economic development.

### 1. INTRODUCTION

Traditional Keynesian theory implies that an increase in government spending can create an increase in consumption and aggregate demand. This theory makes expansionary fiscal policy (increase in government spending) attractive to those who believe in government intervention to improve the economy. However, some countries are facing short of government revenue to finance government spending. Therefore, the government borrowed from abroad in order to spend. This also happened in most Islamic countries and the concrete reason for public borrowing is that most Islamic countries still have enormous needs for expansion of their economic infrastructure and to alleviate poverty. However, after decades of large amount of government spending, most of these countries still have not been able to build viable physical and human infrastructures. Most of these countries have not been able to develop good railroad facilities, good roads, good schools and adequate health care facilities. The rate of literacy of population in these countries are extremely low and majority of the population are living in underdeveloped rural areas with very serious housing problems, severely deficient health care facilities, extremely limited transport facilities and inadequate civic facilities (no safe drinking water, electricity, sewerage etc). Even these countries also have not been able to provide sufficient energy for industrial and domestic requirements.

One of the reason why this happen is that the debt repayment amount is far exceeds the amount received. To give an example, according to the Jubilee Debt Campaign, in 2005 developing countries paid a combined 513.8 billion USD in debt repayments, while in the same year they received a total of 106.8 billion USD in official aid. The very poorest of them paid a joint 43.2 billion USD in debt repayments, while they received a combined 40.4 billion USD in development aid. This means that, despite significant

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amounts in aid, the net result is that the countries end up poorer every year. This is because poor countries are paying significant percentages of their GDP in servicing their debts. This means this money cannot then be invested in other sectors such as education, health and research and development which the key means to support countries' escape from poverty. Consequently, poor countries are often forced into taking out new loans just to service the old ones. So, they are trapped in a vicious circle of debt. In year 2009, the ratio of external debt to GDP is more than 100 percent in some countries, for example Guinea-Bissau, Kazakhstan and Somalia. Table 1 shows the percentage of external debt to GDP in Islamic countries for the period of 2001 to 2009. This study raise two questions. First, is government intervention through debt financing can accelerate economic growth?

To answer the first question, this study reviews some related studies. According to some studies done by several researchers, external debt is not favuorable. Deficit financing is a dangerous policy except in a very limited way, for example, to mobilize untapped resources by increasing aggregate demand through government expenditure, and only if the expected rate of social return from the project being financed through borrowing is higher than the cost of obtaining the resource (Munawar Iqbal 1992). Furthermore, according to Munawar Iqbal (1992), the big government philosophy has seriously flaws. The experience of many developed countries shows that economies have not become more stable because of governmental intervention; income distribution has not improved and the rate of growth has not eccelerated because of the larger government involvement.

25.5 19.5 13.8 45.7 3.0 13.3 23.9 17.4 45.6 49.6 59.8 2011 15.1  $\Xi$ Ē 13.6 25.8 19.6 24.6 51.6 13.6 40.8 4.5 13.5 20.4 47.0 67.4 16.9 15.  $\Xi$ E Table 1: Debt GDP ratio in Islamic countries for the period of 2001-2009 2009 38.9 26.7 16.3 22.5 13.3 25.5 52.7 50.8 80.9 17.7 18.9 56.2 18.1  $\Xi$ E 28.8 20.6 2008 19.4 13.8 20.9 53.2 53.7 81.7 20.3 14.6 30.4 8.8 43.7  $\Xi$ Ξ 27.0 31.0 21.5 14.7 2007 19.5 10.9 13.9 25.6 62.8 70.0 82.8 25.8 88.3 24.1  $\Xi$ Ξ 2006 13.7 19.5 73.6 60.2 41.8 12.3 70.3 27.3 105.4 27.1 4.9 0 18.1 27.1 33.  $\Xi$ Ξ 31.9 36.8 27.0 30.8 41.0 106.4 2005 16.3 15.4 35.3 43.8 75.4 72.8 57.3 25.1  $\overline{z}$ E 22.5 35.0 39.5 39.6 84.8 62.9 37.8 127.9 2004 21.2 26.0 52.4 65.3 84.1 n.a  $\overline{z}$ E 41.4 40.0 2003 26.1 34.6 23.7 35.4 79.9 90.3 88.6 62.4 39.4 57.7 24.9 56.1  $\overline{z}$ Ξ 47.6 2002 25.2 23.7 56.9 9.06 109.3 102.5 55.4 63.7 32.7 66.1 35.1 40.1 Ē E 40.9 22.4 58.4 53.5 8.86 63.6 112.2 107.9 45.2 29.8 68.1 32. n.a  $\Xi$ E Burkina Faso Cote d'Ivoire Afghanistan Bangladesh Azerbaijan Countries Cameroon Comoros Djibouti Albania Bahrain Gambia Algeria Gabon Brunei Benin Egypt Chad

										53.2	38.1
Guinea	96.3	101.7	92.4	85.7	98.7	108.0	74.7	81.4	61.8	59.9	56.5
Guinea- Bissau	228.7	232.9	228.0	211.3	176.8	179.1	155.3	128.6	133.4	138.2	131.0
Guyana	115.3	118.5	120.9	108.5	92.4	78.2	42.3	43.1	50.6	65.7	71.6
Indonesia	82.3	65.3	56.8	53.4	47.0	34.4	31.0	28.6	29.2	27.6	25.2
Iran	9.9	6.4	11.5	12.3	10.6	8.0	8.9	3.8	3.7	4.7	3.6
Iraq	Nil										
Jordan	83.9	84.6	81.8	70.7	61.1	55.0	49.2	29.0	26.4	63.3	61.1
Kazakhstan	67.2	73.0	73.8	76.0	76.1	89.4	91.1	80.4	100.7	80.5	2.99
Kuwait	Nil										
Kyrgyzstan	112.5	115.3	105.3	95.4	82.4	83.7	65.8	48.0	63.3	85.8	92.7
Lebanon	75.6	94.2	98.5	107.7	106.7	111.9	102.3	81.2	72.0	66.2	63.4
Libya	Nil										
Malaysia	48.6	47.9	44.1	41.8	37.7	35.1	33.1	29.9	34.7	34.5	32.8
Maldives	37.6	42.4	42.6	47.1	52.3	53.3	56.3	60.3	61.0	48.5	47.9
Mali	96.4	88.7	73.8	6.99	59.4	27.1	27.9	24.3	30.2	26.2	27.6
Mauritania	212.7	197.9	183.1	156.3	132.4	62.7	63.8	59.6	71.2	81.0	6.09
Morocco	49.8	44.5	36.5	29.6	27.2	27.1	27.3	23.4	26.2	28.9	28.9
Mozambique	119.9	120.2	83.8	79.5	64.0	38.1	36.9	35.0	43.5		

31.9	22.1	n.a	Nil	28.8	Nil	Nil	Nil	29.9	36.2	285.8	n.a	Nil	7.7	50.9	17.4	48.2	39.6	
40.6	22.4	n.a	Nil	33.6	Nii	Nil	Nil	30.4	36.7	284.3	31.9	Nil	8.7	54.6	39.1	49.8	41.0	
	18.9	4.5	Nil	33.5	Nii	Nil	Nii	27.5	19.9	147.8	36.5	Nil	9.7	50.5	51.7	54.9	40.9	3.3
	17.3	5.4	Nil	33.2	Nil	Nil	Nil	21.3	18.5	113.4	31.8	Nil	10.8	74.5	51.7	50.7	36.1	4.1
	21.6	5.2	Nil	28.6	Nil	Nil	Nil	22.6	16.0	118.6	33.9	Nil	14.0	40.8	7.77	57.4	36.5	5.7
	22.7	5.2	Nil	28.6	Nil	Nil	Nil	20.4	76.9	118.7	40.1	Nil	16.8	39.8	80.5	59.9	36.8	8.3
	59.9	19.6	Nil	30.5	Nil	Nil	Nil	44.2	103.3	118.8	49.4	Nil	19.5	45.9	79.5	61.4	34.1	12.2
	9.69	43.0	Nil	36.7	Nil	Nil	Nil	48.8	114.8	143.5	68.3	Nil	77.3	50.0	94.2	0.69	40.7	21.8
	80.5	51.2	Nil	42.4	Nil	Nil	Nil	63.8	106.6	187.1	80.4	Nil	91.7	73.9	102.3	73.5	47.5	28.6
	86.1	51.6	Nil	45.0	Nil	Nil	Nil	76.8	103.3	220.5	88.6	Nil	92.1	93.5	107.6	73.4	55.6	36.4
	86.1	70.3	Nil	46.6	Nil	Nil	Nil	75.2	102.7	196.7	97.2	Nil	100.1	97.9	105.6	64.5	57.5	45.3
	Niger	Nigeria	Oman	Pakistan	Palestine	Qatar	Saudi Arabia	Senegal	Sierra Leone	Somalia	Sudan	Suriname	Syria	Tajikistan	Togo	Tunisia	Turkey	Turkmenistan

1.7	20.0	Nil	18.4	20.3
2.6	18.4	Nil	19.8	23.0
	14.6	Nil	15.5 12.5 19.8 18.4	23.6
	11.9 13.6 14.6 18.4	liN		21.8
		Nil	17.5	25.7
	11.4	Nil	23.6	27.0
	44.0	Nil	31.1	30.4
	56.2	Nil	40.1	38.7
	64.3	Nil	48.5	44.4
	59.7	Nil	48.6	47.2
	58.3	Nil	52.2	50.0
	Uganda	United Arab Emirates	Uzbekistan	Yemen

Source: http://www.sesric.org, Note: n.a = not available

Furthermore, according to Munawar Iqbal (1992), the big government philosophy has seriously flaws. The experience of many developed countries shows that economies have not become more stable because of governmental intervention; income distribution has not improved and the rate of growth has not eccelerated because of the larger government involvement. Economic historian also state that the period between 1870 and 1913 was one of the most dynamic periods for the economies of the modern world. The rate of growth was very high, and modern infrastructure such as railoads, roads and schools was built. Yet the level of public spending was remarkably low (10 percent of national income). This percentage raise doubts about the necessity for high levels of public expenditure in promoting economic growth. Furthermore, from Islamic viewpoint, the permissibility of public borrowing depends on certain conditions and circumstances only, for example, military service to defend the ummah. Improvement of material conditions of living and other public interest of beneficial nature should not be financed by borrowing. And the message of the Quran is very clear that the size of the government should be limited to what it collects through the zakah (the only taxation in Islam).

Since the government intervention through debt financing can not accelerate economic growth, and the the zakah is the only source of government revenue, the government have only one choice, that is to fully utilise internal funds such as zakah, awqaf and sadaqah. But the question now is how this internal sources of funds can be used to accelerate economic growth? This is the second question raised by this study. Before answering the second question, this study will discusses briefly about the definition of poverty, zakah and waqf. The rest of this paper is organized as follows. Section two discusses the definition of poverty, zakah and waqf. Section three discusses the concept of economic development in Islam, section four discusses the role of zakah and awqaf in economic development and section five concludes.

### 2. DEFINITION OF POVERTY, ZAKAH AND WAQF

The most common method of measuring poverty in conventional economic is income or consumption. A person in a particular country is considered poor if his/her income or consumption level is below the poverty line which is fixed by the government in that particular country. Poverty line is defined as the income or expenditure level required to purchase a predefined basket goods and services needed for basic needs. This poverty line is an income level that can sustain a minimum standard of living and separates the poor from the non-poor (world bank 1993). In Islam, the concept of poverty does not only represent deprivation of goods and services, but also poverty in spirit. Keeping this broader concept of poverty in Islam in mind, this concept of poverty and its alleviation indirectly adresses the spiritual aspects with the consideration of individuals can improve their material life by improving their spiritual lives.

Islam discourages extreme poverty and income inequality. Each individual is expected to exert his/her effort to the fullest extents of his potential to fulfill his/her needs. However, there may be situations and circumstances in which individuals will not be able to earn enough money to meet their needs. Islam has instituted social support mechanisms to support the deprived; zakah. The Quran says "And those in whose wealth there is recognized right. For the beggar who asks, and for the unlucky who has lost his wealth" (Quran 70:24-25). All Islamic jurists agree that the government is responsible for the implementation of zakah in a muslim society and responsible to check if individual payers are actually paying zakah on apparent and non-apparent properties.

Zakah means to grow, to purify and to increase. When it is said about a person, its means to improve, to become better. Consequently, zakah means blessing, growth, cleanliness, purification or betterment (Kahf 1999, Dogarawa 2009). Zakah is often seen as a means of purifying the wealth acquired by the giver as well as purifying the giver themselves by making them more sensitive to the needs of others (Zaman 1980). In the Islamic law, the word zakah refers to the determined share of wealth prescribed by Allah to be distributed among the categories of those entitle to receive it. It is a compulsory payment by the

wealthy to the economically underprivileged. In this way, the primary purpose of zakah is to purify the giver, a consequence of which is aiding those who are less fortunate. Because zakah is an obligation, some scholars argue that it should not be interpreted as a form of charity, but rather a right of the poor. While protecting the rights of poor and the main objective of zakah is to alleviate poverty, zakah also is a unique spiritually charged filtering device primarily designed to cleanse one's possession or wealth necessary to protect the owners of wealth against spiritual poverty.

Zakah is defined in Fiqh as "a due right on specific items of assets/properties, in specific percentages with consideration of the passage of a year and satisfaction of the condition of nisab." Various schools of Islamic jurisprudence maintain that zakah is compulsory on properties that fulfill certain conditions. Furthermore, the concept of tamlik (ownership) is an important aspect of owner of what is disbursed so that the recipient enjoys the full authority to use it at her/his free will.

Most of the items that are subject to zakah are mentioned in the texts of the Quran and hadith. These include gold and silver (two monies of the time), herds of camels, sheep and cows, goods readied for sale, and agricultural products. Islamic jurists (Fuqaha) classify zakatable items in to apparent and non-apparent assets. The apparent assets (amwal zahirah) are ones that can be easily observed. These would include agricultural products and livestock. The non-apparent assets/goods (amwal batinah) are not readily observable by outsiders. Goods for trade and cash fall under this category.

The quran (9:60) determines eight categories of heads to whom zakah can be paid, saying: Sadaqat (here means zakah) are only for the fuqara (poor), and miskin (the needy), and those employed to collect (the funds), and to attract the hearts of those who have been inclined (towards Islam), and to free the captives, and for those in debt, and for All-knower, All-wise." Other verses and sayings of the Prophet (pbuh) added destitute, orphans, and prisoners of war to the heads of zakah (Quran 76: 8, 51:19 and 70: 24-25). While no strict definition of poverty appears in shariah to categorize persons eligible to receive zakah, it is agreed upon that it is not meant for the rich. This is evident from the following hadith which says "the sadaqah (zakah) is not lawful to a rich or strong, non-defected (non-handicapped) person."

Waqf on the other hand, is a voluntary act of charity that comes under the general terms of sadaqah and infaq. Linguistically, waqf means stand still, hold still, not to let go. On the other hand, waqf is a form of endowment of a resource in perpetuity. It can be performed on behalf of someone who passed away, usually for public good. The purpose of a waqf is set by the endower and should only be changed in accordance with his or her will (John Gerhart Center, 2006 in Kefa 2008). The word waqf is used in the Islamic law in the meaning of holding certain property and preserving it for the confined benefit of certain philanthropy and prohibiting any use or disposition of it outside its specific objective (Monzer Kahf, 2003).

From shariah point of view, waqf is defined as holding a maal (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness/philanthropy. Hence, waqf is a continuously usufruct-giving asset as long as its principal is preserved. Preservation of principal may result from its own nature as in land or from arrangements and conditions prescribed by the waqf founder (Monzer Kahf, 1998).

From economic point of view, waqf is diverting funds (and other resources) from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups of individuals. This definition of waqf allows inclusions of all kinds of maal (asset) under waqf, so that land and construction can be made waqf for religious purposes, such as a mosque for prayers, for philanthropic purposes such as hospital, an orphanage or a school. Land and construction may also be made waqf for agricultural utilization or for any other productive utilization in industry and urban areas provided that the net revenues are exclusively devoted for nourishing philanthropy/righteousness

causes, such as spending on light and heat of a mosque, on feeding the poor and needy or on the current expenses of a hospital, a school or an orphanage.

An important characteristic of waqf relates to its objective, which means doing charity out of good intention. This implies that a waqf for bad or immoral objectives is not recognized. The objective of waqf may be for the society at large, including the provision of religious services, socio-economic relief to the poor, and other purposes. This kind of waqf is traditionally characterized as philanthropic or public. It aims at supporting the poor segment of the society and all activities that are of interest to people at large such as public utilities, libraries, scientific research, education, health services, care of animals and environment, lending to small businessmen, parks, roads, bridges, dams etc. In case of a family (ahli) or private (khass) waqf, the objective is related to the family and descendants of the founder or another specific person. A combined/mixed waqf (waqf mushtarak) has dual objectives of serving partly the family/descendants and partly the public.

Many scholars term the ownership of waqf assets/properties "as if it were owned by God". The founder (waqif) determines the objectives for which the waqf property can be used and the way its fruits, services and revenues can be distributed. The founder also determines the waqf management and the procedure governing the succession of managers. The organizational structure of awqf is flexible because it is essentially in the hands of the founder, who can mold it the way it pleases her/him. Waqf manager is usually called Mutawali, Nazir or Qayyim and his/her responsibility is to administer the waqf property to the best interest of the beneficiaries. The first duty of Mutawali is to preserve the property; this is followed by maximization of the revenues of the beneficiaries.

### 3. THE CONCEPT OF DEVELOPMENT IN ISLAM

Development or economic development should be consistent with the central objective of shariah: the welfare of the people and their relief from hardships. Economic development in Islam may be defined as a balanced and sustained improvement in the material and non-material well-being of man, and development as a multi-dimentional process which involves improvement of human welfare through advancement, reorganization and reorientation of entire economic and social systems in accordance with the norms and values of Islam. In this context, I would like to emphasize the concept of a two stage permanent life of human being. The life of mankind consists of two sequential stages: the worldly life (from birth until death) which is temporary, and the life of the hereafter (that begins after death) which is eternal and permanent. Thus, human life per se is one complete whole which is eternal, eventhough divided into two stages. Islam desires welfare of mankind for this complete whole. In funtional form,

$$W = f_1 (W_t, W_p)$$
 (1)

Human welafare,  $W_p$  is thus a function of welfare in both the temporary stage,  $W_t$  and that in the permanent stage,  $W_p$  of life. Here,  $W_t$  and  $W_p$  are again functions of separate sets of variables which determine welfare in the temporary and permanent stages of life respectively. The functions are as follows:

$$W_t = f_2(X_t, SED, ED, HD, Y_t)$$
(2)

Where  $X_t$  stands for variable related to economic development (e.g. political freedom, income equality, education, training, health, environmental peace and harmony and the like), SED stands for sources of economic development (e.g. zakat, sadaqah, awqaf), ED stands for economic development (wealth, income and the like), HD stands for human development (skill, healthy, educated, spirituality and the like),  $Y_t$  stands for variable unrelated to economic development but responsible for the welfare in

temporary stage of life (e.g. satisfaction derived from human accomplishment in this world like philanthropic contribution, sadaqah, waqf etc, compassion in human relationship and the like).

$$W_p = f_3 (Y_p, ED, SD)$$
 (3)

Where  $Y_p$  stands for variable unrelated to economic development but responsible for the welfare in the permanent stage of life (e.g, ibadah), ED stands for economic development (economic development still contribute to the welfare in permanent stage of life because more income ao more wealth can contribute to more zakah, sadaqah and waqf). and SD stands for spiritual development. These formulations show that economic development is a common argument in both the individual welfare functions,  $W_t$  and  $W_p$  which implies that economic development is an explanatory variable in the overall welfare function,  $W_t$ . In other words, economic development has an important role to play in the achievement of welfare in both stages of human life. Economic development is a function of sources of economic development (SED), human development (HD) and variable related to economic development (e.g. political freedom, income equality, education, training, health, environmental peace and harmony and the like), ( $X_t$ ). In functional form,

$$ED = f_4 (SED, HD, X_t)$$
 (4)

The uniqueness of the Islamic concept of economic development is that the terminology incorporates within it the welfare elements in both stages of human life. The welfare of these two stages is so related that  $W_p$  cannot alone maximize  $W_t$ , if  $W_t$  is zero or negative. And since the permanent stage (life of the hereafter) is definitely longer than the temporary one,  $W_t$  can never be maximized by sacrifying a major and significant portion of  $W_p$ . There may, however, arise a trade-off problem: an increase in  $W_t$  may involve a decrease in  $W_p$  and vice versa. In such a situation the individual concerned may choose an appropriate combination of  $W_t$  and  $W_p$  on the basis of the weight of arguments in the objective function. An individual with preference for  $W_p$  is expected to maximize  $W_t$  subject to the constraint of some minimum value of  $W_t$ . An individual at the other extreme may prefer to maximize  $W_t$  subject to the constraint of a minimum scale of  $W_p$ . A conscientious person with knowledge and practice of Islam may make his whole life as Ibadah by adhering strictly to the norms of Islam in all activities of life. So,  $W_t$  and  $W_p$  reinforce each other instead of creating a trade-off problem. The strength of such reinforcement depends, however, on the degree of such consientiousness exhibited by different persons.

Economic development is related to Islamic would be that which contributes to welfare in the both stages of human life. Economic development is related to Islamic values in two ways. First, economic development has been defined as a balanced and sustained improvement in material and non-material well-being of man which is not complete without a high moral standard resulting from Islamic values. Second, the establishment of Islamic values requires spending on Islamic education, propagation of Islam and so on. This spending is expected to be positively related to income level and the strength of one's Iman (belief).

### 4. THE ROLE OF ZAKAH AND AWQAF IN ECONOMIC DEVELOPMENT

The message of the Quran is very clear, specifically in mentioning that the size of the government sector should be limited to what it collects through zakah, the only tax in Islam. All Islamic jurists agree that the government is responsible for the implementation of zakah in a Muslim society. In Malaysia, there is a specific body (Religious Council in every state) that responsible to collect and distribute zakah and to manage awqaf funds. If zakah and awqaf funds are properly managed, these funds could replace external borrowing and therefore significantly reduce the debt burden. So, Religious Council in every state should

be creative, innovative and expert in business in order to fully utilize the zakah and awqaf funds to accelerate economic development and at the same time to improve welfare of the individual.

Zakah is one of the important instruments to increase welfare of individual both in temporary and permanent stage of their life. Economically, zakah is one of the important instruments to increase the wealth of the poor. Zakah aims at eliminating poverty and the desire for personal accumulation at any cost, and encouraging socially orientated behavior. It aims for the reduction of socio-economic differences by providing financial help to the have-not to bring them closer to the haves. It can be done in two ways. First, the person capable to work will be given what he/she needs to become a productive earner so that he/she can earn an income that satisfies the basic needs. This may includes education, training and capital to start a business. The distribution of zakah in the form of education, training and capital goods, (like a taxi, sewing machine etc) not only enriching the poor and making them productive elements in the society, but also encourages entrepreneurship and increases the supply of entrepreneurs. This effect is further enhanced by the overall zakah system which provides social security type of arrangement that stimulates new business venture. This will increase employment and productivity.

Second, the unproductive members of the society such as the elderly, sick, widows, handicapped etc, will be provided periodic income to support them to afford consumption of the basic needs. Therefore, zakah increases the demand for goods which fulfills the basic needs of the poor. Hence, zakah also influence investment because the multiplier effect which results from a rise in aggregate consumption increases investment.

Investment could be more attractive if there are sufficient economic infrastructures or facilities are provided by the government. The provision of economic infrastructure can be done using awqaf funds. As I mentioned earlier, the person who manage awqaf (mutawali) should be very creative in generation of income or profit from awqaf properties. The generated profit can be used to provide infrastructures or facilities to attract more investors. Furthermore, it also can help the poor by providing them capital to start business, education and training to become more productive. By assuming that the efficiency problems are solved, the waqf system can significantly contribute towards that ultimate goal of every modern economist; massive reduction in government expenditure which leads to a reduction in the budget deficit, which lowers the need for government borrowing.

From the point of view of Islamic economies, the most important item in the above mentioned agenda is, obviously, the reduction in the government debt. The waqf can, indeed, lower the debt and debt repayment by providing the most essential social services without any cost to the government. This important contribution of the waqf system towards the gradual elimination of debt is not yet recognized by the Islamic economists. It will be proposed here that it should be. Put differently, a re-establishment and revitalization of the waqf system should be considered as a vital step in the struggle to eliminate debt.

The waqf could fulfill those functions by voluntarily donations made by the rich. Thus, privately accumulated capital may be voluntarily endowed to finance all sorts of social services to the society. At this point another extremely important function of the awqaf becomes apparent: not only does it help reduce government expenditure and consequently the debt, it also achieves another modern economic goal; a better distribution of income in the economy and increase welfare of individual in temporary and permanent stage of their life.

In the concept of development in Islam as discussed above, zakah and awqaf improve the welfare of the people in temporary and permanent stage of life, (Wp and Wt) for either the rich or the poor. For the rich, zakah not only purify the wealth but also purify the themselves by making them more sensitive to the needs of others, but also improve the strength of their Iman (believe) to become more pious or better person. It is expected that there are positive relationship between zakah and the strength of one's Iman. It

is also expected that waqaf is positively related to the strength of one's Iman. As people become more sensitive to the needs of others, they will be more willing to pay zakah and sadaqah (waqaf) and their welfare will be improved both in the temporary life and permanent life. As more people pay zakah, the amount of zakah collection become bigger. So the waqaf, as more people contribute to waqaf or more properties allocated for waqaf, the funds become bigger and bigger. The bigger funds will be spending to provide income and services for the poor and the welfare of the poor in temporary and permanent life will be improved. Based on the positive relationship between zakah and awqaf and the strength of one's Iman, it is expected that the strength of their Iman will be improved too. In this case, zakah and waqaf funds do not only alleviate material poverty but also spiritual poverty. Zakah and waqaf also generate a situation of good relationship between the rich and the poor. They will live in a society with full of peace and harmony and again will improve their welfare.

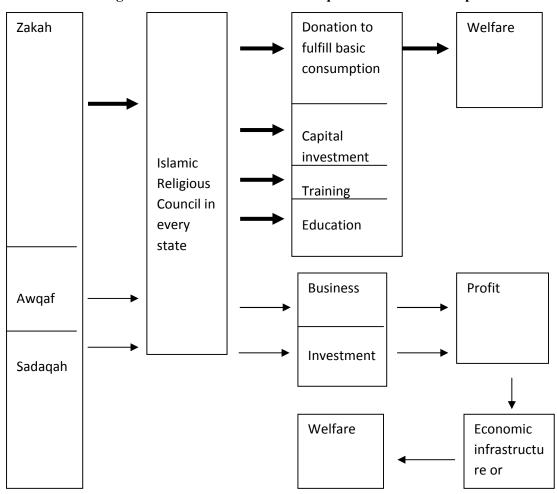


Figure 1: The role of zakah and awqaf in economic development

### 5. CONCLUSION

Muslim countries have relied extensively on external borrowing to fill the gap in public budget. As a result, external debt has grown and debt repayment became a big problem to them as they have to pay interest. Beside other problems, interest payments are eating a sizeable part of total government expenditure. In Islamic countries, this is most unfortunate. In addition to the economic problems that this public debt is creating for these countries, they are in violation of Islamic shariah. As a matter of fact, a number of their economic problems are a result of ignoring the government expenditure should be limited to what it collects through zakah, awqaf and sadaqah. Zakah and awqaf do not only contribute to economic development or poverty alleviation but also contribute to human development through eradication of spiritual poverty and achievement of welfare in both stages of human life.

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### ZAKAT AS AN INSTRUMENT FOR POVERTY ALLEVATION: A CASE STUDY OF NIGER STATE ZAKAT BOARD, NIGER STATE NIGERIA.

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### **ABSTRACT**

The importance of zakat in poverty alleviation among Muslims cannot be overemphasized. This paper presents the meaning and essence of zakat, highlighting its spiritual and economic benefits. Attention was drawn to underscore how obligatory it is in Islam. This was followed by discussions on assets subject to zakat. A brief explanation on poverty and its features was presented, succeeded by expositions on zakat's potential for its alleviation. This provoked discussions on the importance of planning the collection and distribution of zakat to achieve maximum social benefit. We emphasize the relevance of institutionalizing the collection and distribution of zakat as a panacea for realizing this goal. Explanations were presented with reference to its institutionalization in Niger state; one of the Northern states with dominant Muslim population in Nigeria. The paper concludes with a recommendation for planning zakat in Muslim communities.

Keywords: Zakat Assets, Zakat Institution, Poverty Alleviation

### 1. INTRODUCTION

The literal and simple meaning of zakat is purity. The technical meaning of the word designates the annual amount in kind or coin which a Muslim with means must distribute among the rightful beneficiaries.

In sharia, the word zakat refers to the determined share of wealth prescribed by Allah [SWT] to be distributed among the categories of those entitled to receive it. According to an-Nawawi's report from al-Wahid the share of wealth is called zakat because it increases the funds from which it is taken and protect them from being lost or destroyed. Growth and cleanliness are not restricted to the assets from which zakat has been taken, but affects the person who pays zakat. This is in line with the verse which stipulates:

### "Take zakat from their wealth to purify and cleanse them" 9;103

In elaborating the purpose of Zakat and its genesis, Umer Chapra (2000) observed that Zakat is not really a task in the normal sense of the term, It is the religious obligation of a Muslim, in the same way as prayer, fasting and pilgrimage as they are, a Muslim is expected to pay a specified proportion of his or her net worth or output. Its proceed cannot be spent by the state for any purpose that it deems desirable. It is essential as a social self help measure adopted with full religious backing to support those among the poor and destitute who are unable to help themselves so as to eliminate misery and poverty from Muslim society.

Islam as a religion is unprecedented in the extent of its care for the poor and in its determination to solve the problem of poverty whether through directives and

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recommendations that enjoins Muslims to show mercy to the poor, through legislation and laws or through implementation and application.

Every religion including those created by man has considered mercy to the poor to be a humanitarian social issue, without which oneness and a high standard of living cannot be realized. Because of the importance of this institution, all the prophets sent by God one way or the other enjoined their followers to give out zakat for the benefit of the mankind. This will be elaborated as we go further in this paper.

The voice of Divinely revealed religions calling for the care of the poor and weak has been even louder than other religions systems, having a deeper effect than any human philosophy or man-made law: I cannot believe any messenger of Allah has passed through the world without calling for the care of the poor, called zakat in the Our'an.

In the Holy Our'an, which is the most authentic Divine text existing on earth today, which mentioned the Messages of Ibrahim and Ya'qub. Allah says: (21:73)وَجَعَلْنَهُمْ أَئِمَةً يَهْدُونَ بِأَمْرِنَا وَأَوْحَيْنَا ٓ إِلَيْهِمْ فَعُلَ الْخَيْرَتِ We made them leaders, guiding by Our وَإِقَامَ الصَّلَوة وَإِيَاءَ الزَّكَوَة وَكَانُو الْنَا عَابِدَينَ. command and revealed to them the doing of good actions and the establishment of the prayer and the payment of zakat, and they worshipped Us".

Isma'il's Message is described in the following:words "Mention Isma'il in the Book. He was true to his promise and was a Messenger and a Prophet. He used to command his people to pray and give zakat and he was pleasing to his Lord". (19:54-55).

وَاذْكُرْفِي الْكَتَابِ إِسْمَاعِيلَ إِنَّهُ, كَانَ صَادِقَ الْوَغْدِ وَكَانَ رَسُولًا نَبِيًّا وَكَانَ يَأْمُنُ أَهْلَهُ, بِالصَّلُواةِ وَالزَّكَاةِ وَكَانَ عندَ رَبِّهِ. مَرْضيًا.

We also see the pledge of the tribe of Israel: "Remember when we make a covenant with the tribe of Isreal (2:83).

"Remember when We made a covenant with the tribe of Israel: 'Worship no one but Allah and be good to your parents and relatives and to orphans and the very poor. And speak good words to people. And establish the prayer and pay zakat. But then you turned away except a few of you. You turned aside"

وَإِذْ أَخَذْ نَا مِيثَاقَ بَنِي إسْراعِيلَ لاَتَعْبُدُ ونَ إلاَّ اللَّهَ وَبِالْوا لدَيْنَ إِحْسَانًا وَذِي الْقُرْبَى وَالْيَتَامَى وَالْمَسَاكِين وَقُولُوا لِلِنَّاسِ حُسْنًا ﴿ وَأَقِيمُوا الصَّلَوةَ وَعَاتُواالزَّكَاةَ ثُمَّ تَوَلَّيْتُمْ إِلاَّ قَلْيلاً مَنكُمْ وَأَنتُمْ

Also Prophet Isah is described by his own words as a baby in the cradle. (19:31).

He has enjoined upon me prayer and charity as long as I live.

وَجَعَلَني مُبَارِكًا أَيْنَ مَا كُنتُ وَأَوْصَالَى بالصَّلاة وَالزَّكَاة مَادمُ ثُ And made me blessed wherever I may be: and

Zakat is comprehensive holistic and systematic as deduced and derived from the Quran and Sunnah.

The above verses shows that

all religions share the concern for and care of the poor and weak members of the society. Islam expressed concern in these matters as early as the Makkan period. Thus the system of zakat preceded all similar legislation in the world.

In the recent time the World Assembly has rightly pointed out in their statement "that poverty, condition where people lack the basic necessities to sustain life, is a pervasive reality in our world". Islam being a comprehensive religion, has sincerely dealt with different aspects of this question and has shown us some ideology which may be helpful to protect the rights of the poor. One of these avenues is the issue of zakat, wealth remain in constant circulation among all sections of the societies and must not become the monopoly of the well to do. To achieve this sublime objective, Islam established beside zakat the institutions of inheritance and regular charity.

Islamic law guarantees every person in the Islamic state, Muslim or not a suitable standard of living. This is with the objective that food, clothing and shelter are available in addition to health care and education. It is a system which aims at satisfying the poor and the needy, and their families for life. But natural disasters may unexpectedly befall any person, wealthy or not, whether farmer, merchant, industrialist or landlord. Natural disaster may be common to a whole area, like drought, flood, insecticide, contamination, explosions, or there may be individual, such as car accidents, fires, or loss of assets or source of income through the war.

It will be recalled that during the life time of the Prophet (SAW), the collection and distribution of Zakat was handled by the State. The practice continued during the life time of the rightly guided caliphs and thereafter. Its importance can be seen from the fact that the commandment to perform prayers is immediately followed by the orders for Zakat in twenty various places in the Quran. The consensus opinion among Muslim Scholars is that it certainly occupies a place second in importance to prayer. And to underline the importance of Zakat as the corner stone of the financial structure of an Islamic state, when some Arab tribes refused to pay out Zakat to the public treasury immediately after the death of the prophet (SAW), the Caliph Abubakar had to enforce it even at the point of sword. Thus, he protected not only the financial structure of the state but the entire edifice of Islam as well.

Caliph Abubakar maintained that there is no difference between prayer and Zakat and as such it is lawful to wage a holy war against those members of the Muslim community who withhold Zakat, which is the right of the whole community on the wealth of the individuals as the prayer is the right of Allah on every believer. However, this practice was later ignored as a result of many factors.

These may include deviation of the Muslim Ummah worldwide from the path of Allah, wars of conquests, colonial subjugation and un-purposeful indigenous administration among others. Consequently, the collection and distribution of Zakat was left in the hands of individuals and groups who may not necessarily be conscious of the rules and regulations of this important pillar of Islam. First and foremost, there is need to remind ourselves of what the institution of Zakat is in Islam.

### 2. THE CONCEPT OF ZAKAT IN ISLAM

Zakat is one of the pillars of Islam. It is second in importance to Salat. This is because hardly is a Muslim enjoined in the Qur'an to establish regular prayers without being asked to give out Zakat to its due beneficiaries if he has the means.

In the Qur'an, Allah directs: "of their wealth, take alms so that you may purify and sanctify them". He also adds: "And be steadfast in prayer and regular in charity, and whatever good you send forth for your souls before you, you shall find it with God: for God sees well all that you do".

Allah rebuked Zakat defaulters and assures them of stern punishment where He says,

"And there are those who bury gold and silver and spent them not in the way of Allah, announce to them a most grievous penalty on the day when heat will be produced out of that (wealth) in the Hell fire and with it will be branded their fore heads, flanks and backs. This is the treasure which you buried for yourselves and you shall taste it. "

The Sunnah of the Prophet (SAW) has also made the compulsory nature of zakat clear. The Prophet (SAW) was reported to have said:-

"Islam is built on five pillars. The testimony that there is no deity worthy of worship except Allah. The establishment of daily prayers regularly and promptly, the giving out of alms to the poor, the observance of the month of Ramadan for fasting for the sake of Allah, the performance of pilgrimage to Ka'aba if one can afford it at least once in a lifetime."

Therefore, the people with means among us should be conscious of Allah and treat the less fortunate members of the society with kindness by prompt paying of their Zakat among others.

Zakat has also the effect of leveling up the general level of prosperity in a community. The taxing of idle money inevitably leads to its compulsory employment in productive channel which in turn increases the national wealth of a country. The zakat is the main tax in the Islamic state which answers all the requisites.

The low taxable limit and the principle of proportionate sacrifice tend to reduce the gulf between the high and low incomes and level up the differences by preventing the accumulation of wealth into the hands of a few individuals. This results in a general prosperity, i.e. the prosperity of the largest number, and as the prosperity increases, the number of those contributing the tax increases with a proportionate decrease in the number of those indigent and unemployed whose maintenance is the first charge on zakat. This shows that not only the growth of zakat is automatic as the wealth and population increases, but it is a potent instrument of increasing the wealth of a country.

It is worth noticing that whatever the needs of a given state, however great the contingency, it is of the greatest paramount that the system of zakat as laid down by Allah (SWT) should remain inviolable. Rather it is open to the state to devise and impose new taxes, should situation call for it, such as war or when wealth perpetually remains concentrated in few hands to the detriment of the rest of the populace. This will be emergency imposition and should be withdrawn as soon as the condition improves, but it will have no bearing with zakat which must remain inviolable.

### 3. ASSETS SUBJECT TO ZAKAT

The Qur'an does not give the definition of the kinds of wealth on which zakat should be paid nor does it provide the required percentages of zakat. It is left to the Sunna to give, by example or by directives, details of the general Qur'anic command and to convert the theoretical axioms of the Qur'an into a living reality in human life. The Prophet (S.A.W) was assigned this responsibility and the Book. Allah says: (16:44) It must be realized, however, that the Qur'an does mention a few kinds of zakatable assets, such as:

"And We have sent down the Reminder بِالْنِينُ الذَّيْرِ وَأَنزَلْنَا إِلَيْكَ الذَّعْرِ لِتَّبَيِّنَ لِلنَّاسِ مَانْزَلَ إِلْيُهِمْ

to you so that you can make clear to

mankind what has been sent down to them so that perhaps they may reflect".

- Gold and silver in the verse: "As for those who hoard up gold and silver and do not spend it in the way of Allah, give them the news of a painful punishment". (9:34).
- Crops and fruits that are referred to in: "Eat of their fruits when they bear fruit and pay their due on the day of their harvest". (6:141).
- Earnings from trade and other business ventures, referred to in the verse: "O you who believe! Give away some of the good things you have earned". (2:267).
- What is brought out from beneath the earth: "and some of what the earth produces for you"

Except for these items, the Qur'an mentions zakat in general and the word annual (assets or wealth) in its plural form, such as in verse. (9:103)

"Take sadaga from their wealth to purify and cleanse them".

خُذْ مِنْ أَمْوَ الهُمْ صَدَفَةَ تُطَهِّرُ هُمْ وَ اللَّهُ سَمِيعُ عَليمُ.

and. (51:19)

"And the beggars and destitutes received a due share of their wealth"

وَفِي أَمْوَالهمْ حَقِّ للسَّا ئِلِ وَالْمَحْرُومِ.

See Appendix A for the more elaboration on the Nisab of Zakat on various animals.

### 4. ZAKAT ON BUSINESS GOODS

Since practicing trade is lawful, several sayings order the guardians of orphans to invest orphan's wealth in trade so that it is not exhausted by the repetitive payment of zakat. It is normal that part of the wealth of any nation is used in trade and business exchange, and it is no wonder that Islam prescribes zakat on assets invested in business and commerce as well as on the income derived there from. Like zakat on money, zakat on business is an expression of thankfulness to Allah for His bounties by caring about those of His servants who are in need.

Islamic jurisprudence addresses itself to the details of this kind of zakat. Business goods are called by jurists 'urud at-tijara', which means anything obtained for the purpose of trade for profit, except liquid monetary assets. This definition includes machinery, furniture, clothing, foodstuffs, ornaments, jewellery, livestock, agricultural produce, land, buildings, etc. Some jurists define 'urud at-tijara' as anything that one buys in order to sell for profit. A Muslim who owns business goods equal to the nisab of money or more at the end of a zakat year must pay its due zakat at the rate of two and a half percent. This zakat is levied on the principal and increments accruing above the principal.

### 5. ZAKAT DISTRIBUTION AS DEFINED BY THE QUR'AN

According to Yusuf al-Qardawi, the collection of zakat is discussed in the Qur'an as a general concept, where it can be spent is specifically mentioned in the Qur'an; it was not left to rulers or those with personal opinions to decide according to their whims. At the time of the Messenger, some greedy individuals tried to take some proceeds of zakat, but when the Prophet did not yield to their attempts, they criticized and censured the prophet to such an extent that Allah sent verses deploring their greed and uncovering their hypocrisy. See Qura'an (9: 58-60).

يَسْخَطُونَ. وَلَوْ أَنَّهُمْ رَصُوا مَآءَاتَاهُمُ اللهُ وَرَسُولُهُ, thee (O Prophet) concerning (the distribution of) the offerings given for the sake of God. If الله سَيُؤْتِينًا الله مِن فَصْلِهِ, وَرَسُولُهُ, إِنَّالِلَي اللهِ

م مَّن يَلْمِزُ ك في الصَّدَقَات فَإِنْ أَعْطُوامِنْهَا رَضُوا وَإِن لَمْ يُعْطُوا And among them are such as find fault with they are not given anything thereof, lo! They إِنُّمَا الصَّدَقَاتُ للْفُقْرَآء وَالْمَسَاكِينَ وَالْغاملينَ عَلَيْهَا

are consumed with anger. And yet, (it would be but for their own good) if they were to content themselves with that God has given them and (caused) His Apostle (to give them) and would say, "God is enough to us! God will give us (whatever He wills) out of His bounty, and (will cause)

His Apostle (go give us, too): verily, unto God alone do we turn with hope!" the offerings given for the sake of God are (meant) only for the poor and the needy, and those who are in charge thereof and those whose hearts are to be won over, and for the freeing of human beings from bondage, and (for) those who are overburdened with debts, and (for the wayfarer: (this is) an ordinance from God – and God is all-knowing, wise.

وَالْمُوَلَقَةَ قُلُوبُهُمْ وَفِي الرَّقَابِ وَالْغَارِمِينَ فِي سَبِيلِ اللهِ وَابْنِ السَّبِيلِ فَرِيضَةً مَنَ اللهِ واللهُ عَلِيمُ حَكِيمٌ.

Also Abu Dawud narrated that he went to Prophet Muhammad (SAW) and give him his pledge, during the pledge a man came to the Prophet (SAW) and requested the Prophet (SAW) to give him the proceeds of zakat, the Prophet (SAW) responded immediately that he would only be entitled to what he demanded for if he belonged to the categories mentioned by the Qur'an.

### 6. POVERTY AND ITS MAIN FEATURES

Poverty has been defined in absolute and relative terms. Absolute poverty refers to a condition where a person can not meet up with the most basic requirement necessary for human survival. These include food, clothing, shelter, health and education.

Poverty has various manifestations which include among others, lack of income and productive resources sufficient to ensure sustainable livelihood and mal-nutrition, ill health, lack of access to education, homelessness and inadequate, unsafe and degraded environment.

The introduction of any poverty eradication programme should also not be done without the involvement of the people from the design through the implementation monitoring and evaluation of programme. The involvement of people who have fear of God this, will allow for adequate flow of information most especially at the community level.

To enable Zakat to play its role meaningfully however, a number of scholars have suggested that it should become permanent supplement for only those who are not capable of earning enough through there own efforts, to implement this therefore there is a need to develop an institutional mechanism whereby the collection and disbursement of Zakat proceeds can carefully be planned and implemented for maximum social advantage.

This brings me to the appraisal of the collection and distribution efforts of Zakat Board of Niger State, which will assist us to introduce a similar board or organization in any muslim country for the purpose of alleviating poverty within the Muslim community. We have earlier mentioned the obligatory nature of zakat and it is in fulfillment of this religious obligation that the Niger State Zakat and Endowment Board was established in 1999 by the Niger State Government. The board is charged with the responsibility of collecting and distributing zakat in Niger State.

### 7. THE ORGANIZATIONAL STRUCTURE OF THE BOARD

The Board meets at regular intervals to take decisions in order to achieve the objectives for which it was established. In pursuance of this, it has established four standing committees. They include collection, distribution, staff disciplinary, and finance and general purpose committees respectively.

Each committee has three members of the Board and Directors.

### 7.1 The Functions of the Collection Committee

- (i) serving as secretaries. The collection committee shall among others:
- (ii) ensure effective collection of zakat, alms, etc.
- (iii) listen to complaints from collection officers and zakat payers,
- (iv) ensure the adequacy of collection procedure
- (v) recommend disciplinary measures against erring Board collection officers

### 7.2 The Functions of the Distribution Committee

The Distribution Committee shall perform the following functions:

- i) ensure effective and efficient distribution of zakat as laid down in the Qur'an
- ii) attend to complaints from recipients/beneficiaries about distribution officers.
- iii) ensure the adequacy of, and compliance with the distribution guidelines.

### 7.3 The Functions of the Staff Disciplinary Committee

The staff disciplinary committee shall:

- i) ensure that prompt action is taken against erring staff of the board.
- ii) handle disciplinary cases of all erring staff below the rank of Directors.
- iii) recommend disciplinary action against erring officers from the rank of Directors and above to the Board.

### 7.4 The Functions of Finance and General Purpose committee

The Finance and General Purpose Committee shall:

- i) consider and approve financial expenditures of the Board other than zakat and charity funds distribution and utilization up to a maximum limit to be sent by the Board.
- ii) make recommendations to the Board in respect of sums above its power.

The Board consist of three directorates. These are collection and endowment, distribution, and finance and administration respectively. Each directorate is headed by a Director and is assigned specific functions to enable the Board collect and distribute zakat effectively.

### 7.5 The Functions of Collection and Endowment Directorate

The Collection and Endowment Directorate shall:

- i) collect due zakat from zakatable Muslims as stipulated in the relevant provisions of the law establishing the Board.
- ii) seek and collect endowment, donations and zakat from individual, organizations and government within and outside the state.
- iii) keep record of zakat, endowment, alms, donations and other charities.

### 7.6 The Functions of the Distribution Directorate

The Distribution Directorate shall:

- i) distribute the collected proceeds of zakat in accordance with the Qur'anic injunctions to the stipulated beneficiaries with guiding instructions of the Board.
- ii) keep record of all beneficiaries of zakat distributed.

### 7.7 The Functions of the Finance and Administration Directorate

The Finance and Administration Directorate shall:

i) provide an efficient administrative structure for the smooth

functioning of the Board and ensure that the personnel employed by the Board work for the attainment of the objectives for which the Board is established.

ii)ensure proper keeping of records of all financial transactions of the Board for accountability and transparency.

In addition to this, the Board has set up zonal zakat committees at emirate level in all the eight emirates of the state. Each committee consists of six members nominated by the Emir and approved by the Board. District Zakat councils were also set up at district level in all the districts in each emirate. Each council consists of six members nominated by the Emir and approved by the Board. The member of the councils were given induction courses at their emirates. The induction courses given to the members of these committees and councils aimed at intimating them with their functions. Topics to be discussed at the induction sessions include functions of the Board, functions of zonal zakat committees, functions of district zakat councils, zakat collection procedures, method/criteria of distribution of zakat and beneficiaries of zakat.

The committees and councils were charged individually and collectively to work in harmony with each other in the collection and distribution of zakat. They were also implored to enlighten the Muslims in their areas on the importance of zakat collection and warn them of the dangers of refusing to comply with the divine injunctions in this respect. They are also to collect zakat from the zakatable Muslims in their areas as volunteer staff of the Board. In addition, they are implored to persuade the wealthy Muslims in their areas while collecting the zakat by appealing to their personal honesty and encourage them to assess themselves sincerely.

The Board Headquarters, Zonal Zakat Committee (ZZC), and District Zakat Councils (DZC) operate official bank accounts respectively where collectable zakat are kept before distribution takes place. No money is withdrawn from these accounts except as authorized by the Board. They also issue official receipt for all zakat collected before lodging them in their accounts. With these structures on ground and close monitoring, the Board is optimistic that huge success will be recorded in the nearest future.

It is also important to note that the Board receives financial assistance form the State Government in running its affairs. It has also collected some zakat of money, animals and grains from the zakatable Muslims in the state.

### 8. COLLECTION OF ZAKAT

Though at the inception of the Board, the collection of zakat was centralized and the wealthy Muslims were advised to pay their zakat at its Secretariat in Minna, however, with the introduction of the Zonal Zakat Committees in all the emirates and district Zakat Councils,

the zakatable Muslims were encouraged to give them their zakat as volunteer staff of the Board.

The staff at the Board headquaters, zonal and district levels were collectively and severally charged with the responsibility of collection of zakat, alms and donations. They were required to carry out this assignment with diligence. They were also used in the enlightenment of the Muslim ummah on the importance of zakat. The Board gave them identity cards, assessment forms, posters, receipts and other materials to make their work effective.

In addition to the zakat accounts at the Board headquarters, the zonal zakat committees and District zakat councils were given money to operate separate accounts in their respective areas where the collected zakat is kept for safe keeping before same is distributed.

The Board has set up a machinery to ensure adequate compliance is achieved and continue to monitor their activities for optimal performance. It also made use of the print and electronic media to enlighten the Muslim Ummah of its activities and solicited for its co-operation to achieve success. It also used the traditional rulers at all levels in the same direction.

It is noteworthy to inform the Muslim ummah and the general public that since inception, the Board Headquarters has collected a total sum of fifteen million four hundred and eighty thousand, nine hundred and forty-four Naira (N15,480,944) only as zakat from fifty-one zakatable Muslims in the state. While the eight zones have jointly collected a sum of Four million, one hundred and sixty nine thousand, one hundred and seventy-nine Naira (N4,169,179.00) only from some wealthy Muslims as zakat.

This shows that the board has collected a total sum of nineteen million, six hundred and fifty thousand, one hundred and twenty-three Naira (N19,650,123.00) only as zakat.

### 9. DISTRIBUTION OF ZAKAT

The distribution of zakat takes place periodically at the Board Headquarters to the Districts beneficiaries as approved by the Board. See Appendix B and C for the forms designed and guide lines for the distribution.

As a matter of fact, the Board ensures the adequacy of, and compliance with its distribution guidelines. It is also important to note that it distributes the collected proceeds of zakat in accordance with the Qur'anic rules to the stipulated beneficiaries without fear or favour, ill-will or affection. It also keeps records of the distribution at all levels in order to forestall duplication of efforts and provide information for ease of reference.

The Board is also responsible to guide and counsel the zakat beneficiaries on the need to be prudent in using the money given to them with the hope that they will be able to assist themselves and others. Through its agents who monitor the activities of the beneficiaries, it receives positive report about their empowerment thereby reducing the poverty rate in their society. This explains the rationale behind fixing a minimum of twenty five thousand Naira (N25,000.00) only to each beneficiary as provided by the Board's guidelines on distribution of zakat as shown on the table marked Appendix "B" overleaf.

The Board has distributed large portion of the collectable zakat to the districts' beneficiaries in all the one hundred and seventeen (117) districts in the state on the basic of equity and level of performance. It is also important to note that each district is given four beneficiaries on the basis of equity and additional ones based on their level of performance in collecting zakat. Each beneficiary receive a sum of twenty five thousand Naira (N25,000.00) only.

From the records before you on distribution of zakat as shown by Appendix "C" attached overleaf during the period under review, five hundred and fifty (550) beneficiaries received a total sum of Thirteen million, Seven hundred and fifty thousand Naira (N13,750,000.00) only on the basis of equity, while sixty three beneficiaries received a sum of one million, five hundred and seventy five thousand Naira (N1,575,000.00) only on the basis of level of performance in the collection of zakat in their areas respectively.

The rationale behind the distribution of zakat on the level of performance in the collection of zakat from the zones and districts is to encourage healthy competition among the zones. It is also important to note that the distribution of zakat collected at all levels was adequately supervised by the officials from the Headquarters of the Board to ensure compliance with its guidelines. These activities were embarked upon by the Board to ensure effective collection and distribution of zakat to ameliorate the suffering of the poor. At this juncture, we wish to inform you that despite the good will of the government to the Board, there are some obstacles militating against effective performance. The obstructions were caused by the following:

- i) Antagonistic preaching against the Board by the traditional zakat beneficiaries.
- ii) Ignorance and negligence on the importance attached to zakat.
- iii) Misinformation about the functions of the Board
- iv) Inadequate vehicles to be used in plying all nooks and crannies for effective collection and distribution of zakat.
- v) Insufficient qualified and committed manpower to handle zakat offices at zonal, district village and ward levels.

### 10. CONCLUSION

In conclusion, we have tried to trace the genesis of zakat to the Prophet (SAW) of the old starting from Prophet Ibrahim Yaqub through Ismail, Isah to Prophet Muhammad (SAW). We have also shown the resistance of some Arab tribes to zakat after the demise of the Prophet Muhammad (SAW) and how the sanctity of the institution was restored by Caliph Abubakar (R.A.), we have also discussed the concept of zakat as well as assets that are subject to zakat. Similarly, we have had a quick look at zakat on business goods and the distribution of zakat as defined in the Qur'an. Finally, a quick glance is cast at poverty and its main features with a view to finding solutions to them through the institution of zakat.

In an attempts to find solutions to poverty through zakat, we have examined carefully and in detail the initiative of the Niger State in Nigeria. Disturbed and disappointed with the haphazard attitude to zakat, the state established a formal organization to champion the cause of zakat in the state. We have examined the Board that was officially established for the purpose, its structure, function, achievements and weakness so that other Muslim communities can borrow a leaf from this and adapt it to suit its own environment. May Allah guide us all right and grant us the spiritual courage to follow His guidance.

# APPENDIX (A) GUIDELINES FOR THE DISTRIBUTION OF ZAKAT COLLECTED BY THE ZAKAT AND ENDOWMENT BOARD

- 1. No. zakat collected by the Board at the Headquarters, Zonal and district levels shall be distributed to beneficiaries unless with the explicit approval of the Board and written authority of the Board's Executive Secretary.
- 2. Zakat distribution at all levels shall be in accordance with the Board's procedure duly communicated to the distributions through the Board Secretariat.
- 3. Distribution to the various administrative or community units must be based on equity and level of performance
- 4. Zakat must be distributed only to those categories of people mentioned in the Qur'an, chapter 9 verse 60 namely. The poor, needy; zakat collectors, in Allah's cause, inclined hearts to Islam freeing captives, insolvent debtors and wayfares.
- 5. Ten percent of zakat monies received at the Board Headquarters shall be retained by the Board for distribution periodically to beneficiaries who occasionally can at the secretariat and to enhance its general collection efforts.
- 6. Each of the beneficiary group mentioned in (4) above shall have the share of the zakat to be distributed in the following proportion the poor 30%, needy 30%, zakat collectors 10%, cause of Allah 10% inclined hearts 5%, freeing captives 5%, insolvent debtors 5%, and wayfarers 5% respectively.
- 7. The individual zakat beneficiary shall receive not less than twenty five thousand Naira (N25,000.00) or not more than fifty thousand Naira (50,000.00) in cash or their equivalent in collected zakat property.
- 8. Zakat beneficiaries need to be counseled on the need for the prudent use of the zakat money received by them so as to make them non-beneficiaries of zakat subsequently.
- 9. Proper documented account must be rendered to the Board by both the zonal zakat committees and district zakat councils on who received the distributed zakat and how much not later than one month after distribution of same.

# APPENDIX (B) PROPOSED ZAKAT AND ENDOWMENT BOAD DISTRIBUTION FORM ZONE 1. BENEFICIARIES a. NAME b. WARD c. DISTRICT d. LOCA GOV'T 2. CLASSIFICATION

**SIGN** 

**DISTRIBUTION** 

S/No.

	Α.	THE POOR			
	В.	THE NEED			
	С.	ZAKAT COLLECTOR			
	D.	INCLINED TO ISLAM			
	Е.	FREE SALAVE			
	F.	DEBTOR			
	G.	SPREADING			
	Н.	ISLAM TRAVELLER			
3. TYPE OF ZALKAT GIVEN					
	a. F	ARM PRODUCE			
	b. A	NIMALS			
		I CAMEL			
		II CATTLE			
		III SHEEP AND GOATS			
	c. N	IONEY			
S	IGNATU	RE			
D	ATE				
		AN SIGN			
D	ATE				
D	IRECTO	R ZAKAT DISTRIBUTION SIGN			
D	ATE.				

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#### SELECTION FACTOR OF E-FARAID IN SEGAMAT: WHAT DOES MUSLIM SAY?

Nor' Azurah Md. Kamdari<sup>1</sup> Remali Yusoff<sup>2</sup> Ahmad Abd. Majid<sup>3</sup>

#### **ABSTRACT**

This paper is focus on the purpose of web based expert system called as e-Faraid. The implication from implementation of this system, it is very useful by applying Islamic principle in income distribution. This study will discuss factor on affected Muslim in using e-Faraid in Islamic inheritance law. This study deals with several factors on affected Muslim to using electronic system such as perceived awareness, understanding and perception. This is important to look how the e-Faraid can be fully accepted by Muslim people. This research has be done by using primary data collection. The total of respondent is 180 and the sample respondent in Segamat. Overall, in the finding revealed that respondent have generally moderate view of selection factor on using e-Faraid). The sensitivity of respondent on level of awareness of concept Faraid is still at a moderate level, mainly because less of awareness among people to Faraid law and the existence of e-Faraid In addition the level of people understanding of the concept faraid is still low. This may be due to lack of knowledge and exposure to understand the Faraid concept. Finally, in recommendation of this research would to suggest to Department of Islamic Development Malaysia (JAKIM) to give more emphasizes to advertising and promotional campaign on e-Faraid.

**Keyword(s):** *e-Faraid*, *selection factor*.

# 1. INTRODUCTION

Income distribution from the Islamic perspective is Islam recognizes economic inequalities among its people but does not let them grow wider. In Islam, wealth or income is important and necessary but much more important is the way in which wealth or income is distributed. The guiding principle is that there should be more production and fairer distribution of wealth or income so that the increased wealth or income might lead to equitable division among the people. Wealth or income should not be concentrated in the hands of only a few members of society.

The Muslim law of inheritance is an effective measure in checking accumulation of wealth in fewer hands and in spreading it out among the larger section of the community. To achieve fairer distribution of income, one of method that Islam applying is by *Faraid*. According to the Muslim law of inheritance, if man or women dies, the property of the deceased after settling his debts will

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be divided among his near relatives in proportion to *Faraid*. However, if the deceased is without any relative, the state will take over the property so that other citizen will benefit.

#### 2. BACKGROUND OF STUDY

The successful to develop *e-Faraid* which can solve in income distribution problem. *e-Faraid* was implementation a few years ago by researcher from USM. Almost all The Department Islamic Affairs and university was used *e-Faraid*. However, no study has been carried out to investigate the selection factor of *e-Faraid* in Segamat. This paper essentially analyzed the factor considered by Muslim in choosing *e-Faraid*. In this time, the researcher focuses on *e-Faraid* and the sample on respondent in Segamat, which had very new on awareness used *e-Faraid*.

#### 3. PROBLEM STATEMENT

Al- For Muslim people, the Quran and Al hadith provide absolute guidance on how to distribute wealth among family members and relatives of a person who pass away. Distributing the property correctly requires thorough studies or expert guidance, because the rules stated are in details and distinctive to each person. Besides that, it is difficult for normal people who do not have the comprehension on Islamic inheritance to implement the distribution of inherited assets that was mentioned in the Quran. Thus, it needs someone who has the necessary knowledge and knowledge with thorough understanding. Normally, when someone passes away, his or her relatives will refer to someone who has as much as necessary knowledge to determine the distribution, which is costly and time consuming.

Based on that *e*-Faraid was developed and it can solve in income distribution problem Therefore, this study attempted to investigate the factor that contributes to the fast growing of selection factor of *e*-Faraid in Segamat. There were increased people who had aware to using *e*-Faraid, but we do not know what factor influencing them to choose *e*-Faraid. From this research, we want to determined factor of awareness, perception and understanding influence towards choosing of *e*-Faraid.

#### 4. OBJECTIVES

These objectives are:-

- I. To determine the relationship between Muslim acceptances of *e-Faraid* with awareness.
- II. To determine the relationship between Muslim acceptances of e-Faraid with perception.
- III. To determine the relationship between Muslim acceptances of *e-Faraid* with understanding.

#### 5. SIGNIFICANCE OF STUDY

Faraid was developed and it can solve in income distribution problem Therefore, this study attempted to investigate the factor that contributes to the fast growing of selection factor of *e-Faraid* in Segamat. Beside of *e-Faraid* is still new implementation, therefore, researcher hope from this finding of this research it can identify of what the strength and weakness from *e-Faraid*.

#### 6. HYPOTHESIS

A hypothesis can be defined as a tentative, yet testable, statement, which predicts what you expect to find in your empirical data. Along this line, hypothesis can be defined as a logically conjectured relationship between two or more variables expressed in the form of testable statement (Sekaran & Bougie, 2003). A null hypothesis (H<sub>0</sub>) is a hypothesis set up to be rejected

in order to support an alternate hypothesis. Alternate hypothesis (H<sub>a</sub>) is the opposite of null hypothesis (Sekaran & Bougie, 2010). In this research, it is important to test whether *e-Faraid* have significant relationship with awareness, understanding and perception. Therefore, this study attempts to test the following hypotheses:

- I. H<sub>0</sub>: There is no significant relationship between *e-Faraid* with awareness of *Faraid* among the Muslim society.
  - H<sub>a</sub>: There is significant relationship between *e-Faraid* with the awareness of *Faraid* among the Muslim society.
- II. H<sub>0</sub>: There is no significant relationship between *e-Faraid* with understanding of Faraid among the Muslim society.
  - H<sub>a</sub>: There is significant relationship between *e-Faraid* with understanding of Faraid among the Muslim society.
- III. H<sub>0</sub>: There is no significant relationship between *e-Faraid* with perception of Faraid among the Muslim society.
  - H<sub>a</sub>: There is no significant relationship between *e-Faraid* with perception of Faraid among the Muslim society.

#### 7. LITERATURE REVIEW

#### 7.1 Overview of Faraid

Faraid is a part of Islamic laws of inheritance with the aim of increasing the awareness of the Muslim community living in the west regarding this important aspect of Islamic law. The scope of this article is confined to traditional Sunni Islamic law.

When a Muslim dies there are four duties which need to be performed. These are payment of funeral expenses, payment of his/ her debts, execution his/ her will and distribution of remaining estate amongst the heirs according to Sharia

It is assumed that the preliminary issues have been resolved and we shall confine ourselves principally to discussing the fourth and last duty. The task is to firstly, determine which of the relatives of the deceased are entitled to inherit and secondly, to determine the quantum share entitlement of each of the heirs concerned.

#### 7.2 Awareness of Faraid

Rosman and Abd Razak (2008) found out that awareness and understanding amongst Muslim community worldwide pertaining to *will* is very low despite advancement in technology. This is an economic lost to the Muslim community and the nation, as assets are frozen whilst disputes are ironed out. Majority do not understand the implication of division of wealth in accordance to *Fara'id* and many more are not aware that *will* is not against Islamic teaching and that *will* writing is encouraged in Islam.

Omar (2008) carried out Most Muslims in Malaysia do not view estate planning seriously and some of them are skeptical about making a *wasiyyah*, which is evidenced by having large number of Malaysian Muslims not having *wasiyyah*. Information from available resources indicates that in general, awareness of *wasiyyah* practice among Malaysian Muslims is not very encouraging. Today, in a modern and complex world, leaving a written will is crucial, and, thus, it implies that Islamic estate planning for Muslims demands a proper planning beyond the provision of *faraid* and bequest

Amanah Raya Berhad (2005) argues that "generally the level of Malaysian awareness with respect to the importance of *will* is relatively very low and the evidence comes from the fact that 90 percent of Malaysians currently do not have a *will*. In supporting this, Jin (2005) also admits that many Malaysians do not have a *will*. However, neither ARB nor Jin differentiates between the likelihood of leaving *wasiyyah/wills* between Malaysian Muslims and non-Muslims. Hence, the number of *wasiyyah* made by Muslims, which have been kept under ARB, might usefully indicate the consciousness of Malaysian Muslim people towards the importance of leaving *wasiyyah*.

Aslam (2012) identified the majority of the Muslims are completely oblivious to the importance of making a written will (wasiyah). Those who are knowledgeable of its importance and try to bring up this topic with grief stricken family members are ostracized. It's even worse if a family member dares touch upon this sensitive subject; they are considered greedy and insensitive for talking about such a thing at a time like that. Muslims don't know and don't care about one of the few things that are mandatory and extremely important after the death of a Muslim. The result from his study are common misconception about the preparation of a will prevails among the Muslims who are aware of the importance of wasiyah. They believe that since Qur'an gives clear instructions about the distribution of the wealth of a deceased Muslim, why prepare a written will. There reason for this as described by Muslim scholars is that since there is no truly Islamic state in the world, which follows the Shariah, there is a strong possibility of non-compliance on this extremely important matter. This is particularly important for Muslims living in non-Muslim countries or for people who have accepted Islam later in life. Therefore, we should prepare a written wasiyah to ensure that we follow the command of Allah (SWT).

#### 7.3 Level of Understanding

Md Yazid Ahmad (2010) identified most of the Muslim community have less understands about Islamic inheritance laws, not the least their career and have a good background academically either from the public or private sector employees. There are also those Muslims who have a stake and a calculation in accordance with their own interests that are not in line with Islamic. The result from his study is he proposes that the authorities should expand the information to knowledge to Muslims in Malaysia in relation to this matter through road shows, creating advisory clinics that are not commercial, information through the mass media and the internet.

According to Hizmet in the epitome of Tazkirat-al Qurtubi (1998), declares, "Try to learn and understand the knowledge of faraid! Teach this knowledge to the youth! The understanding of faraid is half of (all) religious knowledge. It will be this knowledge that my Umma will forget first."

Mohamad Azhar Hashim (2010) carried out that Muslims need to take immediate steps to ensure that the wisdom of the understanding of al-Faraid continues to be significant in building the prosperity of the descendants of an Islamic family institution. He also found all parties, regardless of whether they belong to the public, scholars, professionals, legislators, administrators and others should be unified and aligned in their thinking to ensure that the knowledge of al-Faraid can survive and remain in the life of each and every Muslim individual.

Wan Abdul Halim Harun (2006), identified about Muslims understanding towards faraid is with the law of faraid will removes us from seizing or owning land or property belonging to others, especially his own brother. Nevertheless, law of faraid also can avoid misunderstandings and disputes among heirs can bring to break bonds and the family become chaos. The result from his study are respondents views on the importance faraid and the knowledge at a high level.

#### 7.4 Perception

Nik Noriani (2012) elaborated that under the *faraid* distribution system, women's contribution towards the family needs are disregarded when it comes to inheritance, as the emphasis is still on men to provide maintenance for the family, resulting in men receiving a greater share of the inheritance. It was stressed that there is a need for equal distribution with regards to the present socio-economic circumstances and that the historical rationale behind the *faraid* system must be re-examined.

Abdullah Siddik (1975). Identified that Muslim perceptions towards law of faraid is based on to *Adat* law, hereditary property (*tanah pesaka*) are collectively owned by clan/lineage members registered under the female members of the matriclan/matrilineage, and this property is to be passed from mother to daughter. This type of ownership is not in line with Islam, so too is property inheritance when according to *Adat* law, male children have no ownership right to such property, whereas under Islamic law of inheritance (*faraid*), they are entitled to two-thirds of the property belonging to both parents. Female children are only given one-third. Adat Perpatih laws also give provision of property inheritance to adopted children, and again, this practice is not recognized by Islam. In Islam, only natural children are the rightful heirs to their parents' property.

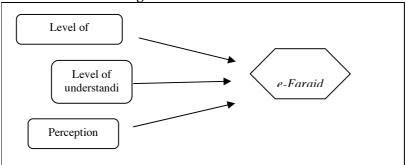
#### 7.5 e- Faraid

There is a website from University of Science Malaysia (USM) developed on Islamic inheritance law. The system was built by Prof Madya Ahmad Abdul Majid plus it using in Malay language. e-Faraid is a complete computerized solution to the faraid management system which is a method of division of inheritance of the deceased's properties among his/her immediate family and relatives according to the Islamic law developed by the department of Mathematics Universti Sains Malaysia. This software is menu driven and has a user friendly interface system which is specially developed for almost anyone having no previous or limited knowledge or an expert on faraid who is interested to study or resolving a particular problem which is relates to faraid. e-Faraid uses a database approach to solve either a single or multilevel (munakahat) faraid problem. It consists of an information module which consists of a Malay translation of the Quranic verses on *faraid*, a summary of the deceased's family tree and those who have the right to stake their claims. A user needs only to key in the relevant information regarding the deceased and his/her family (from key board or a mouse click). Almost immediately, the result will be displayed in fractional form. The results can either be viewed on a computer screen or printed on a paper or special form which is customized to special requirements off any authority or organization. In addition, to the common output, e-Faraid will also display the true result in accordance with a given input value of the deceased's actual properties in any preferred currency or in term of it acreage (for land).

# 7.6 Theoretical Framework

Figure 1 below is a theoretical framework based on two types of variables which are Independent Variables and Dependent Variable. The Independent Variables consist of level of awareness, understanding and perception. The Dependent Variable consists influences of Muslim in *e-Faraid*.

**Figure 1: Theoretical Framework** 



#### 8. DATA COLLECTION METHOD

The main focus of this study is to examine the level perceived awareness, understanding and perceptions Muslims toward *e-Faraid*. A short questionnaire was formed containing specifies questions relating the willingness to *e-Faraid*. Also, questions were picked up to distinguish between respondents who believe they were well informed about advantages pertaining to using *e-Faraid*. The data used in this research are primary data. Primary data is information that is received directly from the subject of the research that they reserved. The primary data will be collected from the respondents (Muslim).

The technique and instruments of the data collected are carried out through Questionnaire. These questions were conditional in nature and were used to determine the selection of sample population. All the answer will be used as the main data and analyzed by the researcher. Three specific questions relating to independent variables (awareness, understanding and perception) as well as the dependent variable (Muslims acceptance) in *e-Faraid*.

Specifically these questionnaires are using the Likert scale in order to measure the behavior of the respondent towards an answer. To measure the behavior of the respondent toward an answer, likert scale is used. Each question in this research is provided with five alternatives to answer. This response was considered large enough and sufficient for statistical reliability and generalization. Table 2 depicts the response respondents of background.

**Table: 1.2 Respondent distributions** 

	Frequency	Percentage %
Gender		
Male	95	52.8
Female	85	47.2
Occupation		
Government	94	52.2
Private sector	48	26.7
Own	38	21.1
Age		
Below 30 Years	56	31.1
31 – 40 Years	52	28.9
41 – 50 Years	43	23.9
Above 50 Years	29	16.1
Marital status		
Single	81	45.0
Married	97	53.9

Divorce	2	1.1
Income		
Below 2000	37	20.6
2000 - 3000	52	28.9
3001 – 5000	56	31.1
Above 5000	35	19.4
Qualification		
SPM	70	38.9
Diploma	54	30.0
Degree	40	22.2
Master	9	5.0
PHD	7	3.9

Table 2 summarizes some basic statistics on gender, occupation, age, marital status, income and qualification of the respondents. The respondents selected by randomly were predominantly male which comprise 52.8 percent of the respondents. There is quiet a good mix of age grouping ranging from below 30 years of age to over 50, although a bulk of the respondents belong to below 30 years. Consequently, the opinions expressed in the survey could very well reflect the attitude and selection of the younger respondents. In term of occupation, most of all are government servant (52.2%), private sector (26.7) and own (21.1%). Almost all of the respondents are married (53.9%), 45.0 percent of them are single and only 1.1 percent are already divorced. The result reported in table 4.2.1.1 also indicate that majority (31.1%) of the respondents were in the RM3001 - RM5000 monthly income group. Meanwhile it can be found in the figure that the more than a half of the respondent earns more than RM3000 a month. This result indicates that most of the respondents can be classified as above poverty line income and middle income earners since majority of them have monthly incomes range of RM3001 -RM5000. Percentage of the respondents by academic qualification also can be found in figure 4.1. It can be found that most of the entire respondent obtained the secondary education. 38.9% of them obtained the SPM, 30.0% obtained the Diploma, 22.2% obtained Bachelor Degree, 5.0% obtained Master Degree. Only 3.9% have the highest education level (PHD).

# 9.1 Method Analysis

All the data will be analyzed by using Statistical Package for the Social Sciences (SPSS) version 18.0.Descriptive analysis was carried out in order to understand the level of perception towards awareness, understanding and perception, Muslims acceptance. Mean value of all variables is use to measure the average perception of the respondents. Using the reliability analysis, researcher studies the relationship between factors that affect Muslims to using e-Faraid. Other than that, the Factor Analysis will be tested. Factor analysis is a statistical method used to describe variability among observed variables in terms of fewer unobserved variables called factors. (Nor'Azurah, Nurul Haida & Wan Asma, 2006). This statistical tool stated the method, which can assist the researcher to reduce large number of items to some smaller number by showing which variables belong mutually and which seem to show the same thing. The analysis is also important in confirming the construct validity of the scales using the principal component analysis (Emory & Cooper, 1991). Kaiser-Meyer-Olkin (KMO) in factor analysis will explained adequacy test whether the partial correlations among variables are small. Bartlett's test of sphericity tests whether the correlation matrix is an identity matrix, which would indicate that the factor model is inappropriate. Factor Analysis conducted to find the most variables or most factor that influenced customers to choose e-Faraid. Next after that the analysis will used Kruskall Wallis Test. It is a non-parametric method for one-way analysis of variance used to determine if three more samples originate from the same distribution. The Kruskal-Wallis test essentially a standard one-way analysis of variance, with ranks assigned to the data points replacing the data points themselves. It conducted in the hypothesis test to assess any significant relationship between independent and dependent variables by the different groups involved in this survey. These non-parametric tests are appropriate when measurements of the variables under investigation are in ordinal scale. Using this method, we can determine the relationship strength between the independent and dependent variables. Significance values that lower than 0.05 (p < 0.05) means, that null hypothesis is rejected and alternative hypothesis accepted.

#### 9. FINDING AND ANALYSIS

#### 9.1 Reliability

The reliability of a measure is established by testing for both consistency and stability. Cronbach's alpha is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. Cronbach's alpha is computed in terms of the average intercorrelations among the items measuring the concept. One of the most commonly used indicators of internal consistency is Cronbach's Alpha coefficient. Ideally Cronbach Alpha coefficient of a scale should be above .7. Cronbach Alpha values are, however, quite sensitive to the number of items in the scale. With short scales it is common to find quiet low Cronbach values. In this case, it may be more appropriate to report the mean inter- item correlation for the items.

For internal consistency, respondents were asked to evaluate their perception towards five points likert scale statements. The internal consistency was tested to test the realibity of the data. The negative items were revised to get the reliable value of Cronbach's Alpha. It is observed in Table 3 that the internal consistency for Awareness is 0.713; Understanding is 0.748; Perception is 0.777, and Muslims Acceptance is 0.802 that are accepted and reliable value (Cronbach's, 1951). These results show that the data are reliable and can be used for futher analysis. The purpose of reliability is to examine the level of non error in measurement, which mean to examine the consistency of measurement. This study adopts Cronbach's a value, higher internal consistency. If a value bigger than 0.60, then its shows reliability of measurement. For reliability test, if we get Cronbach's Alpha more than 0.6 is significant. For this case, all the independent variables are significant and factor that affecting Muslims to using *e-faraid*.

**Table 3: Reliability Analysis** 

Variables	Cronbach's Alpha
Awareness	0.713
Understanding	0.748
Perception	0.777
Muslims Acceptance	0.802

## 9.2 Factor Analysis

The results in Table 4 reveal the presence of three factors with all 9 items of the using system *e-Faraid* criteria. The eigenvalues for the three factors are above 1 (2.588, 1.832, 1.716,). These three factors explain a total of 64.701 per cent of the variance. Specially, factor 1 has five significant loadings while factor 2 has four significant loadings and factor 3 has three significant loadings. One can see that the first factor (Perception) delineates a cluster of relationship amongst the following attributes are *Shariah Principles* (P2), *Government support* (P3), *Level of encouragement* (P5), *Concept as solution of distribution* (P6), *High quality systems* (P9). The nature of the highly loaded variable on this factor suggests that it can be named (perception). This perception factor contributes around 64 per cent of the reason for using *e-Faraid*. Since factor 1

has the highest eigenvalues and variances, (eigenvalues = 2.588, variances = 64.701) it necessary the most important factor that has influenced Muslims to using *e-Faraid* system.

The second factor (Awareness) delineates a cluster of relationship attributes are *Customer preferences* (A4), *Shariah compliance* (A5), *Rigid and clear cuts rules of inheritance* (A7), and *Advertising and promotional campaign* (A9). The nature of second higher loaded variable on this factor suggests that it can be named Awareness factor contributes around 35 per cent of the reason for *e-Faraid*. Since factor 2 has the second eigenvalues and variances, (eigenvalues = 1.832, variances = 35.299).

The third factor (Understanding) delineates a cluster of relationship attributes are *Less understanding and knowledge* (U4), *Benefit* (U6) and *Solution the Faraid management* (U10). The nature of third higher loaded variable on this factor suggests that it can be named understanding factor contributes around 17 per cent of the reason for *e-Faraid*. Since factor 3 has the third higher eigenvalues and variances, (eigenvalues = 1.716, variances = 17.64).

Table 4: Selection factor e-Faraid among Muslim

	Factor								
Variable	Perception	Awareness	Understanding	Communality					
P2	0.798			0.766					
P3	0.769			0.726					
P6	0.731			0.720					
P5	0.671			0.722					
P7	0.640	0.598		0.675					
A3		0.589		0.672					
A7		0.578		0.650					
A4		0.567		0.635					
A9				0.704					
U3			0.546	0.581					
U4			0.527	0.561					
U6			0.519	0.533					
Eigenvalue	2.588	1.832	1.716						
% of Variances	64.701	35.299	17.64						
KMO Value	0.756								
Significant	.000								

## Variables

- **P2** Shariah Principle
- **P3** Government support
- **P6** Solution of distribution among the heirs
- **P5** Highest level of perception
- P7 Substitute of conventional insurance
- A3 Faraid concept
- A7 Basic rules of Faraid
- A4 Customer preferences
- **A9** Advertising and promotional campaign
- U3 Lack of knowledge and understanding

**U4** Main challenge face by the Muslims

U6 Knowledge

In testing whether factor analysis was appropriate for the factor selection factor *e-Faraid* among Muslim, KMO and Bartlett's Test of Sphericity were conducted. The KMO measures the sampling adequacy which should be greater than 0.5 for a satisfactory factor analysis to proceed. Looking at the Table 4, the KMO measure is 0.756 which is above the acceptable level 0.5. From the same table, we can see that the Bartlett's test of sphericity is significant. That is, its associated probability is less than 0.05. The Bartlett Test of sphericity at 0.000, it means it is below the alpha value of 0.05, thus significant. Therefore, the validity of this study is considered to be acceptable. Based on this favourable results, factor analysis was conducted using Principal Component Analysis (PCA) and Varimax Rotation with Kaiser Normalization. The result of varimax rotated factors given in **Table 1.4** along with communality values of each variables, eigenvalues, percentage of explained variance.

# 9.3 Hypothesis Tests

# **Hypotheses 1:**

H<sub>0</sub>: There is no significant relationship between *e-Faraid* with awareness of *Faraid* among the Muslim society.

H<sub>a</sub>: There is significant relationship between *e-Faraid* with the awareness of *Faraid* among the Muslim society.

Table 5 is show result of relationship between *e-Faraid* with awareness of *Faraid* among the Muslim society The first hypothesis showed there is no significant relationship between Muslims acceptance towards the *Faraid* depending awareness. Based on this information, Muslims are aware that the Quran was introduced Shariah (Islamic Law) by providing rigid and clear-cut-rules of inheritance and this *faraid* concepts was found them in which there is a negative awareness about this *Faraid*. This hypothesis using the Kruskal Wallis test where the chi-square value is 18.911, while the gain is significant at 451. Kruskal Wallis Test method is used because it is similar between the groups and allows us to assess the potential differences between two or more groups. The results was received this hypothesis, Muslim acceptance towards the *e-Faraid* system is no significantly depending on awareness. Hence, the null hypothesis is accepted, thus alternative hypothesis is rejected.

Table 5: K-W Test Result of Relationship between *e-Faraid* with awareness of *Faraid* among the Muslim society

Degree of Influence	Value	Total (%)	N	Chi- SquareX	Asymp. Sig. (p)	
Strongly Agree	5	14.29	20			
Agree	4	7.14	10			
Disagree	2	36.42	51	<b>V</b> 2 _	151	
Strongly Disagree	1	39.28	55	$X^2 = 18.911$	451	
Neutral	3	2.85	4	10.911		
Total		100	140			
df	5					

# **Hypotheses 2:**

H<sub>o</sub>: There is no significant relationship between *e-Faraid* with understanding of *Faraid* among the Muslim society.

 $H_a$ : There is significant relationship between *e-Faraid* with understanding of *Faraid* among the Muslim society.

Table 6: K-W Test Result of Relationship between *e-Faraid* with understanding of Faraid amongst the Muslim society

i www uniongst the musilin society									
Degree of Influence	Value	Total (%)	N	Mean Rank	Chi- Square X <sup>2</sup>	Asymp. Sig. (p)			
Strongly Agree	5	13.85	18	55.33					
Agree	4	16.15	21	44.67		.652			
Disagree	2	30.00	39	72.78	W2				
Strongly Disagree	1	13.08	17	95.44	$X^2 = 5.898$				
Neutral	3	26.92	35	60.57	3.090				
Total		100	130						
df	4								

Table 6 shows result of relationship between *e-Faraid* with understanding among the Muslim society. The second hypothesis showed no significant relationship that occurs between Muslim acceptance towards the *e-Faraid* system based on their understanding. This hypothesis using the Kruskal Wallis test where the chi-square value is 5.898, while the gain is significant at .652. Therefore, this study rejects the alternative hypothesis that there is significant relationship between *e-Faraid* with understanding of *Faraid* among the Muslim society. Based on this information, although they are aware of the negative impact on the acceptance of Muslims to using the *e-Faraid*, but the lack of guidance, understanding and knowledge of this system has resulted in them not aware of the concept *Faraid*. So this are the main challenges face by Muslims.

#### **Hypotheses 3:**

H<sub>0</sub>: There is no significant relationship between *e-Faraid* with perception of Faraid among the Muslim society.

H<sub>a</sub>: There is significant relationship between *e-Faraid* with perception of Faraid among the Muslim society.

Table 7: K-W Test Result Comparing the Mean Ranks of Relationship between *e-Faraid* with perception of *Faraid* among the Muslim society.

Degree of Influence	Value	Total (%)	N	Mean Rank	Chi- Square X <sup>2</sup>	Asymp. Sig. (p)
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Strongly Agree	5	10.71	15	86.59		
Agree	4	54.28	76	85.89		
Disagree	2	7.14	10	64.89	<b>V</b> 2 _	
Strongly Disagree	1	3.57	5	61.12	$X^2 = 20.541$	.002
Neutral	3	24.28	34	54.12	20.541	
Total		100	140			
df	5					

Table 7 is showed result comparing the mean ranks of relationship between *e-Faraid* with perception of *Faraid* among the Muslim society. The third hypothesis showed a significant relationship between Muslims acceptance towards the *Faraid* is significantly depending on perception. Based on this information, Muslims have made positive opinion that the *e-Faraid* system was developed in accordance with Shariah principles and the system is a replacement to conventional insurance. This hypothesis using the Kruskal Wallis test where the chi-square value is 20.541, while the gain is significant at .002. The results was received this hypothesis, Muslim acceptance towards the *e-Faraid* system is significantly depending on perception. Hence, the alternate hypothesis is accepted, thus null hypothesis is rejected.

#### 10. CONCLUSION

Selection factor of *e-Faraid* amongst Muslim awareness, understanding is still low. Meanwhile, perception of *e-faraid* is high due to this system gives more benefits and facilities for them to make the calculation and distribution of the estate to their heirs. Furthermore the level of awareness of the concept faraid still at a moderate level, mainly because of their less sensitive to faraid law and also the existence of *e-Faraid*. In addition, the level of their understanding of the concept *faraid* is still low. This may be due to lack of knowledge and exposure caused them to understand the concept faraid. Therefore they do not understand to use this system because this system faraid still newly introduced to the Muslims.

Based on Kruskal Wallis Test, factor that consist of variable of awareness and perception, partially or individually is not influenced towards Muslims to using e-Faraid. It is show that with probability of hypothesis from its variable is <.05, even though to variable of understanding didn't has influenced of significant towards Muslim acceptance which has the probability >.05.

Based from factor analysis, each of variables have significant influenced towards Muslims acceptance to using *e-Faraid*. Refers to the finding of this study, it is revealed that Muslim opinions towards understanding factors are in the moderate level, compared to higher awareness and perception factors between the Muslims. This research would suggest to the Department of Islamic Development Malaysia (*JAKIM*) to give more emphasizes to explain the understanding factor to Muslims by doing advertising and promotional campaign in *e-Faraid* as a success factor.

#### 11. RECOMMENDATIONS

The *e-Faraid* that has been developed as a result of our research work can be used online. Any Muslim, worldwide can easily compute his or her portion of the wealth left behind by the decease according to the rules of *Faraid* in Islam. The website can provide the user to allocate the wealth to all the users and to those, who have rights or entitled to receive their portion from the wealth. When any user answers the question on his relation to the system. The *e-Faraid* for Islamic Inheritance Laws is considered useful for any Muslim in this world and success in design. Such a system leads to call for wider use of expert systems in the field of Islamic Jurisprudence.

For future of study, subsequent web based designer could add more relevant questions to the knowledge base to make it more robust and extensiveness. The system can be adapted to other branches of Islam such as Zakat, and recurring phenomenon to use an expert systems in field of Islam, more work is needed in this direction It also have multiple experts as domain expert to get more knowledge of experts regarding all the rules for *faraid* in four schools of thought (*Almathaheb*).

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# ISLAMIC BANKS' CORPORATE SOCIAL RESPONSIBILITY AND ITS IMPACT ON SOCIETAL DEVELOPMENT IN MALAYSIA: AN ANALYSIS FROM ISLAMIC AND CONVENTIONAL ECONOMICS PERSPECTIVES.

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#### **ABSTRACT**

This study was carried out to investigate the impact of Islamic banks' corporate social responsibility on the societal development in Malaysia. It is highly recommended for all the Islamic financial institution and other institutions that claimed to be Islamic to set up a standard of behaviuor as part of their operations which will impact the society in a positive and in a productive manner at the same time as abiding by values which exclude profit seeking at all cost. However, the study used five elements namely zakat, charitable activities, *qard hasan*, micro & small size business and social savings and investment, and social impact based investment quotas policies in its investigations. The target population of this study was the stakeholders of Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Malaysia Berhad (BMMB), CIMB Islamic Islamic Berhad and Maybank Islamic Berhad in Alor Star, Kedah State of Malaysia and 196 respondents were involved. In order to realize the objective of the study, the researcher used multivariate techniques in examining the relationship between the dependent and independent variables. It was found that there was a statistical significant relationship between the Islamic banks' corporate social responsibility and societal development in Malaysia.

**Keywords:** Zakat, Charitable activities, Qurd hasan, Micro & Small size business and social savings and investment, and Social Impact Based Investment Quotas Policies.

#### 1. INTRODUCTION

Corporate Social Responsibility (CSR) has been identified by Islamic Scholars as an integral part of Islamic Banks responsibilities due to its impacts on societal development and its emphasis on people's welfare. This was ascertained through the higher objectives of the Sharia'ah (Maqasid al-Shari'ah)<sup>1</sup> which are meant to protect the interests of the creations in this world and the hereafter. Apparently, organizations' throughout the world now realize that CSR is an important part of a company's operations, because of its positive impact on society, staff members and the general public at large.<sup>2</sup> Stakeholders such as the consumers, employees, investors, and local communities expect organizations to contribute to the societies where they operate (Hassan 2010).

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<sup>&</sup>lt;sup>1</sup> The five higher objectives of the maqasid shariah are: protection of religion, protection of life, protection of intellect, protection of progeny, and protection of wealth.

<sup>&</sup>lt;sup>2</sup> Institutes of Islamic Banking and Finance, Corporate Social Responsibility. Available: http://www.islamic-banking.com/csr.aspx, accessed on 14 November 2012.

Specifically, financial institutions can positively influence the environment by implementing CSR that match with the expectation of the society (Taimoor et al, 2012). According to Dusuki & Dar (2005) Corporate Social Responsibility outline the standard of behaviour that the businesses must subscribe to impact society in a positive and productive manner which abides by values and exclude profit seeking at any cost. Therefore, more specifically, the responsibility of Islamic Banks from Shari'ah perspective transcends the paying of zakat to the poor and the needy but extend to the societal welfare, wellbeing and any other activities that will bring about positive development to the society.

The extant literature on CSR is awash with varying views albeit with convergent conclusion on what Islamic CSR should be especially for Islamic financial institutions. The study of Farook (2007) provides the basis for Islamic corporate social responsibility for Islamic financial institutions and the justification for developing a flexible Islamic corporate social responsibility standard that encompasses both mandatory and recommended forms. The study of Dusuki (2011) on the other hand has offered instructive discussions on what constitutes the ethical and social responsibility dimension of Islamic finance. Also, Muhammed and Zakaria (2011) examined the criteria and Islamic instrument of corporate social responsibility towards the creation of a sustainable economic development. Other studies such as Zulkifli (2012) have declared corporate governance on corporate social responsibility in Islamic financial institutions as part of their ethical responsibilities. In addition, many Islamic writers have claimed that Islamic corporate social responsibility, if well practice will lead to societal development.

A matter arising from the foregoing and which deserves research attention is the fact that CSR from Islamic perspective is not only a corporate voluntary obligation but also a manifestation of corporate spiritual commitment. When organizations obtained economic benefit from the society, expectations are that they also give back to the society. While this is the norm in most corporate firms, the dimension from an Islamic perspective offers more benefit beyond just giving back to the society. This is because the motivation for such action will take into cognizance both the mechanics and spirit of operational efficiency in its entire ramification including economic, social, and spiritual development. It is from this concern and in particular context of Malaysia that this study evolved. In this regard, the objective of this paper is to empirically investigate the impact of Islamic banks' policy on zakat, *qard Hassan*, charitable activities, and social investment activities on societal development.

#### 2. LITERATURE REVIEW

Financial institutions, regardless of whether they are Islamic or conventional must be active and profound in discharging their responsibilities to the society of their operations. According to Soludo (2004), banking industry occupies a unique position in every economy and that is why it often attracts more than a casual regulatory attention. He also mentioned in his paper that industry in the 21st century must have a moral face and live up to some modicum of social responsibility. Another study by Sabarudin & Norhanim (2010) contended that the awareness and placing CSR as part of the corporate agenda is a significantly sign shows that bank is not just aggressively poise for bigger profit but also focus their investment strategies on benefits of socially and environmentally responsible investing<sup>3</sup>.

For example; Bank Islam Malaysia Berhad (BIMB) has been building and rehabilitating homes to old and handicapped as part of its social responsibility programs. Bank Muamalat Malayasia Berhad as another example also involved in different social activities. The press releases by the Media Relation & Event Management (MREM) on January 20, 2013 revealed that Bank Muamalat invited under-privileged

 $<sup>^{\</sup>rm 3}$  This is also known as the "triple bottom line"

children for football talent clinic with Tottenham Hotspur's legend so as for some of them to choose football as their future career and for social reasons.

Also, CIMB Islamic Bank as another example has been partaken in philanthropic and social responsibility for different reasons as can be seen from its *Islamic Finance &* CSR report presented by the CEO of this bank in World Islamic Finance Conference in London, UK on the 27, March 2012:

Philanthropy and social responsibility is a part of CIMB Islamic culture and recently through the CIMB Foundation successfully raised USD 1 million for Padang's earthquake disaster relief.<sup>4</sup>

Similarly, Maybank Islamic Berhad is not lacking behind in the area of CSR. Maybank has been participating in CSR programmes for the betterment of the community and for environmental sanitation as can be seen from its website.

Sequel to the forgoing CSR activities by Malaysian Islamic banks, it appears that in today's business, ignoring the importance of CSR in business endeavors will give a bad impression to the business not only by the public but also by the shareholders and investors. This new global tactic may affect a bank's relationship with its clients and shareholders. There are market benefits and competitive advantages for those companies whose business policies integrate CSR (Ogrizek, 2004). It need to be reiterated here that being socially responsible is not limited to the Islamic banks in Malaysia alone but encompasses all Islamic banks in the world. Therefore, it is very essential for Islamic banks to be socially responsible to the society under their operation in a positive ways. This involvement will not only bring about the development to their operations but also to the society at large.

# 2.1 ISLAMIC BANKS CORPORATE SOCIAL RESPONSIBILITY AND SOCIETAL DEVELOPMENT

According to Farook (2007), Islamic banks corporate social responsibility was categorized into two major which are mandatory forms and recommended forms. The mandatory forms are; screening of investment, earning prohibited by Shari'ah, responsible dealing with clients, employee and zakat. Recommended forms on the other hand are; *qard hasan*, charitable activities, employee welfare, micro & small size business and social savings and investment. Other recommended forms are par excellence customer service, environmental impact based investment quotas, social impact based investment quotas, industry wise investment quotas, screening clients and contractors reduction of impact on the environment and waqf management.

However, this study focuses on one of the mandatory forms (i.e. zakat) and four of the recommended forms (i.e. *qard hasan*, charitable activities, social impact based investment quotas and micro & small size business and social savings and investment) in order to determine the impact of Islamic banks CSR on societal development in Malaysia. Thus, this section will stress on these five only.

#### **2.1.1 ZAKAT**

The principle of Zakat and the importance attached to it in Islamic law and teaching is such that it will be a welfare tax system for ensuring that the basic need of the less fortunate Muslims are met by the society (Mohamed 2009). Zakat is a fixed religious obligation calculated by reference to net assets (including cash) that have appreciated or have the capacity to appreciate in value over a specific period of time. This excludes assets that have been acquired for consumption or use in the production of revenues. Zakat is a religious obligation on wealth for every Muslim, including a child or an insane person, provided that the

<sup>&</sup>lt;sup>4</sup> Badlisyah Abdul Ghani (2012), Islamic Finance & CSR, World Islamic Finance Conference in London, UK.

net assets are liable for zakat (AAOIFI, 2008). Zakat serve as means or mechanism to transfer the wealth from the haves to have-nots in the society because Islam does not allow the concentration of wealth in the hand of few people while other people suffer. Moreover, the needy and the poor people can improve their living standard by receiving zakat money. Hence, with a better condition of life, they will have a higher chance to get a better education and knowledge as well as contributing to the way of Allah.

However, the importance of zakat cannot be ignored by the institutions, most especially IFIs because of the gravity of its capacity to improve the standard of living of the poor and needy. As a result of this, Allah has approved zakat and made it obligatory on those who are qualified to pay it including the institutions of this nature. Allah says:

قال تعالى:

"The believing men and believing women are allies of one another. They enjoin what is right and forbid what is wrong and establish prayer and give zakah and obey Allah and His Messenger. Those - Allah will have mercy upon them. Indeed, Allah is Exalted in Might and Wise" (al-Tawbah 71).<sup>5</sup>

It was also narrated by Ibn Abbas (RTA):

عَنْ زَكَرِيَّاءَ بْنِ إِسْحَاقَ، عَنْ يَحْيَى بْنِ عَبْدِ اللَّهِ بْنِ صَيْفِيِّ، عَنْ أَبِي مَعْبَدِ، عَن ابْنِ عَبَّاسٍ ـ رضى الله عنهما ـ أَنَّ النَّبِيَّ صلى الله عليه وسلم " ادْعُهُمْ إِلَى شَهَادَةِ أَنْ لاَ إِلَهَ إِلاَّ اللهُ، وَأَنِّي رَسُولُ اللهِ، فَإِنْ هُمْ أَطَاعُوا لِذَلِكَ فَأَعْلِمُهُمْ أَنَّ اللهَ اقْرَضَ عَلَيْهِمْ صَدَقَةً فِي أَمْوَالِهِمْ، تُوْخَذُ مِنْ أَغْنِيَائِهِمْ اقْتَرَضَ عَلَيْهِمْ خَمْسَ صَلَوَاتٍ فِي كُلِّ يَوْمٍ وَلَيْلَةٍ، فَإِنْ هُمْ أَطَاعُوا لِذَلِكَ فَأَعْلِمُهُمْ أَنَّ اللهَ افْتَرَضَ عَلَيْهِمْ صَدَقَةً فِي أَمْوَالِهِمْ، تُوْخَذُ مِنْ أَغْنِيَائِهِمْ وَتُرَدَّ عَلَى فَقَرَائِهِمْ ".

The Prophet (SAW) sent Mu`adh to Yemen and said, "Invite the people to testify that none has the right to be worshipped but Allah and I am Allah's Messenger (SAW), and if they obey you to do so, then teach them that Allah has enjoined on them five prayers in every day and night (in twenty-four hours), and if they obey you to do so, then teach them that Allah has made it obligatory for them to pay the Zakat from their property and it is to be taken from the wealthy among them and given to the poor" (Sahih al-Bukhari).

As it is wildly known, Islamic banks in Malaysia including other part of the world have been paying zakat to improve the welfare of their various societies. This was ascertained after reading through some of their financial report.

According to Hizamuddin, the managing director of bank Islam Malaysia berhad stated in banks Islam CSR 2012 report,

In 2009 a total of RM 8.9 million in zakat was contributed to a variety of causes, projects and events. And in 2010 a total of RM11.8 million was given out where the beneficiaries included State zakat authorities, mosque, Islamic institution and religious schools, nongovernmental organization, the less fortunate and needy homes through various charitable activities<sup>7</sup>

<sup>&</sup>lt;sup>5</sup> Translation of Sahih international

<sup>&</sup>lt;sup>6</sup> Sahih al-Bukhari 1396, Vol. 2, Book 24, Hadith 479, Available: http://sunnah.com/bukhari/24, Accessed on 19 January, 2013.

<sup>&</sup>lt;sup>7</sup> BIMB, (2012). "Corporate social responsibility report." available: www.bankislam.com.my/, accessed on 25 December 2012

The above statement has shown the contribution of bank Islam Malaysia Berhad to the society for 2009 and 2010 respectively.

Kahf (2007) argued that many Islamic banks also establish social funds, especially designed for relieving the economic hardship of the poor and needy. These funds are usually financed by the yearly zakat dues on shareholders' equity as well as many investment depositors who give their consent to the bank's management for the deduction and distribution of zakat annually.

Another study by Ahmed (2008) also asserts that the areas in which zakat can contribute in the macro-context would be improving the human capital through specific programs for the poor and vulnerable. Zakat also has a more significant role to play with regard to poverty alleviation strategies in the micro level such as providing education and skill development, health facilities, social services that improve the welfare of the poor, provision of physical capital (like a taxi, sewing machine, etc.), and making available financial capital to start a business so that the poor can be productively employed to earn a living.

#### 2.1.2 CHARITABLE ACTIVITIES

Charity in Islam means spending out of what Allah has given to individuals. It involves using the energy, talent, resources, money, possessions etc. to help and provide for those in need in order to improve their living standard and for equal participation in the society. As mentioned, Islam does not approve the concentration of wealth in the hand of few people while others are not able to fulfill their daily needs. Because of this, charitable activities policy of Islamic banks can serve as a means to provide for these needy in the society. In addition, charity has occupied an important position in Islam because Allah the Most High Has mentioned it in the *qur'an* as part of the responsibility of a good Muslim and this responsibility has been extended to the responsibility of IFIs. Allah says:

"So be pious to Allah as best as you can, (Literally: as much as you are able to) and give ear, and obey, and expend; (that is) most charitable (i.e., best) for yourselves. And whoever is protected against the avarice of his self, then those are they who are the prosperers" (al-Taghabun: 16).

It was also narrated by Abu Darda:

حَدَّثَنَا مُسْلِمُ بْنُ إِبْرَاهِيمَ، حَدَّثَنَا شُعْبَةُ، حَدَّثَنَا سَعِيدُ بْنُ أَبِي بُرُدَةَ، عَنْ أَبِيهِ، عَنْ جَدِّه، عَنِ النَّبِيِّ صلى الله عليه وسلم قالَ " عَلَى كُلِّ مُسْلِمٍ صَدَقَةٌ ". فَقَالُوا يَا نَبِيَّ اللَّهِ فَمَنْ لَمْ يَجِدْ قَالَ " يَعْمَلُ بِيدِه فَيَنْفَعُ نَفْسَهُ وَيَتَصَدَّقُ ". قَالُوا فَإِنْ لَمْ يَجِدْ قَالَ " يُعِينُ ذَا الْحَاجَةِ الْمَلْهُوفَ ". قَالُوا فَإِنْ لَمْ يَجِدْ. قَالَ " فَلْيَعْمَلُ بِالْمَعْرُوفِ، وَلْيُمْسِكُ عَنِ الشَّرِّ فَإِنَّهَا لَهُ صَدَقَةٌ

From his father from his grandfather that the Prophet (SAW) said, "Every Muslim has to give in charity." The people asked, "O Allah's Prophet! If someone has nothing to give, what will he do?" He said, "He should work with his hands and benefit himself and also give in charity (from what he earns)." The people further asked, "If he cannot find even that?" He replied, "He should help the needy who appeal for help." Then the people asked, "If he cannot do that?" He replied, "Then he should perform good deeds and keep away from evil deeds and this will be regarded as charitable deeds" (Sahih al-Bukhari).

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<sup>&</sup>lt;sup>8</sup> The translation of Dr. Ghali

<sup>&</sup>lt;sup>9</sup> Sahih al-Bukhari 1445 Vol. 2, Book 24, Hadith 524, Available: http://sunnah.com/bukhari/24, Accessed on 19 January, 2013.

However, as a representative institution that serves collective Islamic religious obligation, Islamic financial institutions have implemented CSR policy as part of their charitable activities in order to provide for the needy and to improve the society at large. According to AAOIFI standard (2008) on CSR of Islamic financial institutions, the provisions of charitable activities policy of IFIs may include matters pertaining to:

- Establishing a charity fund
- Establishing avenues for voluntary donations by donors (e.g. from depositors, shareholders, clients, contractors and employees) for the charity
- Establishing fund raising drives (emergency or otherwise) from employees) for the charity
- Establishing target groups, communities and institutions that require assistance, including those described in policy for social impact based investment quota and policy for environmental impact based investment quotas, means by which charity may be distributed to prospective donees,
- Contracting an agent or establishing a trust foundation to distribute funds to allocated charities.

More so, Kahf (2007) also claimed that the charitable activities of Islamic banks are also financed by interest that may accrue to the bank from its deposits in conventional banks and from certain transactions that the Shari'ah boards may find doubtful/suspicious from a Shari'ah point of view. This is on the ground that such earned interest cannot be taken by the bank and must be distributed as charity. His motion was supported by the standard of AAOFI discussed above that charitable funds of Islamic banks are usually also open to receiving donations from the public.

Another study of Farook (2007) also contended that IFIs are in a special position to source charitable funds, both from within and without the IFI, for deserving causes. With minimal financial outlay, IFIs are able to create charity accounts and fund raising drives for charity from customers and clients to complement their banking operations. This will allow IFIs to utilize their existing capacity for the benefit of society's most deserving individuals. In addition, Samina (2012) argued that Islamic banks should give charity to the fullest extent of their capacity.

From the Western perspectives, CSR also addresses at least the following areas: the environmental dimension, the human resource dimension, the philanthropic dimension, and the human rights dimension. The philanthropic dimension on the other hand include helping solve social problems, supporting charities and community projects, participating in management of public affairs and playing a role in society that goes beyond profit maximization (Dusuki 2011).

#### 2.1.3 QARD HASAN

Another distinctive characteristic of Islamic banking's social responsibility can be traced to its commendable commitment in providing *qard hasan* or benevolence loans to the needy (Dusiki 2011). AAOFI (2008) defined *qard hasan* as a non-interest bearing loan intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the period. Even though this is not well practiced by Islamic financial institutions due to high default rate from the beneficiaries, it's still considered as one of the commendable characteristic of IFIs which distinguish it from the conventional financial institutions.

Qard hasan financing is performed in order to improve the economic life of the financing participants. It is important to mention that the participants of qard hasan financing are the participants who have not the feasibility to obtain the other types of financing (such as mudharabah, musyarakah, murabahah financing) so they need to be helped by using qard hasan financing (Irawan & Arimbi 2012). In many places in the Holy Qur'an, Allah Has encouraged the Muslims to give qard hasan by assuring reward in this world and in the hereafter. Allah the Most High says:

قال تعالى: {مَّن ذَا الَّذِي يُقَرِضُ اللَّهَ قَرْضًا حَسَنًا فَيُضَلِعِفَهُ لَهُ أَضْعَافًا كَثِيرَةٌ وَاللَّهُ يَقْبِضُ وَيَبْصُّطُ وَالِيَّهِ تُرْجَعُون} البَقَرة 245 "Who is he that will loan to Allah a beautiful loan, which Allah will double unto his credit and multiply many times? It is Allah that giveth (you) want or plenty and to Him shall be your return" (Al-Baqar). 245). 10

It was also narrated by Abu Hurairah:

Abu Hurairah narrated that the Messenger of Allah said: "Whoever relieves a Muslim of a burden from the burdens of the world, Allah will relieve him of a burden from the burdens on the Day of Judgement. And whoever helps ease a difficulty in the world, Allah will grant him ease from a difficulty in the world and in the Hereafter. And whoever covers (the faults of) a Muslim, Allah will cover (his faults) for him in the world and the Hereafter. And Allah is engaged in helping the worshipper as long as the worshipper is engaged in helping his brother." <sup>11</sup>

However, as a financial intermediary, IFIs are in a special position in society to encourage *qard hasan* activities both within it and with its clients and customers. This is because IFIs are able to direct funds from depositors and customers and also allocate them to the neediest purposes (Farook, 2007). According to AAOIFI standard (2008) on CSR of Islamic financial institutions, IFIs may implement a CSR policy for *qard hasan* for social reasons. Therefore, as a representative institution that serves collective Islamic religious obligation, Islamic financial institutions need to improve on CSR policy relating to *qard hasan* and consider it as part of their charitable activities in order to provide for the needy and to improve the society at large.

## 2.1.4 SOCIAL IMPACT BASED INVESTMENT QUOTAS

Global Impact Investing Network (GIIN) defines social impact investments as investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. GIIN emphasizes that such investments could be made across sectors and industries both in the developed and developing world with varied returns on investments. An impact investor seeks to create social good or improve the health of the environment in addition to achieving financial returns. Exchange Asia (IIX), impact investment is still nascent in Asia but the industry is expected to grow significantly, reportedly to a US\$1 trillion asset class by 2020. In the control of the environment in the control of the environment in the control of the environment in addition to achieving financial returns. In the control of the environment in addition to achieving financial returns. In the control of the environment in addition to achieving financial returns. In the control of the environment in addition to achieving financial returns. In the control of the environment in addition to achieving financial returns. In the control of the environment in addition to achieving financial returns. In the control of the environment in addition to achieving financial returns.

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<sup>&</sup>lt;sup>10</sup> Translated by Sahih International

<sup>&</sup>lt;sup>11</sup> Jami` at-Tirmidhi, Chapters on Righteousness and Maintaining Good Relations with Relatives.

<sup>&</sup>lt;sup>12</sup> GIIN: http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html, accessed on 12 January, 2013.

<sup>&</sup>lt;sup>13</sup> IIEA, Impact Investing Integration, Vol. 9 Issue 27, available: http://www.asiaiix.com/impact-investing-integration/, accessed on 12 January, 2013.

<sup>&</sup>lt;sup>14</sup> IIEA, Impact Investing Integration, Vol. 9 Issue 27, available: http://www.asiaiix.com/impact-investing-integration/, accessed on 12 January, 2013.

AAOIFI standard (2008) on CSR of Islamic financial institutions stipulated that, Islamic banks should invest in industries that produce social, cultural or religious development. These policies may include quotas/targets for social-impact investments, based on the role that the investments play in:

- Assisting poor and needy individuals and families, by financing business opportunity and/or education
- Assisting orphans
- Assisting heavily indebted individuals or families with unfortunate circumstances
- Assisting in the provisioning of health and medical services to impoverished communities or areas
- Assisting in the development of research and education facilities, particularly those that utilize and empower disadvantaged individuals or communities
- Assisting the development of small and medium sized entrepreneur and family businesses
- Encouraging the development of Islamic and native societal culture, discouraging contemporary social ills and vices.

More so, IFIs can set aside a portion of their investment quota as a target for increasing investments in social impact based projects. Again, individual research undertaken by the banks could lead to an appreciation of the particular projects that have the greatest social impact (Farook, 2007).

# 2.1.5 MICRO AND SMALL SIZED BUSINESS, SOCIAL SAVINGS AND INVESTMENTS

Many believe that financing for micro-enterprises and SMEs is a natural niche for Islamic banking as it deals directly with the real economy, creates employment, involves the productive use of resources, especially capital and finance, and contributes to the alleviation of poverty (ITC 2009).

Access to financing is one of the major problems for SMEs especially for expansion and business development. In this regard, in order to facilitate the easy access to the fund and financing Government, Islamic commercial institutions provide loans for working capital, purchase of fixed assets and project financing (Ahcene, 2010).

Islamic banking is community oriented and entrepreneur-friendly, emphasizing productivity and the physical expansion of economic production and services. Hence, it shifts from the predominant practice of focusing on financial collateral or the financial worth of borrower to the entrepreneur's trustworthiness and the project's viability and usefulness. This feature has important implications for the distribution of credit as well as the stability of the system (Dusuki 2011). This policy has occupied an important position in Islam because Allah the Most High Has mentioned it in the *qur'an*:

قال تعالى:

لِلْفُقَرَآءِ الَّذِينَ أُحْصِرُواْ فِي سَبِيلِ اَشَّهِ لا يَسْتَطِيعُونَ ضَرْبًا فِي الْأَرْضِ يَحْسَبُهُمُ الْجَاهِلُ أَغْنِيَآءَ مِنَ التَّعَفُّفِ تَعْرِفُهُم بِسِيمَاهُمْ لَا يَسْتَلُونَ النَّاسَ إِلْمَافَةُ وَمَا تُنفِقُواْ مِنْ خَيْرِ فَإِنَّ اللَّهَ بِهِ عَلِيمٌ

"(Alms are) for the poor who are straitened for the cause of Allah, who cannot travel in the land (for trade). An ignorant [person] would think them self-sufficient because of their restraint, but you will know them by their [characteristic] sign. They do not beg of men with importunity. And whatsoever good thing ye spend, lo! Allah knoweth it" (Al-Baqara: 273).<sup>15</sup>

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<sup>&</sup>lt;sup>15</sup> Translated by Sahih International & Dr. Ghali.

However, Islamic financial Institutions are expected to provide assistance for poor and week units in the economy (Samina, 2012). This can be achieved most significantly through the financial empowerment of family units in the lowest echelons of society. Micro and medium sized business can usually be run by such families if given the appropriate seed capital to initiate business. IFIs can also make profitable divisions serving this class of clients, particularly because existing examples of conventional micro-credit banks are very successful (Farook, 2007). AAOIFI standard (2008) on CSR of Islamic financial institutions stipulated that, IFIs may implement a CSR policy to assist micro and small business and social savings and investments. The provisions of this policy may include matters pertaining to:

- Encouragement of micro and small business savings through special features and terms for these types of investment depositors.
- Encouragement of social savings for marriages, children's education, community based programs and other social welfare programs through special features and ters for these types of investment depositors.
- Encouragement of both micro and small business savings and types of investment depositors (e.g. saving deposit with higher rates of return and investment loans discounts etc.).
- Encouragement of both family savings and investment through combination features and terms for these types of investment depostors (e.g. savings deposit with higher rates of return and investment loan discounts etc.).

Therefore, Islamic banking and finance itself is perceived by a number of Muslims as a social enterprise whereby Islamic banks are expected to play a socially responsible role in the development process. Islamic banking is believed to have the great potential to be involved in microfinance programmes to cater for the needs of the poor who usually fall outside the formal banking sector (Dusuki, 2008).

#### 3. METHODOLOGY

The researchers used both primary and secondary data in order to achieve a credible study. Secondary data was used to obtain relevant information from the published annual reports of the Islamic banks understudy. Other secondary data includes academic books, journals, website information, articles and previous theses in CSR arena. Primary data on the other hand was used to elicit the respondents' opinions toward the impact of CSR of Islamic banks in Malaysia on societal development. Data obtained were subjected to both descriptive and inferential statistics using SPSS version 18.0.

# 4. ANALYSIS AND FINDINGS

#### 4.1 PROFILE OF THE RESPONDENTS

The respondents of this study were Islamic banks' managers, customers, employees and local community (that is, citizen). However, the total number of male as identified from the results were 92 and total number of female were 102 with 48% and 52% respectively. The proportion of the respondents who were Malay is 180 with 91.8%, Chinese is 6 with 3.1%, and Indian 3 with 1.5% and the proportion of others were 7 with 3.6%.

In addition to the above, the qualification of the respondents are as follows; primary school certification was 19 with 9.7%, higher school was 43 with 21.9%, diploma was 54 with 27.6%, Bachelor Degree was

62 with 31.6%, master degree was 18 with 9.2% and none of the respondents identified themselves as Ph.D. holder. More so, out of the respondents surveyed, 81 of them belong to Bank Islam Malaysia Berhad with 41.3%, 41 belong to CIMB Islamic Berhad with 20.9%, 23 belong to Bank Muamalat Malaysia Berhad with 11.7% and 51 belong to Maybank Islamic Berhad with 26%.

Furthermore, only two (2) out of four (4) managers filled and returned their questionnaires and the percentage of this two was 1.0% out of the whole respondents, customers were 137 with 69%, employees was 50 with 25.5% and member of local community was 7 with 3.7%. Even though the number of the participants who identified themselves as member of local community was the lowest among the targeted group, but the majority of the respondents were Malay and most of them preferred to identify themselves as the customer rather than member of local community. All demographic distribution are shown in table 4.2 below.

TABLE 4.1 PROFILES OF THE RESPONDENTS

Malay     180     91.8       Chinese     6     3.1       Indian     3     1.5       Others     7     3.6       Religion:        Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:      Primary school certificate     19     9.7       Higher school     43     21.9       Diploma     54     27.6       Bachelor degree     62     31.6       Master degree     18     9.2       Indicate the bank you belong to:     81     41.3       Bank Islam Malaysia Berhad     81     41.3       CIMB Islamic Berhad     41     20.9       Bank Muamalat Malaysia Berhad     23     11.7       Maybank Islamic Berhad     51     26.0       Do you have an account with another bank?     74.0       Yes     145     74.0	TABLE 4.1 PROFILES OF THE RESPONDENTS							
Male     94     48       Female     102     52       Age:     20 or below     7     3.6       20 or below     7     3.6     41.3       21-30     81     41.3     31.40       31-40     75     38.3       41-50     28     14.3       51 or Above     5     2.6       Race:     8     14.3       Malay     180     91.8       Chinese     6     3.1       Indian     3     1.5       Others     7     3.6       Religion:     8     1.5       Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:     9.7       Primary school certificate     19     9.7       Highest school     43     21.9       Diploma     54     27.6       Bachelor degree     62     31.6       Master degree     18     9.2       Indicate the bank you belong to:     81     41.3       Bank Islam Malaysia Berhad     41     20.9       Bank Muamalat Malaysia Berhad     41     20.9       Bank Muamalat Malaysia Berhad     41     26.0		Frequency	Percentage					
Female         102         52           Age:         20 or below         7         3.6           21-30         81         41.3           31-40         75         38.3           41-50         28         14.3           51 or Above         5         2.6           Race:         8         8           Malay         180         91.8           Chinese         6         3.1           Indian         3         1.5           Others         7         3.6           Religion:         1slam         193         98.5           Buddhism         2         1.0           Others         1         0.5           Highest qualification:         9.7         Higher school certificate           Primary school certificate         19         9.7           Higher school         43         21.9           Diploma         54         27.6           Bachelor degree         62         31.6           Master degree         18         9.2           Indicate the bank you belong to:         81         41.3           Bank Islam Malaysia Berhad         41         20.9								
Age:     20 or below     7     3.6       21-30     81     41.3       31-40     75     38.3       41-50     28     14.3       51 or Above     5     2.6       Race:     81     80     91.8       Malay     180     91.8     91.8       Chinese     6     3.1     1.5       Others     7     3.6     3.6       Religion:     81     98.5       Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:     9.7       Primary school certificate     19     9.7       Higher school     43     21.9       Diploma     54     27.6       Bachelor degree     62     31.6       Master degree     18     9.2       Indicate the bank you belong to:     81     41.3       CIMB Islamic Berhad     41     20.9       Bank Islam Malaysia Berhad     41     20.9       Bank Muamalat Malaysia Berhad     51     26.0       Do you have an account with another bank?     74.0       Yes     145     74.0	Male	94	48					
20 or below     7     3.6       21-30     81     41.3       31-40     75     38.3       41-50     28     14.3       51 or Above     5     2.6       Race:     81     81       Malay     180     91.8       Chinese     6     3.1       Indian     3     1.5       Others     7     3.6       Religion:     81     98.5       Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:     9.7       Primary school certificate     19     9.7       Higher school     43     21.9       Diploma     54     27.6       Bachelor degree     18     9.2       Indicate the bank you belong to:     8     9.2       Bank Islam Malaysia Berhad     81     41.3       CIMB Islamic Berhad     81     41.3       CIMB Islamic Berhad     41     20.9       Bank Muamalat Malaysia Berhad     51     26.0       Do you have an account with another bank?     74.0       Yes     145     74.0	Female	102	52					
21-30     81     41.3       31-40     75     38.3       41-50     28     14.3       51 or Above     5     2.6       Race:     ****       Malay     180     91.8       Chinese     6     3.1       Indian     3     1.5       Others     7     3.6       Religion:     ***       Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:     ***       Primary school certificate     19     9.7       Higher school     43     21.9       Diploma     54     27.6       Baachelor degree     62     31.6       Master degree     18     9.2       Indicate the bank you belong to:     **       Bank Islam Malaysia Berhad     81     41.3       CIMB Islamic Berhad     41     20.9       Bank Muamalat Malaysia Berhad     51     26.0       Do you have an account with another bank?     **     74.0								
31-40     75     38.3       41-50     28     14.3       51 or Above     5     2.6       Race:        Malay     180     91.8       Chinese     6     3.1       Indian     3     1.5       Others     7     3.6       Religion:         Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:         Primary school certificate     19     9.7       Higher school     43     21.9       Diploma     54     27.6       Bachelor degree     62     31.6       Master degree     18     9.2       Indicate the bank you belong to:        Bank Islam Malaysia Berhad     81     41.3       CIMB Islamic Berhad     41     20.9       Bank Muamalat Malaysia Berhad     51     26.0       Do you have an account with another bank?     74.0       Yes     145     74.0								
41-50     28     14.3       51 or Above     5     2.6       Race:	21-30	81	41.3					
51 or Above     5     2.6       Race:	31-40	75	38.3					
Race:       Malay       180       91.8         Chinese       6       3.1         Indian       3       1.5         Others       7       3.6         Religion:       193       98.5         Islam       193       98.5         Buddhism       2       1.0         Others       1       0.5         Highest qualification:       1       9.5         Primary school certificate       19       9.7         Higher school       43       21.9         Diploma       54       27.6         Bachelor degree       62       31.6         Master degree       18       9.2         Indicate the bank you belong to:       81       41.3         Bank Islam Malaysia Berhad       81       41.3         CIMB Islamic Berhad       41       20.9         Bank Muamalat Malaysia Berhad       51       26.0         Do you have an account with another bank?       145       74.0	41-50	28	14.3					
Malay     180     91.8       Chinese     6     3.1       Indian     3     1.5       Others     7     3.6       Religion:        Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:      Primary school certificate       Primary school certificate     19     9.7       Higher school     43     21.9       Diploma     54     27.6       Bachelor degree     62     31.6       Master degree     18     9.2       Indicate the bank you belong to:     81     41.3       Bank Islam Malaysia Berhad     81     41.3       CIMB Islamic Berhad     41     20.9       Bank Muamalat Malaysia Berhad     23     11.7       Maybank Islamic Berhad     51     26.0       Do you have an account with another bank?     74.0       Yes     145     74.0	51 or Above	5	2.6					
Chinese       6       3.1         Indian       3       1.5         Others       7       3.6         Religion:       Islam       193       98.5         Buddhism       2       1.0         Others       1       0.5         Highest qualification:       Primary school certificate       19       9.7         Higher school       43       21.9         Diploma       54       27.6         Bachelor degree       62       31.6         Master degree       18       9.2         Indicate the bank you belong to:       81       41.3         CIMB Islamic Berhad       81       41.3         CIMB Islamic Berhad       41       20.9         Bank Muamalat Malaysia Berhad       41       20.9         Bank Muamalat Malaysia Berhad       51       26.0         Do you have an account with another bank?       74.0       74.0	Race:							
Indian     3     1.5       Others     7     3.6       Religion:        Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:         Primary school certificate     19     9.7       Higher school     43     21.9       Diploma     54     27.6       Bachelor degree     62     31.6       Master degree     18     9.2       Indicate the bank you belong to:        Bank Islam Malaysia Berhad     81     41.3       CIMB Islamic Berhad     41     20.9       Bank Muamalat Malaysia Berhad     23     11.7       Maybank Islamic Berhad     51     26.0       Do you have an account with another bank?     74.0       Yes     145     74.0	Malay	180	91.8					
Others         7         3.6           Religion:         Islam         193         98.5           Buddhism         2         1.0           Others         1         0.5           Highest qualification:         Primary school certificate         19         9.7           Higher school         43         21.9           Diploma         54         27.6           Bachelor degree         62         31.6           Master degree         18         9.2           Indicate the bank you belong to:         81         41.3           Bank Islam Malaysia Berhad         81         41.3           CIMB Islamic Berhad         41         20.9           Bank Muamalat Malaysia Berhad         23         11.7           Maybank Islamic Berhad         51         26.0           Do you have an account with another bank?         74.0           Yes         145         74.0	Chinese	6	3.1					
Religion:     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:     9.7       Primary school certificate     19     9.7       Higher school     43     21.9       Diploma     54     27.6       Bachelor degree     62     31.6       Master degree     18     9.2       Indicate the bank you belong to:     81     41.3       Bank Islam Malaysia Berhad     81     41.3       CIMB Islamic Berhad     41     20.9       Bank Muamalat Malaysia Berhad     23     11.7       Maybank Islamic Berhad     51     26.0       Do you have an account with another bank?     74.0       Yes     145     74.0	Indian	3	1.5					
Islam     193     98.5       Buddhism     2     1.0       Others     1     0.5       Highest qualification:	Others	7	3.6					
Buddhism     2     1.0       Others     1     0.5       Highest qualification:	Religion:							
Others         1         0.5           Highest qualification:         9.7           Primary school certificate         19         9.7           Higher school         43         21.9           Diploma         54         27.6           Bachelor degree         62         31.6           Master degree         18         9.2           Indicate the bank you belong to:         81         41.3           Bank Islam Malaysia Berhad         41         20.9           Bank Muamalat Malaysia Berhad         23         11.7           Maybank Islamic Berhad         51         26.0           Do you have an account with another bank?         74.0           Yes         145         74.0	Islam	193	98.5					
Highest qualification:       19       9.7         Primary school certificate       19       9.7         Higher school       43       21.9         Diploma       54       27.6         Bachelor degree       62       31.6         Master degree       18       9.2         Indicate the bank you belong to:       81       41.3         Bank Islam Malaysia Berhad       81       41.3         CIMB Islamic Berhad       41       20.9         Bank Muamalat Malaysia Berhad       23       11.7         Maybank Islamic Berhad       51       26.0         Do you have an account with another bank?       145       74.0	Buddhism	2	1.0					
Primary school certificate       19       9.7         Higher school       43       21.9         Diploma       54       27.6         Bachelor degree       62       31.6         Master degree       18       9.2         Indicate the bank you belong to:       81       41.3         Bank Islam Malaysia Berhad       41       20.9         Bank Muamalat Malaysia Berhad       23       11.7         Maybank Islamic Berhad       51       26.0         Do you have an account with another bank?       74.0         Yes       145       74.0	Others	1	0.5					
Higher school       43       21.9         Diploma       54       27.6         Bachelor degree       62       31.6         Master degree       18       9.2         Indicate the bank you belong to:       81       41.3         Bank Islam Malaysia Berhad       41       20.9         Bank Muamalat Malaysia Berhad       23       11.7         Maybank Islamic Berhad       51       26.0         Do you have an account with another bank?       145       74.0	Highest qualification:							
Diploma       54       27.6         Bachelor degree       62       31.6         Master degree       18       9.2         Indicate the bank you belong to:       Bank Islam Malaysia Berhad       81       41.3         CIMB Islamic Berhad       41       20.9         Bank Muamalat Malaysia Berhad       23       11.7         Maybank Islamic Berhad       51       26.0         Do you have an account with another bank?       74.0         Yes       145       74.0		19	9.7					
Diploma       54       27.6         Bachelor degree       62       31.6         Master degree       18       9.2         Indicate the bank you belong to:       81       41.3         Bank Islam Malaysia Berhad       41       20.9         Bank Muamalat Malaysia Berhad       23       11.7         Maybank Islamic Berhad       51       26.0         Do you have an account with another bank?       74.0	Higher school	43	21.9					
Bachelor degree 62 31.6 Master degree 18 9.2 Indicate the bank you belong to: Bank Islam Malaysia Berhad 81 41.3 CIMB Islamic Berhad 41 20.9 Bank Muamalat Malaysia Berhad 23 11.7 Maybank Islamic Berhad 51 26.0 Do you have an account with another bank? Yes 145 74.0		54	27.6					
Master degree189.2Indicate the bank you belong to:8141.3Bank Islam Malaysia Berhad4120.9Bank Muamalat Malaysia Berhad2311.7Maybank Islamic Berhad5126.0Do you have an account with another bank?74.0		62	31.6					
Bank Islam Malaysia Berhad CIMB Islamic Berhad Bank Muamalat Malaysia Berhad Bank Muamalat Malaysia Berhad Bank Muamalat Malaysia Berhad Do you have an account with another bank? Yes  145  41.3 20.9 11.7 26.0  74.0		18	9.2					
Bank Islam Malaysia Berhad CIMB Islamic Berhad Bank Muamalat Malaysia Berhad Bank Muamalat Malaysia Berhad Bank Muamalat Malaysia Berhad Do you have an account with another bank? Yes  145  41.3 20.9 11.7 26.0  74.0	Indicate the bank you belong to:							
CIMB Islamic Berhad 41 20.9 Bank Muamalat Malaysia Berhad 23 11.7 Maybank Islamic Berhad 51 26.0 Do you have an account with another bank? Yes 145 74.0		81	41.3					
Bank Muamalat Malaysia Berhad 23 Maybank Islamic Berhad 51 26.0  Do you have an account with another bank? Yes 145 74.0		41	20.9					
Maybank Islamic Berhad 51 26.0  Do you have an account with another bank?  Yes 145 74.0								
Do you have an account with another bank? Yes 145 74.0			26.0					
another bank? Yes 145 74.0								
N	Yes	145	74.0					
No 51 26.0	No	51	26.0					
Indicate your banking								
relationship:								

Manager	2	1.0
Customer	137	69.9
Employee	50	25.5
Member of local community	7	3.6

# 4.2 MULTIPLE REGRESSION ANALYSIS

The multiple regression analysis was also used to investigate the impact of Islamic banks' zakat, charitable activities, *qard hasan*, social impact based investment quotas and micro & small sized business, social savings and investments policies on the Malaysian societal development. The following

**TABLE 4.2: COEFFICIENTS** 

	Unstandardized Coefficients		Standardi zed Coefficie nts			95% Cor Interva		Co	rrelatio	ns	Collin Statis		
Mod	del	В	Std. Error	Beta	Т	Sig.	Lower Bound	Upper Bound	Zero- order	Partial	Part	Tolera nce	VIF
1	(Consta nt)	1.057	.633		1.669	.097	192	2.307					
	ZP	.315	.076	.152	4.119	.000	.164	.466	.628	.290	.123	.656	1.524
	QHP1	1.000	.118	.301	8.492	.000	.767	1.232	.679	.530	.254	.712	1.405
	CAP	.320	.057	.237	5.630	.000	.208	.432	.745	.382	.168	.504	1.983
	SIBIQ P	.130	.023	.251	5.743	.000	.085	.175	.760	.389	.172	.467	2.142
	MIBSS IP	.329	.058	.234	5.716	.000	.216	.443	.714	.387	.171	.533	1.876

a. Dependent Variable:

SD

table contained the important results of this analysis.

# 4.3 RESULTS SUMMARY

The aim of this section is to provide the summary of major findings in this paper. Such findings are discussed based on the statistical results shown below and in the context of the literature review.

TABLE 4.3 SUMMARY OF THE HYPOTHESIS TESTING

Hypothesis Statement	Adj R <sup>2</sup>	Sig. Level	Description
Islamic banks' zakat policy	.391%	0.000	Accepted
Societal Development= $\alpha + \beta ZP + \varepsilon$			
Islamic banks Qard hasan policy	.458%	0.000	Accepted
Societal Development= $\alpha + \beta QAP + \varepsilon$			
Islamic Banks' Charitable Activities Policy	.553%	0.000	Accepted
Societal Development= $\alpha + \beta CAP + \varepsilon$			
Islamic banks' Social Impact Based	.576%	0.000	Accepted
Investment Quotas Policy			
Societal Development= $\alpha + \beta SIBIQP + \varepsilon$			
Islamic Banks' Micro & Small Sized	.508%	0.000	Accepted
Business, Social Savings and Investments			
Policy			
Societal Development= $\alpha + \beta MBSSIP + \varepsilon$			

By achieving the objective of the study, the above findings support the study of Dusuki and Dar (2005) which proved that corporate social responsibility is not an alien to Islamic banking. It also proved that Islamic banks in Malaysia are versatile in discharging their responsibility to their stakeholders as recommended by Farook (2007).

#### 5. CONCLUSION

This research was conducted in order to study the impact of the Islamic banks' corporate social responsibility on the societal development in Malaysia. In order to achieve this aim, researchers structured this paper into five main sections in which section one contained the introductory aspect of the study, section two was basically on reviewing the literature of the past study within the scope of the study, section three was on the methodology used to achieve the aims of this study, while findings of the various analysis was presented under section four and section five contained the conclusion and recommendation for this study.

However, multivariate techniques of the statistics were employed to test whether there is a significant relationship between the Islamic banks' corporate social responsibility and societal development. The variables used to investigate this objectives were Islamic banks' zakat policy, *qard hasan* policy, charitable activities policy, social impact based investment quotas policy and micro and small sized business, social savings and investments policy. All these variables were linked with the societal development and it was found that there was a significant relationship between the dependent and independent variables. Therefore, the objective of this study was achieved because there was a significant relationship between the Islamic banks corporate social responsibility and societal development.

#### 5.1 RECOMMENDATION

As mentioned, the result of this study was all significant. As a result, the researchers argued that the importance of Islamic banks' CSR cannot be overemphasized. But this does not mean that Islamic banks have extremely contributed to the society of Malaysia and they are therefore recommended to improve more extensively in supporting the needy, businesses and the entire society as a whole.

More so, the Islamic banks from other part of the world are as well recommended to emulate the Islamic banks in Malaysia in supporting the needy and the societies of their respective countries so as to achieve the aim and objective of Shari'ah.

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# EFFICIENCY OF BAITUL MAAL WA TAMWIL (BMT): AN EFFORT TOWARDS ISLAMIC WEALTH MANAGEMENT IN MICROFINANCE INSTITUTION

Atiqi Chollisni Nasution<sup>1</sup>

#### **ABSTRACT**

The primary objective of most microfinance program is alleviating the poverty by assisting the poor to be economically independent. Measuring efficiency of microfinance program is important for enabling the microfinance institutions (MFIs) to strengthen management, generate the profits and maintain an efficient operation to ensure its sustainability. In the last twenty years, the growth of BMTs increases significantly and has contributed positively to the development of socio economic of the country. Recently, there are around 4,000 BMTs operate and have enhanced thousand poor people life. BMTs responsible in collecting, managing and distributing the funds either for charity or providing financial services for the poor. The main aim of the paper is to examine the efficiency of Baitul Maal wa Tamwil (BMT) as Islamic microfinance institution in Indonesia and explain BMT's effort towards Islamic wealth management by applicating Islamic principles on its programs. Data Envelopment Analysis (DEA) is used to examine the relative efficiency of the selected BMTs. DEA is a non-parametric method which utilizes the linear programming method to measure technical (technological) efficiency and requires inputs and outputs data. Twelve BMTs are chosen as the sample of the study as it represents the biggest BMT's operated in the poorest provinces. The study indicated that financing and human resources were some sources of inefficiency in BMT. It also indicated that the efficient BMTs applicated the Islamic wealth management where focus on wealth of members and customers based on Islamic principles are the priority. Inefficient BMTs are expected to optimize its operations by emulating the input minimization and output maximization practices adopted by efficient BMTs.

**Keywords:** microfinance, efficiency, DEA, Islamic wealth management, BMT

#### 1. INTRODUCTION

The Islamic approach to eradication of poverty and achievement of an equitable distribution of income and wealth is part of an overall scheme for the establishment of a socio economic order (Ahmad,1991). Islam has stated that the balance of human life is main priority. It should be stand to the accomplishment of basic human needs and justice in human life. It means that Islam does not only manage the ritual activities between human and God but it also manages the daily activities of human where the Islamic ethics is involved on it.

Islamic finance offers various ethical schemes and instruments that can be advanced and adopted for the purpose of microfinance (Abdul Rahman, 2007). Islamic MFIs do not aim to reduce the poverty in material aspect only but they also attempt to motivate the microentrepreneurs (poor people) to be thriving by assisting them to adhere with Islamic norms and values.

The term of alleviating the poverty in Islamic perspectives entails spiritual aspect is more important than material aspects. A hadiths<sup>2</sup> narrated by Abu Hurairah (as quoted on Mannan,

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1988) said that; "Indeed, the real richness is that of the heart (spiritual) itself". On the other word, the real wealth in Islamic perspectives is not only in material aspects but also the spiritual concern. Wealth management can be defined as how the person manage it's wealth to give as much return. In conventional perspectives, anything that give a return is considered as income without considers the sources are halal or haram. Meanwhile, Islamic wealth management helps to ensure that a person's wealth is managed in such a way that consistent with the Islamic norms and value.

The concept of Islamic wealth management is consistent with the role of Baitul Maal wa Tamwil (BMT) in Indonesia cause it based on cooperative model. The model focuses on customer's welfare as the priority. Using Islamic principles in all activities, BMT attempts to reduce the poverty by increasing the material and spiritual aspect of the poor people. They do not only disburse the loan for the poor but also assist the poor to manage its wealth (source of funds from the micro financing) based on Islamic principles. The fully assistance of BMT to its member by educating them in managing the funds, indicates the effort of BMT to increase the welfare of its member. It is also meant that BMT has moved forward to improve the economic condition of a person especially assist the poor to improve its norms and faith as a worship to Allah SWT.

Historically, BMT's movement was started around 1990's and the number grows rapidly with totally around 4,000 BMTs operate in the country. However, most of BMTs are not working well and some of them are collapsed. It indicates that the growth of BMTs is not consistent with the quality development of its performance. Therefore, BMT's performance needs to be evaluated in order to find out the problems and inefficiency matters. Especially the evaluation of BMT's efficiency and effectiveness in order to indicate the health of this institution that can be effect to its Islamic wealth management.

The structure of the paper is divided into four sections. The next section provides an overview of BMTs in Indonesia and literature on efficiency and Islamic wealth management. Section three discusses the methodology while section four explains the findings. The last section is the conclusion.

# 2. LITERATURE REVIEW

Asian Development Bank (ADB) (2000) defines poverty as characterized by a lack of access to essential goods, service, assets and opportunities to which being is entitled. On the other word, someone is considered poverty when they are absence of the items in the list of necessities (basic needs). Microfinance provides financial services to the poor through delivering financial services in micro and small sized enterprise.

Baitul Maal wa Tamwil (BMT) is established to help muslim micro-entrepreneurs as a strategy for eradicating rural poverty (Kholis, 2009). As Islamic MFI, BMT divides its role into two functions; social and economic mission. The social missions is operated by Baitul Maal where collecting and distributing the charity fund (zakah, infaq, shodaqoh) to the poor is the main tasks. Whilst, Baitut Tamwil operates based on commercial activities, where the funds are managed to be productive and profitable.

The basic operation of BMT follows cooperative model, where all of persons that involve in BMTs are members (e.g staffs and customers). As member of BMT, they have responsible to

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<sup>&</sup>lt;sup>2</sup> Hadiths is the words or the acts of Prophet Muhammad (pbuh) that should be followed by muslim and as guidance to their daily activities. The revelation given to Prophet Muhammad (pbuh) is based on circumstances that are suitable with the process of Islamic propagation (Solihin, 2008)

pay the membership fee. The fees will support the BMT's mission to highlight the members welfare by optimalizing their contribution fee on BMT's commercial activities.

Some studies indicated that BMT's performance was relatively low. It was confirmed by the lack of management (Widiyanto and Ismail, 2010), lack of supervision and development assistance (Kholis, 2009; Amalia, 2009). To evaluate the performance of a financial institution, Berger and Humphrey (1997) suggested to separate those production units that are performing well from those that are performing poorly. For an MFI, efficiency analysis is useful to know if MFIs are well performing and if they can in the long run survive autonomously (Sedzro and Keita, 2009).

In term of efficiency, economic efficiency is defined in economic theory as a term describing how well a system in performing, in generating the maximum desired outputs for given inputs with available technology (Wahab and Abdul Rahman, 2012). The question is coming out when the assessment of an Islamic MFI is needed. How we assess that Islamic MFIs are efficient in contributing its role in economic and social, is one of the question that should be investigated more. In fact, most of previous studies were more concerned on evaluating the efficiency of conventional MFIs whereas evaluating the efficiency of Islamic MFIs are still limited.

The prior studies used Data Envelopment Analysis (DEA) method to measure the efficiency of MFIs and covered a sample period of two to five years. DEA is a non-parametric method which utilize the linear programming method to measure technical (technological) efficiency and requires inputs and outputs data. Study by Qoyyum and Ahmad (2006), Hassan and Sanchez (2009) and Haq and Skully (2009) analyzed the efficiency of MFIs in some countries and indicated that DEA method can identify the problems and improve the MFI's functions.

Moreover, there were two studies that only concerned on one country, such Nghiem et.al (2006) analyzed the efficiency of MFIs in Bangladesh and Widiyanto (2007) that explored efficiency of BMTs in Indonesia. Both of them summarized that measuring the efficiency of MFIs has helped them to analyze the best practices of each MFI. Therefore, measuring efficiency of Islamic MFIs is an important effort to enhance the functions of this institution for the ummah and for the future studies in the area of Islamic MFIs.

Additionally, the concept of Islamic wealth management (IWM) could strengthen the role of Islamic MFIs. As it has mentioned before that IWM helps to ensure that a person's wealth is managed in such a way that consistent with the Islamic norms and value. Islamic MFI distributes the loan to the poor from and halal sources and make sure the loan is used in the ethical scheme (Islamic principles). Meanwhile, IWM helps Islamic MFI in managing the loan (as the wealth) of the poor to be develop and securing the benefit of the loan. It can be clearly stated by the scheme as follows:



Source: Money Compas (2010)

Shariah rules will protect the public interest by securing of benefits and removing the harm. Securing of benefits means that the benefits of the loan that used by the poor people should be

useful for his self and also beneficial for public.<sup>3</sup> Moreover, removing the harm earns that every transaction or investment of MFI's loan must avoid any transactions that involves gambling, harm or unclear investment. However, being compliant to shariah law does not limit a person's opportunity to invest as it actually helps a person to make ethical investment whereby the chosen business will be involved in ethical practice (Money Compas, 2010).

#### 3. RESEARCH METHODOLOGY

Based on some literatures, there are two approaches in measuring the efficiency, they are non-parametric approach and parametric approach:

- 1. The non-parametric approach. This approach is utilizing the linear programming method to measure technical (technological) efficiency which require inputs and outputs data only. This approach uses two types of analysis; Data Envelopment Analysis (DEA) and Free Disposal Hull Analysis (FDH)
- 2. The parametric approach. This approach is using econometric techniques to measure economic efficiency. Since economic efficiency requires information on technical and allocative efficiency, this method is considered broader than non-parametric approach. Based on market price, this approach involves in choosing the optimal level and structure of inputs and outputs. This approach uses three of analysis; Stochastic Frontier Analysis (SFA), Thick Frontier Analysis (TFA) and Distribution Free Approach Analysis (DFA).

The most popular approach that is widely used is Data Envelopment analysis (DEA). It is a linear programming technique where a set of the best practices or frontier observations are those for which no other decision making units or linear combination of units has a much or more every output (given inputs) or a little or less of every input (given output) (Berger and Humphrey,1997). DEA also can be defined as a linear programming model, assuming no random mistakes, used to measure technical efficiency (Vincova, 2005).

DEA is used to examine the relative efficiency of the selected BMTs. DEA is a non-parametric method which utilize the linear programming method to measure technical (technological) efficiency and requires inputs and outputs data. It is calculated by using Constant Return Scale (CRS) and Variable Return Scale (VRS) model. Charnes, Cooper and Rhodes (1978) or CCR defined Data Envelopment Analysis (DEA) as a mathematical programming model applied to observational data that provides a new way of obtaining empirical estimates of relations such as the production functions and/or efficient production possibilities surfaces that are conner stones of modern economics. While, in Banker, Charnes, and Cooper (1984) or is called as BCC model, the calculation of efficiency is called Pure Technical Efficiency (PTE).

CCR assumes ratio of additional input and output is equal or constant return to scale (CRS) or DMUs is at optimal scale, while BCC argues ratio of additional input and output is non-equal or variable return to scale (VRS). In addition, CCR model represents multiplication of Pure Technical Efficiency (PTE) and Scale Efficiency (SE) while BCC model examines Technical Efficiency (TE) only.

Technical efficiency (TE) describes the ability of a business unit to maximize output given certain amount of input or minimize its inputs given outputs. Hasan and Sanchez (2009)

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<sup>&</sup>lt;sup>3</sup> For example; if the loan that used by the poor people grow and develop, the benefit of the loan could create a wealth for the person. In Islamic principles, the wealth should be shared to other people who need it by distributing the charity (shadaqah) or could be used for opening the work field for the unemployment. Secure the benefit of loan will avoid economic discrepancy and protect the public interest.

defined pure technical efficiency (PTE) to firm's ability to avoid waste by producing as much output as input usage allows, or by using as little input as output production allows. While Scale efficiency (SE) is defined as proportional reduction if the firm or bank achieved constant return to scale (CRS) or refers to the firm's ability to work at its optimal scale.

# a. The Constant Return To Scale (CRS)

The CRS assumes when all DMUs are operating at optimal scale. To define some notation, Coelli (1996) started by assuming data on K inputs and M outputs on each of N firms or DMUs. For the i-th DMU, it stated by the vectors xi and yi. Moreover, the data of all N DMUs represented by the KxN input matrix, X and the MxN output matrix, Y. Coelli (1996) also mentioned that the best way to introduce DEA is via the ratio form. For each DMU, a measure of the ratio of all inputs, such as u'yi/v'xi, where u is a Mx1 vector of output weights and v is a Kx1 vector of input weights. The input oriented measure of a particular DMU, under CRS, is calculated by:

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\begin{array}{ll} \text{Min } \theta, \lambda \ , \theta \\ \text{St} & -yi + Y \ \lambda \! \geq \! 0, \\ \theta xi - X\lambda \! \geq \! 0, \\ \lambda \! > \! 0 \end{array}
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where  $\theta$  is a scalar and  $\lambda$  is a Nx1 vector of constant (Coelli, 1996). If  $\theta$  =1, the DMU is considered is efficient which lies on the frontier (technical efficient). Meanwhile, if  $\theta$  < 1, DMU is inefficient, thus, it need a 1 –  $\theta$  reduction in the inputs levels to reach the frontier. It should be noted that the linear programming problem must be solved N times, once for each DMU in the sample.

#### **b.** The Variable Return to Scale (VRS)

The use of CRS which considered all DMUs are at optimal scale, might encourage the result of TE confounded by SE. It can happen when DMU is in imperfect competition, constraints on finance, etc. Therefore, the use of VRS which was promoted by Banker, Charnes, and Cooper (1984) attempt to calculate TE that devoid the SE effects. Based on CRS linear programming problem, the VRS can be calculated by adding the convexity constraint :  $N1'\lambda = 1$  to provide:

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\begin{array}{ll} Min\;\theta,\lambda,\theta\\ St & -yi+Y\lambda \geq 0\\ \Theta xi-X\lambda \geq 0,\\ N1'\lambda = 1\\ \lambda \geq 0, \end{array}
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where N1 is an Nx1 vector of ones. This model provides TE scores which are greater than or equal to CRS model, it caused by a convex hull intersecting planes which envelope the data points more tightly than the CRS conical hull.

DEA method is choosen for this study due to its useful features when it applied such each decision making unit  $(DMU)^4$  is assigned a single efficiency score and highlights the areas of improvement for each single DMU. The formula of DEA method is as follows;

#### **Efficiency of DMU** =

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p

Σ μk yk0 DMU = decision making unit k=1 m = different inputs
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<sup>&</sup>lt;sup>4</sup> DMU on this study is BMTs

m p = different outputs  $\Sigma$  vi xi0 n = number of DMU evaluated i=1 xij = number of input I consumed by DMUj yij = number of output k produced by DMUj

The concept of DEA considers that the most efficient firm is indicated by the score of 1 and generating best practice outputs among the rest of firms in the given sample. To measure the efficiency of an MFI, DEA method requires the approach in production or intermediation. Production approach considers financial institutions as a production unit, whilst intermediation approach deliberates financial institutions as intermediating between savers and borrowers. Moreover, DEA method also requires the inputs and outputs to measure the efficiency. This study argues that intermediating approach is suitable to measure the efficiency of BMTs due to its role as an intermediary between the borrowers and MFI. Two inputs and two outputs will be analyzed to measure BMT's efficiency by using DEA method. the inputs and outputs that proposed by this study are as follows:

Table 1: The Inputs and Outputs of the Study

INPUTS	OUTPUTS
<b>Fixed assets</b> ; represents the support of fixed	Disbursement of loans; represents the
assets to BMT's operations	BMT's activities in distributing the loan
Total Capital; represents total funds that have	Total profit sharing; represents the
been collected	achievement of BMTs to acquire profit
to support BMT's activities	and financial sustainability

#### 4. DATA ANALYSIS

The data needed for the empirical analysis comes from 14 BMT's financial statement. These fortheen BMTs are chosen as the sample of the study as it represents the biggest BMT's operated in the poorest provinces. Most of these BMTs have established well where they have operated more than five years, have asset more than Rp 1 billion and have served more than 500 borrowers (poor people).

In order to calculate the level of efficiency of BMTs, this study applies DEAP version 2.1 proposed by Coelli (1996). Data is taken from BMT's annual report 2009-2011. Table 2 provides the technical efficiency of BMTs .

Table 2: Technical Efficiency in BMTs 2009 – 2011 (Constant and Variable Return to Scale)

		(00115111111111111111111111111111111111					
Year	Sample	TE	PTE	SE			
	Size	Mean of sample	Mean of sample	Mean of sample			
		CRS	VRS				
2000	1.4	0.502	0.665	0.000			
2009	14	0.593	0.667	0.898			
2010	14	0.628	0.743	0.842			
2011	14	0.729	0.825	0.890			
Mean		0.650	0.745	0.877			

Table 3 provides the means of TE under the assumption of CRS, while PTE and SE under the assumption of VRS. Between 2009 to 2011, the mean TE under the assumption of CRS ranged from 59.3 % and 72.9%. Taking the TE in 2009 as example, the conclusion can be

explained that the BMTs on average have produce the same level of output by actually using only 65 % of the input mix. In other conclusion, it can be explained that in 2004, on average the BMTs were still 27.1% technically inefficient.

Moreover, under the assumption of VRS, between 2009 and 2011 the PTE ranged between 66.7% and 82.5%. VRS rating is obtained when we control for the scale size of the DMU. Furthermore, the TE in BMTs seems increases every year from 2010 to 2010. As it is noted that TE 62.8% in 2010 as compared to the mean TE in 2009 that only 59.3%. The same trend is showed by the mean of PTE that the number is growing every year. On the other hand, the mean of SE is decreasing in 2010 compared to 2009, then, it further increase again in 2011. In order to find the efficient BMTs in three provinces, the next table will explain the efficiency measures of each BMTs.

Table 3: DEA Technical Efficiency, Pure Technical Efficiency and Scale Efficiency for BMTs from 2009-2011

	121	HCICHC	y 101 1	DIVITSHO	111 2007	-2011				
Province	вмт		200	9	2010			2011		
		TE	PTE	SE	TE	PTE	SE	TE	PTE	SE
West Java	Al Amanah Sumedang	0.345	0.345	0.998 irs	0.396	0.425	0.932 irs	0.525	0.536	0.979 drs
West Java	Al Amin Sumedang	0.333	0.374	0.891 irs	0.297	0.427	0.696 irs	0.659	0.668	0.987 drs
West Java	Al Anhar	0.376	0.424	0.887 irs	0.318	0.437	0.727 irs	0.393	0.418	0.940 irs
West Java	Al Bina Tasikmalaya	0.399	1.000	0.399 irs	0.327	1.000	0.327 irs	0.939	1.000	0.939 irs
West Java	Al Falah Cirebon	0.291	0.295	0.988 drs	0.455	0.486	0.936 irs	0.956	1.000	0.956 drs
West Java	Al Ikhlas Majalengka	1.000	1.000	1.000 -	0.770	0.773	0.996 drs	0.637	0.672	0.948 drs
West Java	Al Ishlah Cirebon	0.294	0.396	0.742 irs	0.390	0.590	0.661 irs	0.688	0.705	0.975 irs
West Java	Al Ittihad	0.408	0.468	0.871 irs	0.789	0.899	0.878 irs	1.000	1.000	1.000 -
Central Java	Al Hikmah Bangsri	1.000	1.000	1.000 -	1.000	1.000	1.000 -	1.000	1.000	1.000 -
Central Java	Amanah Bukateja	0.625	0.689	0.907 irs	0.830	1.000	0.830 irs	0.690	0.945	0.730 irs
Central Java	As Salam Demak	0.334	0.340	0.984 irs	0.344	0.369	0.933 irs	0.455	0.610	0.747 drs
East Java	MMU Sidogiri	0.899	1.000	0.899 drs	0.872	1.000	0.872 drs	0.548	0.996	0.550 drs
East Java	Syirkah Lumajang	1.000	1.000	1.000 -	1.000	1.000	1.000 -	0.709	1.000	0.709 drs
East Java	UGT Sidogiri	1.000	1.000	1.000 -	1.000	1.000	1.000 -	1.000	1.000	1.000 -
	Mean	0.593	0.667	0.898	0.628 0.743 0.842 0.729 0.825 0.89		0.890			

It can be summarized that the most efficient BMT is UGT Sidogiri at East Java and BMT Al Hikmah Bangsri at Central Java with the score 1 that achieved every year and every efficiency measurement. It means that they have optimalized the inputs to get the maximum output by requiring the capital and fixed asset to create the optimum income and disburse as much of loan. On the other hand, the BMTs that have less result of efficiency is due to inefficiency to optimalize their inputs. BMT Al-Anhar, for instance, the number of TE and PTE are very low. It might be due to the lack of quality of human resources and also the absence of supporting funds (third parties funds).

To understand the operational of efficient BMT, this study only focuses on BMT UGT Sidogiri in order to see its application on Islamic wealth management. BMT UGT Sidogiri was developed by Pesantren Sidogiri at East Java. In 2011, it has 183.061 customers with asset Rp 322 billion, and has served 71.048 micro-entrepeneurs. One of strategy that used by BMT Sidogiri to serve the customers is spiritual approach. This approach includes fully assistance to customers to manage their wealth in Islamic way. For example, when the

 $<sup>^{\</sup>rm 5}$  Based on interview with Manager Marketing of BMT Sidogiri on April 2011.

customers received the microfinancing, BMT Sidogiri assists them to manage the loan (as the wealth) of the customers properly from how to manage the money, write every transactions until how to manage the profit or loss of the business.

Using the spiritual approach that focus on the responsibility of a human to Allah SWT, most of customers aware of their responsible to pay the loan on time. If a customer can not pay due the date, one of BMT Sidogiri's staff will visit and remind some verses in the qur'an about the compulsory of pay the loan for every muslim. This approach is effective to reduce the number of non-performing loan of the BMT. In short, learn from BMT UGT Sidogiri, other BMTs that have low result of efficiency can optimalize its function by educating the customers to manage their wealth efficiently.

#### 5. CONCLUSION

Islamic wealth management helps to ensure that a person's wealth is managed in such a way that consistent with the Islamic norms and value. BMTs in Indonesia have applicated the Islamic wealth management by focusing on customer's welfare as the priority and educate the customers to manage the wealth properly. The result of DEA method that proposed by Coelli (2006) to measure the efficiency found that BMT Sidogiri and BMT Al Hikmah Bangsri have the highest score of efficiency.

BMT Sidogiri assisted the customers to be efficient in managing their wealth based on Islamic approach. This strategy is effective to reduce inefficiency of operational in BMT. Inefficient BMT might be due to the lack of quality staffs and financial support. It was indicated by the low of TE and PTE in general. In conclusion, the study suggests to learn from the efficient BMT in order to enhance the quality of Islamic wealth management.

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# ANALISA KETIDAKSELARASAN METODOLOGI BAYARAN DAN KUTIPAN ZAKAT HARTA OLEH INSTITUSI-INSTITUSI ZAKAT DI MALAYSIA (THE ANALYSIS OF NON-UNIFORMITY METHODOLOGY OF ZAKAT PAYMENT AND COLLECTION VIA ZAKAT INSTITUTIONS IN MALAYSIA)

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#### **ABSTRAK**

Artikel ini akan menganalisis isu ketidakselarasan kaedah-kaedah bayaran zakat yang ditawarkan oleh institusi-institusi zakat di Malaysia. Kajian mendapati bahawa terdapat perbezaan kaedah-kaedah bayaran zakat yang ditawarkan oleh institusi zakat termasuk institusi zakat yang dikorporatkan dan institusi zakat yang tidak dikorporatkan. Sehubungan dengan itu, kajian ini akan mengkaji punca ketidakselarasan kaedah-kaedah bayaran zakat oleh semua institusi negeri dan menganalisis hubungan yang wujud antara kaedah-kaedah bayaran zakat yang ditawarkan oleh institusi-institusi zakat negeri dengan jumlah kutipan zakat yang diperolehi oleh sesebuah institusi zakat negeri. Kepelbagaian kaedah-kaedah yang disediakan bagi pembayar zakat oleh institusi zakat negeri telah memberi kesan positif kepada peningkatan jumlah kutipan zakat negeri di Malaysia.

Kata Kunci: Zakat, Metodologi Bayaran Zakat; Kutipan zakat; Bayaran zakat; Institusi zakat

#### **ABSTRACT**

This article will analyze the non-uniformity zakat payment methods offered via zakat institutions in Malaysia. The study implies that there are differences in zakat payment methods offered by zakat institutions including institution of zakat institutions incorporated and not incorporated. Accordingly, this study will examine the causes of inconsistency zakat payment methods by all zakat state institutions and analyze the relationships between zakat payment methods offered by the state of zakat institutions with the total zakat amount collected by the state of zakat institutions. The diversity of methods provided for zakat payers via zakat state institutions have a positive impact on the increasing of zakat amount collected in Malaysia.

**Keywords:** Zakat, Methodology of zakat payment; Zakat payment; Zakat collection; Zakat institutions;

#### 1. PENGENALAN

Menurut Yusuf al-Qaradawi (1981), Wahbah Al-Zuhaili (1994) dan Jabatan Kemajuan Islam Malaysia (2001) zakat dari segi syarak ialah sesuatu hak yang wajib pada sesuatu harta untuk dikeluarkan kepada orang yang berhak mendapatkannya Ini bermaksud sebahagian harta tertentu yang telah diwajibkan oleh Allah SWT untuk diberikan kepada orang-orang yang berhak menerimanya iaitu golongan tertentu (asnaf) sebagaimana yang telah dinyatakan di dalam Al-Quran dan lafaz zakat juga digunakan terhadap bahagian tertentu yang dikeluarkan dari harta orang yang wajib mengeluarkan zakat. Zakat juga berhubungkait dengan tauhid, solat dan hal harta dalam Siyasah Syari'ah. Di dalam Al-Quran, zakat juga disebut sebagai perkataan sadaqah. Menurut Afzal Ur-Rahman (1994), sadaqah merupakan istilah yang amat luas

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maknanya yang digunakan di dalam Al-Quran. *Sadaqah* bermaksud memberi derma (sukarela) kerana mematuhi hukum dan zakat juga dikatakan sebagai *sadaqah* kerana ia sejenis derma yang diwajibkan.

Sistem pengurusan zakat di Malaysia telah mula bertapak sejak era pre-klonial lagi di mana masyarakat Islam pada ketika itu telah membayar zakat fitrah hanya kepada amil yang terdiri daripada guru-guru agama (Abdul-Wahab, Mohamed et. al., 1995). Undang-undang yang wujud semasa kerajaan Islam Melaka ditubuhkan adalah bersifat tunggal di mana zakat merupakan satu bidang dalam pentadbiran negara (Mahmood Zuhdi Ab Majid, 2007). Menurut Mahmood Zuhdi (2007), penjajahan British ke atas tanah Melayu telah memberi kesan negatif kepada sistem pengurusan zakat di mana undang-undang dan pentadbiran zakat bersama semua undang-undang pentadbiran hal ehwal agama Islam telah ditolak ke sudut yang lebih sempit dan terhad. Sebelum penjajahan British ke tanah Melayu, sultan atau raja mempunyai kuasa yang tertinggi di dalam pentadbiran negeri yang merangkumi penguatkuasaan undang-undang Islam (termasuk zakat). Namun dengan dasar pecah dan perintah oleh British ke atas tanah Melayu telah menyebabkan kuasa sultan atau raja mula dikurangkan dan mereka hanya berkuasa kepada undang-undang Islam sahaja dan bukan lagi pentadbir negeri. Ini secara tidak langsung menyebabkan sistem pengurusan zakat di Malaysia mula mengalami kemelesetan disebabkan bidang undang-undang berkaitan Islam mula dihadkan.

Sungguhpun demikian, usaha yang dijalankan oleh pihak kerajaan di Malaysia bagi memartabatkan kembali sistem zakat telah membuahkan hasil walaupun mengambil masa berdekad lamanya. Ini terbukti apabila kerajaan Malaysia melalui penubuhan JAKIM, YAPEIM, JAWHAR dan beberapa lagi agensi lain telah membantu pengurusan zakat negeri (Mahmood Zuhdi Ab Majid, 2007) agar dapat meningkatkan lagi kutipan dan agihan zakat di Malaysia. Di Malaysia, semua negeri mempunyai institusi zakat masingmasing yang bertanggungjawab menguruskan kutipan dan dan agihan zakat. Berikut merupakan institusi zakat negeri-negeri di Malaysia yang bertanggungjawab menguruskan kutipan zakat bersama alamat laman web masing-masing iaitu Pusat Pungutan Zakat Persekutuan (PPZ); http://www.zakat.com.my, Lembaga Zakat Selangor (LZS); http://www.e-zakat.com.my, Pusat Urus Zakat P.Pinang (PUZPP); http://www.zakatpenang.com, Pusat Kutipan Zakat Pahang (PKZP); http://www.zakatpahang.com, Pusat Zakat Negeri Sembilan (PZNS); http://www.zakatns.com.my, Pusat Zakat Melaka (PZM); http://www.izakat.com, Tabung Baitulmal Majlis Agama Sarawak (BMS); http://www.tabung-baitulmalsarawak.org.my, Pusat Zakat Sabah (PZS); http://www.zakat.sabah.gov.my, Jabatan Zakat Negeri Kedah (JZNK); http://www.zakatkedah.com, Baitulmal Negeri Perlis (BMP); http://www.perlis.gov.my, Majlis Agama Islam Dan Adat Melayu Perak (MAIDAMP); http://www.maiamp.gov.my, Majlis Agama Islam Dan Adat Istiadat Melayu Kelantan (MAIDAIMK); http://www.e-maik.my, Pusat Urusan Zakat Majlis Agama Islam Dan Adat Melayu Terengganu (PUZMAIDAMT); http://www.maidam.gov.my dan Majlis Agama Islam Negeri Johor (MAIJ); http://www.maij.gov.my.

Terdapat perbezaan nama institusi-institusi yang bertanggungjawab menguruskan zakat di Malaysia. Bagi Wilayah Persekutuan, Negeri Sembilan, Pahang, Sabah, Melaka, Pulau Pinang serta Terengganu menggunakan nama Pusat sebagai satu entiti yang bertangungjawab kepada zakat dan lebih berfokus. Manakala Perak, Kelantan dan Johor pula masih menggunakan nama Majlis Agama Islam kerana ia masih dibawah kelolaan Majlis Agama Islam dan Adat Melayu. Bagi Kedah dan Selangor masing-masing menggunakan nama jabatan dan juga lembaga. Selain itu, Walaupun begitu Perlis dan Sarawak masing-masing menggunakan nama baitulmal. Adalah perlu dinyatakan disini bahawa semua institusi zakat negeri masih lagi tertakluk kepada Enakmen Pentadbiran Agama Islam Negeri masing-masing (JAKIM, 2013).

Kepelbagaian nama institusi zakat di setiap negeri juga sebenarnya amat berkait rapat dengan transformasi institusi pengurusan zakat itu sendiri. Kedapatan sembilan institusi zakat negeri telah mengalami transformasi pengurusan zakat di mana institusi zakat ini telah dikorporatkan bagi meningkatkan lagi kualiti pengurusan zakat negeri masing-masing khususnya berkaitan kutipan zakat.

Pusat zakat yang pertama dikorporatkan ialah Pusat Zakat W.Persekutuan iaitu pada tahun 1991. Empat tahun kemudian terdapat tiga lagi institusi zakat yang dikorporatkan iaitu Lembaga Zakat Selangor, Pusat Zakat Pahang dan Pusat Urus Zakat Pulau Pinang. Pada tahun 2000 pula menyaksikan dua lagi institusi zakat negeri berjaya dikorporatkan iaitu Pusat Pungutan Zakat Negeri Sembilan and Pusat Zakat Melaka (Sanep Ahmad et.al., 2006). Pengkorporatan besar-besaran oleh institusi zakat negeri telah mempengaruhi negeri Sarawak dan Sabah agar institusi zakat mereka juga dikorporatkan. Hasilnya pada tahun 2001 dan 2007 Tabung Baitulmal Sarawak dan Pusat Zakat Sabah dikorporatkan (Norazlina dan Abdul Rahim, 2012).

Jesteru itu, pelbagai usaha telah dilakukan oleh semua institusi zakat negeri bagi meningkatkan jumlah kutipan zakat seperti mempelbagaikan perkhidmatan kaedah bayaran zakat kepada para pembayar zakat. Terdapat institusi zakat negeri yang hanya menawarkan sedikit perkhidmatan kaedah bayaran zakat dan ada pula yang menawarkan pelbagai perkhidmatan kaedah bayaran zakat. Ketidakselarasan ini menunjukan bahawa wujud ketidakmuafakatan dan perbezaan ideologi pengurusan di institusi-institusi zakat di Malaysia. Ketidakselarasan ini amat merugikan masyarakat Islam khususnya bakal penerima-penerima zakat kerana kepelbagaian kaedah bayaran zakat akan memberi kesan kepada peningkatan kutipan zakat. Oleh itu ketidakselarasan perkhidmatan kaedah bayaran zakat ini perlu diselaraskan di setiap institusi zakat negeri agar para pembayar zakat mempunyai pilihan yang pelbagai bagi menunaikan kewajipan berzakat. Ini kerana para pembayar zakat mempunyai pelbagai kekangan seperti kekangan masa, kekangan tempat lokasi, kekangan kaunter zakat, kekangan jarak dan pelbagai lagi.

Pada hari ini Malaysia mempunyai 17 buah bank Islam yang menjalankan pengurusan perbankan berdasarkan Syariah (BNM, 2012) dan 14 buah institusi zakat negeri yang menjalankan pengurusan zakat (JAWHAR, 2013). Daripada 17 buah bank Islam yang wujud di Malaysia hanya 15 buah bank (tidak termasuk BSN, AgroBank dan Bank Rakyat) berjaya menjalinkan kerjasama dengan institusi zakat negeri bagi urusan kutipan dan bayaran zakat.

Jadual 1: Senarai bank-bank Islam yang menjalinkan kerjasama dengan institusi zakat bagi menawarkan perkhidmatan bayaran zakat kepada pelanggan

	BANK	LAMAN SESAWANG (URL)
1.	Bank Islam Malaysia Berhad	http://www.bankislam.com.my/
2.	Bank Muamalat Malaysia Berhad	http://www.muamalat.com
3.	Cimb Islamic Bank	http://www.cimb.com.my/
4.	Maybank Islamic Berhad	http://www.maybank2u.com.my/
5.	Ambank Group	http://www.ambg.com.my
6.	EONCAP Islamic Bank	http://www.eonbank.com.my
7.	RHB Bank	http://www.rhb.com.my
8.	Public Bank	http://www.pbebank.com
9.	Standard Chatered bank	http://www.standardchartered.com.my
10.	Affin bank	http://www.affinbank.com.my/
11.	HSBC bank	http://www.hlb.com.my
12.	OCBC	http://www.ocbc.com.my/
13.	Hong Leong bank	http://www.hlb.com.my
14.	BSN	http:// www.mybsn.com.my/
15.	Agro bank	http://www.agrobank.com.my/
16.	Bank rakyat	https://www.irakyat.com.my
17.	Al-Rajhi Bank	http://www.alrajhibank.com.my/
18.	Asian Finance Bank	http://www.asianfinancebank.com

Sumber: laman web institusi-institusi zakat negeri 2012

Walaupun kedapatan 18 buah bank telah menjalinkan kerjasama dengan institusi zakat negeri, tetapi wujud ketidakselarasan kaedah bayaran zakat oleh pembayar-pembayar zakat kepada institusi zakat masing-masing. Ketidakselarasan ini berlaku kerana transformasi sistem pengurusan zakat negeri-negeri di Malaysia. Di Malaysia, kedapatan 11 kaedah bayaran zakat telah disediakan oleh institusi zakat negeri kepada masyarakat Islam bagi kemudahan membayar zakat mereka di mana kaedah-kaedah ini dapat dibahagikan kepada tiga bahagian iaitu:

- i. Institusi zakat sendiri
- ii. Institusi perbankan Islam
- iii. Lain-lain institusi

Bagi bayaran zakat melalui institusi zakat negeri, terdapat satu kaedah ditawarkan iaitu bayaran di kaunter zakat. Manakala bayaran zakat melalui institusi perbankan Islam, terdapat tujuh kaedah ditawarkan iaitu bayaran melalui perkhidmatan online, bayaran di kaunter bank, bayaran melalui kad kredit, bayaran melalui cek, draf bank dan kiriman wang, bayaran melalui perbankan telefon, bayaran melalui sms dan juga bayaran melalui ATM. Bagi bayaran zakat melalui lain-lain institusi terdapat tiga kaedah ditawarkan iaitu bayaran melalui skim potongan gaji oleh majikan, bayaran melalui kaunter zakat di IPT dan bayaran zakat melalui pejabat pos.

Walaupun begitu tidak semua institusi zakat negeri menawarkan tiga bahagian kaedah bayaran dan kutipan zakat itu. Ada sebilangan yang fokus kepada kerjasama dengan institusi perbankan Islam seperti PPZ dan LZS, ada yang yakin dengan kemampuan institusi zakat itu sendiri mengutip zakat seperti Pusat Zakat Melaka dan ada yang melihat bahawa bantuan institusi seperti IPTA juga penting bagi meningkatkan bayaran dan kutipan zakat seperti LZS dan MAIDAP. Maka kepelbagaian yang wujud ini telah menimbulkan satu fenomena ketidakselarasan kaedah bayaran dan kutipan zakat di Malaysia yang sedikit sebanyak turut mempengaruhi jumlah kutipan zakat di Malaysia. Walhal jika dilihat kepada semua kaedah bayaran dan kutipan zakat ini, semua negeri mempunyai keupayaan melakukanya kerana suasana persekitaran adalah hampir sama walaupu latarbelakang ekonomi sesebuah negeri adalah berbeza.

#### 2. METODOLOGI KAJIAN

Kajian ini menggunakan primer yang diperolehi hasil kajian lapangan iaitu temuduga dengan beberapa pegawai zakat seperti Lembaga Zakat Selangor dan Pusat Zakat Kedah. Selain itu kajian ini juga menggunakan data sekunder yang diperolehi daripada majalah asnaf, majalah dewan ekonomi, laporan tahunan institusi zakat negeri serta laman web setiap institusi zakat negeri dan juga Jabatan Wakaf, Haji dan Zakat JAKIM dari tahun 2001 hingga 2010. Kajian ini cuba melihat jenis-jenis kaedah pembayaran zakat di Malaysia yang ditawarkan oleh institusi-institusi zakat negeri di dalam sistem pembayaran zakat di Malaysia. Ini sekaligus memberi gambaran yang jelas tentang ketidakselarasan kaedah bayaran zakat yang disediakan oleh institusi zakat negeri-negeri di Malaysia khusus untuk pembayar-pembayar zakat dan kesannya ke atas jumlah kutipan zakat. Ketidakselarasan ini telah mempengaruhi jumlah kutipan zakat di Malaysia.

## 3. SOROTAN LITERATUR

Banyak kajian awal telah dilakukan terhadap zakat serta institusi pelaksanaannya. Menurut Zulkarnain (1994), Abdul hamid Hassan (1998), Mohd Zulkhairi Mustapha et.al (2005), dan Mohd Faisol Ibrahim et.al (2011) juga telah melakukan kajian terhadap zakat pendapatan dan perbezaannya dengan cukai. Ternyata hasil kajian tersebut semuanya membuktikan bahawa zakat amat berbeza dengan cukai dalam pelbagai aspek.

Kajian yang dilakukan oleh Suhaili Abd Hadi (2003), Fuadah Johari (2004) dan Patmawati Ibrahim (2006) pula adalah berkaitan dengan agihan zakat dimana kajian tersebut mendapati agihan zakat telah berjaya mengurangkan kadar kemiskinan. Walaupun begitu menurut Hairunnizam et al (2009) kebanyakan pembayar zakat tidak berpuas hati dengan institusi zakat negeri kerana maklumat berkaitan agihan zakat yang tidak tepat dan menyeluruh. Selain itu kajian oleh Sanep et.al (2006) mendapati bahawa pembayar zakat lebih berminat membayar zakat secara terus kepada asnaf yang layak berbanding berbanding di institusi zakat itu sendiri.

Kajian yang dilakukan oleh Rosbi et.al (2011) pula menyatakan bahawa wang zakat ini sebenarnya mampu melahirkan usahawan melalui pemberian modal perniagaan oleh institusi zakat dilihat mampu mengubah penerima zakat menjadi usahawan berjaya sehingga mampu menjadi pembayar zakat. Pandangan ini disokong oleh Hisham et. al (2006) dan Mohd Abd Wahab Fatoni Mohd Balwi et. al (2008) yang menyatakan bahawa zakat merupakan salah satu instrumen yang menyumbang kepada pembentukan usahawan Islam seandainya ia diuruskan dengan betul dan tepat.

Rentetan itu penulis mendapati tidak terdapat lagi kajian yang membincangkan secara khusus metodologi bayaran zakat di Malaysia. Oleh itu penulis beranggapan bahawa kajian ini penting bagi melihat isu ketidakselarasan kaedah-kaedah yang mampu ditawarkan oleh institusi zakat negeri-negeri di Malaysia bagi meningkatkan lagi kutipan zakat dan bayaran zakat. Ini penting kerana zakat merupakan pemangkin kepada pembangunan ekonomi negera kearah berpendapatan tinggi (Zarina Kadri et.al., 2012).

#### 4. METODOLOGI BAYARAN ZAKAT DAN KUTIPAN ZAKAT HARTA DI MALAYSIA

#### 4.1 Metodologi Bayaran Zakat Dan Kutipan Zakat

Jadual 2: Kaedah Bayaran Zakat Dan Kutipan Zakat Oleh Institusi Zakat Negeri Di Malaysia

Negeri	S	P	K	K	K	K	C/W	K	P	S	A	Kutipan Zakat
	P	I	P	В	K	I	P/D	P	T	M	T	
	G						B/K	Z		S	M	
							W					
PPZ	✓	✓	X	X	✓	X	X	✓	X	X	X	RM1,555,993,520.
												30
LZS	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	RM1,680,973,601.
												49
PUZPP	✓	✓	✓	✓	X	X	X	<b>✓</b>	X	X	X	RM344,192,569.29
PKZP	✓	✓	<b>√</b>	<b>✓</b>	<b>✓</b>	X	X	<b>\</b>	X	X	✓	RM384,351,841.85
PZNS	✓	✓	✓	✓	✓	X	✓	✓	X	✓	✓	RM258,080,595.35
PZM	✓	✓	X	X	X	X	X	✓	X	X	✓	RM119,955,985.02
BMS	✓	✓	<b>√</b>	<b>✓</b>	X	X	X	<b>\</b>	X	X	✓	RM219,095,644.83
PZS	✓	✓	✓	X	X	X	X	✓	X	X	X	RM144,297,017.48
JZNK	✓	✓	<b>√</b>	<b>✓</b>	<b>✓</b>	X	✓	<b>\</b>	X	X	X	RM466,834,789.01
BMP	n.a	n.a	n.a	n.a	n.a	X	n.a	✓	n.a	n.a	n.a	RM149,336,181.75
MAIDAP	✓	✓	✓	✓	✓	<b>√</b>	X	✓	X	X	X	RM365,975,949.24
MAIDAI	✓	✓	✓	✓	X	X	✓	✓	X	X	X	
MK												RM374,745,504.65
PUZ	✓	✓	✓	✓	✓	X	X	✓	X	X	X	
MAIDA												
MT												RM488,280,183.40
MAIJ	✓	✓	✓	✓	X	X	✓	✓	X	X	X	RM642,947,639.44

Sumber: laman web institusi-institusi zakat negeri di Malaysia (2012)

n.a : Data tidak diperolehi
SPG : Skim potongan gaji
PI : Perbankan internet
KP : Kaunter pos
KB : Kaunter bank
KK : Kad kredit
KI : Kaunter ipt

C/WP/DB/KW: Cek/wag pos/draf bank/kiriman wang

KPZ ; Kaunter pusat zakatPL : Perbankan telefon

SMS : Khidmat Pesanan Ringkas ATM : *Auto Transfer Machine* 

Berdasarkan kaedah-kaedah bayaran zakat di atas, ternyata peranan yang dimainkan oleh sektor perbankan Islam dalam sistem pengurusan zakat di Malaysia adalah begitu besar di mana sektor ini menawarkan tujuh kaedah bayaran zakat kepada masyarakat Islam berbanding institusi zakat itu sendiri yang hanya menawarkan satu kaedah sahaja.

Hasil analisis mendapati wujudnya 11 kaedah bagi pembayar zakat menjelaskan bayaran zakat mereka dengan institusi zakat negeri. Kaedah bayaran zakat yang paling banyak ditawarkan oleh institusi-institusi zakat negeri di Malaysia ialah kaedah bayaran zakat menggunakan kaedah bayaran zakat di kaunter-kaunter institusi zakat negeri. Ini terbukti apabila semua institusi-institusi zakat negeri di Malaysia menawarkan kaedah ini. Ini diikuti pula oleh kaedah bayaran zakat menggunakan perkhidmatan skim potongan gaji dan perbankan internet di mana semua institusi zakat negeri menawarkanya kecuali negeri Perlis. Selain itu perkhidmatan bayaran zakat menggunakan kaunter pos dan kaunter bank di juga banyak ditawarkan oleh institusi zakat negeri kecuali Pusat Pungutan Zakat Persekutuan sahaja yang tidak menawarkan perkhidmatan ini.

Bagi perkhidmatan bayaran zakat yang paling sedikit ditawarkan oleh institusi zakat negeri-negeri di Malaysia kepada masyarakat Islam ialah perkhidmatan bayaran zakat menggunakan kaunter IPT, perbankan telefon, SMS dan ATM. Ini terbukti di mana hanya dua buah negeri sahaja di Malaysia yang menjalinkan kerjasama dengan IPT bagi menyediakan khidmat kaunter zakat, satu negeri sahaja yang menawarkan bayaran zakat menggunakan perbankan telefon, dua negeri bagi perkhidmatan SMS dan empat negeri bagi perkhidmatan ATM.

Statistik di atas juga menunjukkan bahawa negeri Selangor merupakan institusi zakat negeri yang mempunyai bilangan kaedah bayaran terbanyak dan juga nilai kutipan zakat tertinggi berbanding institusi zakat negeri lain iaitu 11 kaedah bayaran zakat dan kutipan zakat RM1.6 bilion. Ini diikuti negeri Sembilan, Kedah, Pahang, dan Perak di mana masing-masing ialah 9 kaedah bayaran dan kutipan zakat hanya RM258 juta, 7 kaedah bayaran dan kutipan zakat RM466.8 juta, 7 kaedah bayaran dan kutipan RM384.3 juta dan 7 kaedah bayaran dan kutipan RM365.9 juta.

Analisis data di atas juga menjelaskan bahawa institusi zakat di negeri Perlis dan Melaka merupakan institusi zakat negeri yang mempunyai bilangan kaedah bayaran yang paling sedikit dan juga nilai kutipan zakat terendah berbanding institusi zakat negeri lain iaitu masing-masing ialah 1 kaedah serta kutipan zakat hanya RM149.3 juta serta 3 kaedah dan kutipan zakat ialah RM119.9 juta. Ini diikuti institusi zakat di negeri Sabah, Wilayah Persekutuan dan Pulau Pinang di mana masing-masing menawarkan iaitu 4 kaedah bayaran dan kutipan zakat RM144 juta, 4 kaedah bayaran dan kutipan zakat RM1.5 bilion dan 5 kaedah bayaran dan kutipan zakat RM344.1 juta.

Disamping itu, analisis di atas juga menunjukan bahawa institusi zakat di Wilayah Persekutuan walaupun mempunyai bilangan kaedah bayaran zakat yang terendah tetapi kutipan zakatnya adalah kedua tertinggi berbanding Selangor. Ini adalah kerana kedudukan institusi zakat di Wilayah Persekutuan yang berada di kawasan kota metropolitan yang penuh dengan bangunan pentadbiran sama ada kerajaan ataupun swasta serta kepadatan pekerja telah menjadi faktor utama kepada kutipan zakat yang tinggi.

Selain itu juga, statistik di atas juga memperjelaskan bahawa beberapa institusi zakat yang mengalami pengkorporatan pengurusan masih tidak mampu menyumbang kepada jumlah kutipan yang tinggi seperti negeri Sabah, Sarawak dan juga Pulau Pinang. Sebaliknya terdapat beberapa institusi zakat negeri yang belum dikorporatkan masih mampu mengutip kutipan zakat yang tinggi seperti negeri Johor, Terengganu dan Kedah. Perbezaan jumlah kutipan zakat membuktikan bahawa pengkorporatan sesebuah institusi zakat bukan penyumbang utama kepada peningkatan jumlah kutipan zakat di Malaysia.

Selain itu statistik di atas juga menunjukkan bahawa masih terdapat kekurangan kaedah bayaran zakat yang ditawarkan oleh beberapa institusi zakat negeri dengan institusi zakat negeri yang lain di Malaysia. Kekurangan kaedah bayaran zakat yang ditawarkan oleh institusi zakat negeri telah mempengaruhi jumlah kutipan zakat di negeri masing-masing. Hal ini juga membuktikan bahawa perbezaan kaedah bayaran zakat yang ditawarkan oleh setiap institusi zakat negeri akan mewujudkan perbezaan dalam jumlah kutipan zakat di masa hadapan oleh negeri masing-masing.

Jelas membuktikan bahawa wujud ketidakselarasan kaedah bayaran dan kutipan zakat di setiap negerinegeri di Malaysia. Ketidakselarasan ini bukan sahaja berlaku di kalangan institusi zakat yang dikorporatkan tetapi juga kepada institusi zakat yang tidak dikorporatkan.

#### 5. PUNCA KETIDAKSELARASAN KAEDAH BAYARAN DAN KUTIPAN ZAKAT

a. Kurang Kerjasama Antara Institusi Zakat Negeri Dengan Semua Bank-Bank Islam di Malaysia

Perkembangan yang pesat di dalam sektor perbankan Islam seharusnya dimanafaatkan oleh institusi zakat negeri agar lebih berdaya saing diperingkat antarabangsa. Berdasarkan analisis, tidak terdapat satu pun institusi zakat negeri yang menjalinkan hubungan dengan semua institusi perbankan Islam di Malaysia sedangkan institusi perbankan Islam ini beroperasi di setiap negeri di Malaysia. Kerjasama ini sebenarnya penting bagi institusi zakat negeri meningkatkan jumlah kutipan melalui kaedah-kaedah bayaran zakat yang boleh diwujudkan dengan kerjasama pihak bank-bank Islam. Ini adalah kerana institusi perbankan Islam sentiasa mencari peluang dan ruang bagi meningkatkan kualiti perkhidmatan menerusi teknologi bagi memasarkan produk dan perkhidmatan mereka untuk pelanggannya. Kesempatan ini sepatutnya diambil oleh institusi zakat bagi memudahkan pelanggan bank yang beragama Islam agar dapat menunaikan kewajipan membayar zakat melalui perkhidmatan perbankan.

b. Ketiadaan Akta Dan Ordinan Ataupun Enakmen Khusus Yang Mewajibkan Semua Institusi Perbankan Islam di Malaysia Perlu Menawarkankan Kaunter Zakat Oleh BNM

Seperti yang diketahui zakat bukan hanya terdiri daripada zakat fitrah tetapi juga meliputi zakat lain antaranya zakat pendapatan, zakat saham dan zakat perniagaan. Ketiadaan Akta dan Ordinan ataupun Enakmen khusus yang mewajibkan semua institusi perbankan Islam di Malaysia menawarkankan kaunter zakat akan terus mewujudkan ketidakselarasan bayaran dan kutipan zakat di Malaysia. Jesteru bagi memastikan ketidakselarasan bayaran dan kutipan zakat di Malaysia, maka satu akta khusus ini perlu diwujudkan dan disokong oleh pihak lain seperti pihak BNM. BNM sepatutnya memainkan peranan utama bagi penubuhan Akta Bayaran dan Kutipan Zakat 2013 sepertimana Akta Bank Islam 1983 dan Akta Takaful 1984 bagi memastikan sistem perbankan dan kewangan Islam terus berkembang. Melalui

Akta Bayaran dan Kutipan Zakat 2013 ini mungkin beberapa seksyen berkaitan kaedah bayaran zakat dan kerjasama institusi zakat dan bank boleh diperuntukkan bagi memastikan kaedah bayaran zakat sentiasa berkembang dan diseleraskan diseluruh negeri. Selain itu Akta Bayaran dan Kutipan Zakat 2013 juga tidak harus lagi diletakan dibawah Majlis Agama Islam Negeri sebaliknya perlu digubal dan diletakkan dibawah BNM agar institusi zakat negeri dapat memainkan peranan bersama-sama institusi perbankan Islam di Malaysia dikembang ke peringkat yang lebih tinggi.

# c. Kurangnya Kerjasama Antara Institusi Zakat Negeri Dengan Institut Pengajian Tinggi (IPT) Dan Lembaga Hasil Dalam Negeri (LHDN)

Walaupun diseluruh negeri-negeri di Malaysia mempunyai IPT dan juga pejabat LHDN tetapi tidak dimanfaatkan sepenuhnya oleh institusi zakat negeri bagi mewujudkan kaunter bayaran zakat. Hanya sebilangan kecil sahaja institusi zakat negeri yang mengambil inisiatif mewujudkan kerjsama dengan IPT dan LHDN bagi mewujudkan kaunter khas untuk zakat. Sebenarnya kewujudan kaunter zakat di institusi pengajian tinggi awam ataupun swasta dan LHDN itu sendiri akan membolehkan masyarakat Islam menggunakan kemudahan yang terdapat di sesebuah IPT dan LHDN bagi menunaikan tanggungjawabnya dan tidak perlu lagi membazir masa untuk ke institusi zakat tertentu bagi pembayaran zakat. Ini penting kerana boleh dikatakan setiap negeri-negeri di Malaysia mempunyai IPT dan LHDN. Jesteru itu, dengan membenarkan IPT dan LHDN membuka kaunter zakat akan meningkatkan lagi kutipan zakat. Kurangnya kerjasama antara institusi zakat negeri dengan institut pengajian tinggi (IPT) dan Lembaga Hasil Dalam Negeri (LHDN) akan terus mewujudkan ketidakselarasan bayaran dan kutipan zakat di Malaysia.

## d. Kurang Kolaborasi Antara Institusi Zakat Di Malaysia

Kedapatan kekurangan maklumat di surat khabar ataupun media elektronik tentang kolaborasi antara institusi zakat negeri-negeri di Malaysia. Antaranya seperti mewujudkan MOA dan MOU antara institusi zakat yang dikorporatkan dengan institusi zakat yang tidak dikorporatkan lagi. Walaupun institusi zakat sebuah negeri belum lagi mempunyai kerjasama dengan keseluruhan bank-bank Islam, namun disebabkan institusi zakat negeri lain telahpun menjalankan kerjasama, maka perkara ini perlu dimanafaatkan oleh institusi zakat negeri terbabit seperti mewujudkan MOA dan MOU agar proses keseragaman metodologi bayaran zakat dapat direalisasikan seterusnya meningkatkan kutipan zakat. Selain itu, institusi zakat negeri yang hanya tertumpu kepada zakat tertentu sahaja juga akan mendapat manafaat melalui kolebarasi ini kerana pelbagai idea dan pengalaman dapat dijalinkan dan diterjemahkan dalam bentuk operasi pengurusan institusi zakat negeri tersebut. Kurangnya kolaborasi antara institusi zakat di Malaysia akan terus mewujudkan ketidakselarasan bayaran dan kutipan zakat di Malaysia.

## e. Faktor Demografi Sesebuah Institusi Zakat Negeri Di Malaysia

Faktor demografi sesebuah institusi zakat negeri di Malaysia juga menjadi punca wujudnya ketidakselarasan bayaran dan kutipan zakat di Malaysia. Ada institusi zakat negeri yang terletak di sebuah negeri maju seperti LZS dan PPZ, ada institusi zakat negeri yang terletak di sebuah negeri hanya berlatarbelakangkan ekonomi pertanian seperti PZNK, ada institusi zakat negeri yang terletak di sebuah negeri yang bilangan penduduk Islamnya adalah minoriti seperti PUZPP dan pelbagai lagi faktor demografi seperti ekonomi, sosial serta infrastruktur sesebuah negeri tersebut. Kepelbagaian demografi ini telah mempengaruhi keputusan pengurusan institusi zakat tentang dasar kaedah bayaran dan kutipan zakat mereka. Maka dengan itu satu kolabarasi di seluruh institusi yang melaksanakan kutipan dan agihan zakat amat perlu bagi memastikan jumlah kutipan zakat di Malaysia dapat selaraskan supaya ini akan meningkatkan jumlah bilangan pembayar zakat dan penerima agihan zakat. Keadaan ini mungkin akan berlaku jika pengurusan institusi zakat memberi ruang dan peluang kepada proses penjenamaan semula pengurusan zakat selaras dengan perubahan masa serta perkembangan teknologi yang semakin canggih. Sejarah telah membuktikan kebanyakkan institusi zakat di Malaysia yang dikorporatkan telah

mengalami perubahan dalam kutipan zakat. Sebagai contoh LZS yang kini menjadi rujukan institusi zakat luar negara kerana transformasi pengurusan zakat telah menyebabkan sistem kutipan zakat meningkat secara mendadak.

# 6. KESIMPULAN

Berdasarkan kajian yang dilakukan, ternyata wujud ketidakseragaman metodologi bayaran zakat yang disediakan oleh institusi zakat negeri kepada para pembayar zakat. Ketidakseragaman metodologi bayaran zakat disebabkan oleh faktor dalaman dan luaran institusi zakat itu sendiri. Di samping itu juga ketidkaseragaman ini perlu dipandang serius oleh semua institusi kerana ia telah mewujudkan perbezaan dalam kutipan zakat yang amat ketara. Namun peranan institusi bank-bank Islam bagi membantu institusi zakat negeri di Malaysia meningkatkan kutipan zakat amat baik di mana hampir separuh daripada metodologi bayaran zakat di Malaysia adalah berasaskan daripada perkhidmatan perbankan Islam .

Jika dilihat daripada kajian juga, terdapat segelintir institusi zakat negeri yang menjalinkan hubungan dengan IPT bagi mempelbagaikan kaedah bayaran zakat manakala sebilangan besar pula tidak menjalinkan hubungan dengan IPT. Seharusnya perkara ini tidak berlaku kerana setiap negeri mempunyai IPT. Selain itu, walaupun terdapat beberapa kaedah pembayaran secara internet dilakukan oleh pihak bank Islam namun masih lagi wujud institusi zakat yang tidak mengambil peluang ini. Usaha-usaha yang lebih proaktif antara institusi zakat dan institusi bank Islam perlu diperluaskan dan diperjelaskan secara berkesan. Bank-bank Islam juga perlu memainkan peranannya sebagai medium perantaraan wang yang bukan sahaja mahu mencipta keuntungan tetapi membantu institusi-institusi zakat negeri bagi meningkatkan kutipan zakat.

Selain itu institusi zakat juga perlu mempunyai daya pengurusan yang lebih dinamik selaras dengan dasar negara yang ingin menjadikan Malaysia sebagai negara maju pada tahun 2020. Oleh itu satu rancangan strategik jangka masa panjang perlu digubal dan diselaraskan di seluruh institusi zakat negeri-negeri di Malaysia agar sistem pengurusan zakat di Malaysia tidak lagi dipinggirkan oleh undang-undang barat sebaliknya ia perlu dimartabatkan setaraf atau lebih tinggi daripada undang-undang barat.

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# THE EFFECTS OF REAL INTEREST RATES ON SOCIAL DIMENSION: A CASE STUDY OF UNEMPLOYMENT IN THE UNITED STATE

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#### **ABSTRACT**

This paper aims to analyze the long-run impact of real interest rate on the unemployment rate in the United State (US). The *Residual Based Test* (Philips-Peron) test and *Error Correction Models* (ECM) regression are applied. The cointegration tests show that there are long-term relationships among real interest rate, oil price and industrial production index. Both of real interest rate and oil price have positive significant long-term impacts on the unemployment rate. The affect of oil price is almost three times greater than real interest rate in terms of contribution to the unemployment rate in the U.S. Meanwhile, the industrial production index has a significantly negative impact.

**Keywords**: The U.S., Unemployment Rate, Real Interest Rate, Oil Price, Industrial Production Index, Cointegration

## 1. INTRODUCTION

Unemployment is an important macroeconomic and political problem all economies confronts (Dogrul and Soytas, 2010). Therefore, it is well recognized as a negative matter since affects the economy in indirectly way. The number of poor and criminality, for instance, will increase along with the increasing number of jobless people. The limitation of income source will encourage a one do instant way to earn money. Furthermore, the dynamics impacts of unemployment may differ amongst countries at the divergence stage of economic expansion. Since it creates social and economic impacts, hence it is important to identify the main factor affecting the rate of unemployment at most. Developed countries, however, still face of the problem of unemployment as what happened in the United State (U.S.). Indeed, the source problem of unemployment from supply-demand side in one country to other country is different. Productivity of labour, wages, oil price and interest rate are some of examples factor affecting unemployment rate from supply side perspective. Meanwhile, the unemployment rate will nearly run with the dynamic of business cycle, technology development, and the number of population.

In general, an increase in unemployment due to more employed persons losing their jobs or more entrants from outside of the labor force being unsuccessful in their effort to be employed like what happened in the U.S. in the late of 2007. Bureau of Labor Statistics (BLS) of the U.S reports that the labor market weakened from May 2007 to May 2008. The number of unemployed persons rose from 6.9 million to 8.5 million, and the jobless rate increased from 4.5 to 5.5 percent. A rise in unemployment might be expected to coincide with a decline in employment. Throughout most of 2007, the official measures of unemployment rose due to declines in the outflows from unemployment, that is fewer unemployed persons were able to find employment and fewer left the labor force. As its result, the share of those who remained jobless from month to month increased

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from 47 to 51 percent, and the number of unemployed persons rose. In contrast, inflows into unemployment had little effect on the rise in unemployment during this period. The share of the employed that became unemployed remained relatively stable throughout both 2006 and most of 2007, at about 1.2 percent of total employment. Similarly, the flow of individuals from outside the labor force to unemployment also changed little in 2007, hovering around 2.3 percent of all persons not in the labor force.

The reason behind this increasing number is caused by the attack of financial crisis and economic meltdown entering a nightmare recession in the late 2007. It has caused several serious economic problems such as the significantly increasing number of jobless people which created skyrocketing unemployment. The wage was paid at the lower level causing many families fell down into poverty. As it was widespreadly known, this crisis come up due to the ascending price of housing in the early 2006 combined with credit tightened since 2007 and high oil prices in 2008. Swagel (2009) explain further that the financial crisis in September 2008 clearly exacerbated the pre-existing economic slowdown, turning a mild downturn into a deep recession. Families stopped spending, while firms stopped hiring and paused investment projects. As a result, the economy plunged, with GDP falling by 5.4 percent and 6.4 percent (at annual rates) in the last quarter of 2008 and the first quarter of 2009—the worst six months for economic growth since 1958. In effect, the events of September and October 2008 were a severe negative shock to the people confidence in the economy, and in the ability of the U.S. government and political system to deal with the crisis.

Many previous research literally proven that crisis come up in to the picture due to the existence of interest rate. As of Meera and Larbani (2004) explains that interest is the main source of economic downturn. Empircally, Basu et.al. (2001) proof that in the U.S. there is a positively relationship between unemployment rate and interest rate risk. In the case of Turkey, Dogrul and Soytas (2010) forecast that in the long run the rise of interest rate will cause the number of unemployment. Contrastingly, Philips (1958) reports that in the case of United Kingdom (UK) the relationship between interest rate and unemployment is negative. Referring to this opposite findings, this research investigates factors affecting unemployment in the U.S by applying Error Correction Model (ECM) procedures. There are 3 involved variables in the econometric model, such as Real Interest Rate (RIR), Oil price (Oil) and Index Production (IP).

The rest of this paper is organized into five parts. Part 2 exhibits literature review comprising of the hypotheses development. Part 3 elucidates research method along with the econometric model and data. Part 4 shows the empirical results and analysis. Some conclusions are presented in Part 5.

# 1.2. Research Scope and Contributions

This research will be only focused on the impact of real interest rate, oil price and industrial production index on the unemployment rate in the U.S, i.e., from supply sides. In addition, many previous research focus of research in Islamic economics is concentrated on the function of *zakah*, *infaq*, *sadaqah*, and case study of *sharia* banking. In the other words, only few of conducted researches in Islamic economics are explored in labour matters. Therefore, this study will especially contribute to fulfill the gap of literatures in Islamic labour economics.

# 1.3. Data Sources

This research takes sample period from the first quarter of 1980 to the first quarter of 2012. All of calculated data were taken from International Monetary Fund (IMF), International Financial Statistics (IFS) of the IMF and Bureau of Labour Statistics (BLS) of the U.S.

## 2. LITERATURE REVIEW

## 2.1. The Factors Affecting Unemployment

## 2.1.1. Interest Rate

Riba or the concept of interest rate in the existing monetary economic system becomes a fundamental variable. Many groups of economist believe that the interest rate will never be eliminated from the world economic system. Kayadibi (2011) delineated that the pro- *riba* groups believed that riba is the fundamental of global economic system due to it compensates a person's consumption today for some potential benefit in the future. Rationally, interest indeed has to be existed in the economy. Therefore, those who against this thinking will be judged as an irrational and undeveloped class. Many recent conducted researches, on the opposite, proved that what is happening crisis today is triggred by the existence of interest rate in the economic system. Furthermore, Rehman and Ghaffari (2012) conclude that the interest rate is a useless policy tool which has no power to reduce inflation; on contrary, it can cause increment in inflation via the cost channel. Therefore the study concludes that central banks should never use high interest rate to fight with inflation and the justification of existence of interest i.e. as a monetary policy tool is wrong and must be ruled out.

Related to the objective of this research, there are several channels how interest rate influence the rate of unemployment. First, the increasing of interest rate will push the cost of production into higher level causing number of investments go down. In some cases this declining encourages some closure of the business unit affecting the number of retrenchment of employed workers rise. Second, to cover the increasing in production cost, the producer will increase the price of produced goods and services causing the rate of inflation go up (Aliero, 1992). Empircally, Basu et.al. (2001) show that in the U.S. there is a positively relationship between unemployment rate and interest rate risk by using GARCH model. Similarly, Dogrul and Soytas (2010) forecast by applying Toda-Yamamoto procedures, they find that in the long run the rise of interest rate will cause the number of unemployment rise in Turkey.

Even so, in some countries there is a possibility of negative relationship between interest rate and unemployment. When the interest rate falls down, hence the number of unemployed people will rise up, vice versa. The rationale reason behind this phenomenon can be explained by *Philips curve* theory proposed by A.W. Phillips in 1958. He reported evidence of an inverse relationship between the rate of increase in wages and the rate of unemployment. By comparing rates of rise in wages with the rate of unemployment rates in Britain spans from 1861 to 1957, he found that as the labor market tightened, and the unemployment rate fell, money wages tended to rise more rapidly. Because wage increases are closely correlated with price increases, thus this relationship was widely interpreted as a trade-off between inflation and unemployment (Cashel, 2004).

#### 2.1.2. Oil Price

As one of the important determinant world economic performance, oil price has big effect on the dynamic of macroeconomic environment. Reffering to International Energy Agency (IEA), the impact of oil price depends on the share of the cost of oil in national income, the degree of dependence on imported oil and the ability of end-users to reduce their consumption and switch away from oil. It also depends on the extent to which gas prices rise in response to an oil-price increase, the gas-intensity of the economy and the impact of higher prices on other forms of energy that compete with or, in the case of electricity, are generated from oil and gas. Therefore, the bigger the oil-price rise and the longer higher prices are sustained, the bigger the macroeconomic impact. In this case, for net oil-exporting countries, the rise of oil price will

directly push up real national income through higher export earnings, vice versa. In the same time its gain, however, would be later offset by losses from lower demand for exports generally due to the economic recession suffered by trading partners.

These domino impacts will affect also on the rate of unemployment. The transmissions of these impacts through channel of production cost in industries that depend on the world price oil. As Loungani (1986) elucidates that when the price of oil reach a peak for some period of time, it will change the production structure. In detail, the rising oil price will stimulate the firm to increase the marginal cost of production from oil intensive to less-oil intensive. Therefore, in the long run this change in turn generates capital and labor reallocation across sectors that can affect unemployment in the long run.

Empirically, Kooros et.al (2006) investigates the impact of oil price on the unemployment rate in Louisiana. They found that an increase in the price of crude oil for million BTUs by one dollar will result in a decrease in unemployment in Louisiana by 1.08 per cent, but oil prices alone do not sufficiently explain unemployment in Louisiana. Yau (2010) finds also that oil price shock will increase price level and decrease money supply leading to worse-off unemployment in the U.S. Meanwhile, Löschel and Oberndorfer (2009) observe that in the case of Germany the rise of oil price will induce unemployment rate in the labour market go up using data spans from 1973 to 2008.

#### 2.1.3. Industrial Production

This research use industrial production index (IPI) instead of gross domestic product (GDP) due to IPI more represents economic activities in particular industry. Formally, IPI conveys amount of output from the manufacturing, mining, electric and gas industries. The reference year for the index is 2002 and a level of 100. Each individual index is calculated using the Fischer index formula. This index is released by the Federal Reserve Board, meanwhile the production data is received directly from the Bureau of Labor Statistics (BLS) and trade associations, both on physical output and inputs used in the production process. Investors usually benefit this index of various industries to examine the growth in the respective industry. If the index is growing month-over-month for a certain industry, it implies that the firm in the industry is performing well.

In addition, IPI can be used for measuring income in such country (Baak, 2006). Thus, IPI might be used also for measuring the economic activities; however, it is not as comprehensive as GDP. In this case, if the index of industrial production increases, thus it will yield a decreasing in unemployment rate, vice versa. In other words, the relationship between them is negative.

#### 3. RESEARCH METHOD AND HYPOTHESES DEVELOPMENT

# 3.1. Cointegration Test

Gujarati (2003: 822) noted that the existence of cointegrating relationships is indicated when two or more non stationary series could have at least a linear combination which is stationary, I(0). In short, the stationary linear combination cancels out the stochastic trends in the two series, proven by checking the residuals from the regressions are stationer, I(0). Thomas (1997: 438-443) noticed that the presence of cointegration for multivariate equation case (as this research case) is detected by applying Johansen cointegration test. Afterwards, the empirical result of Johansen test will be confirmed by Error Correction Model (ECM), as follows:

$$\Delta UN_{t} = \alpha + ECT_{it-1} + \sum_{h=0}^{nx} \beta_{h} \Delta RIR_{it-h-1} + \sum_{h=0}^{np} \gamma_{h} \Delta OIL_{it-h} + \sum_{h=0}^{np} \delta_{h} \Delta IP_{t-h} + \sum_{h=0}^{np} \eta_{h} \Delta IM_{it-h} + \sum_{h=0}^{np} \varphi_{h} \Delta M1_{t-h} + u_{it}$$

$$(4)$$

Here, the length of involved for each variable is denoted as nx, np, ns, and nc. As of Baak (2007, 2006, and 2005) explains that negative and significant of the estimated error correction term (ECT) coefficient ( $ECT_{ijt-1}$ ) represents the presence of long-run relationships amongst variables included in the model. Since, there is at least one cointegration amongst included variables, the causal relationship among these variables will be detected by the ECM procedures.

## 3.2. Hypotheses Development

The source of dynamic of employment and unemployment, as stated at the outset, might come from several factors. Different country has different main affecting factors of unemployment. As of Basu, *et.al.* (2001), Dogrul and Soytas (2010), Loungani (1986), Cashel (2004), Kooros et.al (2006), Yau (2010) and Löschel and Oberndorfer (2009) the econometric model of how real interest rate affects unemployment in the U.S can be framed as follows. All of variables are measured in natural logarithm, except RIR.

$$UN_t = \beta_0 + \beta_1 RIR_t + \beta_2 OIL_t + \beta_3 IP_t + \varepsilon_t \quad (2)$$

Subscript t represents time of quarterly data spans from 1980 Q1 to 2012 Q1.  $UN_t$  denotes the rate of unemployment in the US provided widely by the IFS IMF.

Real interest rate,  $RIR_t$ , measures the expected interest rate which will be received by investor after allowing inflation rate. The formula of real interest rate is generally known, i.e, it equals to the nominal interest rate minus inflation rate. It is expected that between  $UN_t$  and  $RIR_t$  might has positive and negative relationship. If the estimated coefficient sign is positive, it means that the rising of interest rate will push the cost of production increase, then level of investment fall. It will cause firms dismiss their worker, hence the rate of unemployment rise. Meanwhile, if ithe estimated coefficient sign is negative, it suggests that the *Philips curve* phenomenon<sup>2</sup> occurs in the U.S.

OIL<sub>t</sub> measures the strength relationship between oil price and unemployment. It will affect production cost of the firms which has dependence of world price oil. It is suggested that the relationship between them is negative. As the price of oil rise, it will increase cost of production, hence the firms will both reduce their product quantity and dimish their worker in order to reduce the cost. Here, the portion of wage, as widely known, is the biggest percentage in producing such products.

 $IPI_t$  denotes industrial production index. As stated at the literatures review part, it can be utilized for measuring amount of output from the manufacturing, mining, electric and gas industries. By using  $IPI_t$ , it is expected that this proxy could represent economic activities in particular industry. In this case, if the index of industrial production increases, thus it will yield a decreasing in unemployment rate, vice versa. In other words, the relationship between them is negative.

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<sup>&</sup>lt;sup>2</sup> For further explanation (see chapter 2 Literature Review).

## 4. EMPIRICAL RESULT AND ANALYSIS

## 4.1. Unit Roots Test

In order to detect the equilibrium relationship, this research will firstly test the order of integration involved in the model, i.e. unemployment rate, real interest rate, oil price, and Industrial production. To do so, *Philip-Perron* (PP) procedures is applied to test for both the level and the first difference. The optimal length of lag applied in the test is determined by using *Aikake* Information Criterion (AIC). As described in Table (1), all variables of PP statistics are lower than MacKinnon critical value. It means all variables are not stationary at the level, however, all the variables are integrated of order one I (1) or stationary at the first difference.

Table 1: PP Unit Roots Test for the Level and the First Differences

Indonesia to the US		Level		FiFi	First Difference			
	Lag	PP Test	AIC	Lag	PP Test	AIC		
Unemployment	-	-				-		
Intercept	1	-2.149	-1.973	1	-15.335	-2.085		
Trend and Intercept	1	-3.482	-1.963	1	-3.482	2.075		
None	1	-2.884	-1.962	1	-2.884	2.096		
Real Interest Rate								
Intercept	1	-2.069	2.053	1	-7.817	1.990		
Trend and Intercept	1	-3.482	1.88	1	-3.482	1.992		
None	1	-2.884	2.285	1	-2.884	2.197		
Oil Price								
Intercept	1	-0.571	-1.049	1	-9.110	-1.075		
Trend and Intercept	1	-3.482	-1.077	1	-3.482	-1.071		
None	1	-2.884	-1.059	1	-2.884	-1.089		
Industria production								
Intercept	1	-0.731	-5.504	1	-8.127	-5.736		
Trend and Intercept	1	-3.482	-5.494	1	-3.482	-5.726		
None	1	-2.884	-5.513	1	-2.884	5.693		

Source: IFS and BLS. Author's calculation.

## **4.2.** The Cointegration Test

The urgency of the cointegration test is to examine "spurious regression" problem. Gujarati (2003: 822) noted that the existence of cointegrating relationships is indicated when two or more non stationary series could have at least a linear combination which is stationary, I (0). In short, the

The figures in the brackets are the order of integration

<sup>\*)</sup> Denotes rejection of a unit root hypothesis based on Mackinnon's critical values at the level of significance  $\alpha=1\%$ , 5%, 10%.

stationary linear combination cancels out the stochastic trends in the two series, which can be proven by checking the residuals from the regressions are stationer, I(0).

Table 2. Residual Based Test: PP Test

PP Statistics
-6.193* (I)

Source: IFS and BLS. Author's calculation.

\*) Denotes rejection of a unit root hypothesis based on Mackinnon's critical value at at the  $\alpha=1\%$ , 5%, 10%.

Residual-based test of PP procedures are be applied in order to test the stationary of residual regression model (Equation 1). Table (2) describes its results. It is clearly showed that the residuals from all regressions are stationer, I (0) which means there are long-run relationships among variables examined in econometric model. Henceforth, this finding is supported by the error correction model (ECM) estimation. Table (3) shows the estimated coefficient of error correction term (ECT) in all of regression results are negative and significant at the level of significances,  $\alpha$ = 5% and 10%. In other words, this result shows long-run relationships among variables involved.

**Table 3. ECM Estimation** 

С	RIR	OIL	IP	ECT	$\mathbb{R}^2$	DW
-0.0005	0.016	-0.041	-1.285*	-0.322*	0.237	2 692
0.0101	0.010	0.0521	0.481	0.065	0.237	2.682

Source: IFS and BLS. Authors' calculation.

Notes: Standard error in parantheses

The asterisk (\*)indicate the rejection of the null hypothesis of a zero coefficient at the 5% significance level.

## 4.3. The Estimated Coefficient Interpretation

To this end, this study only focuses on the impact of factors affecting unemployment rate in the U.S, thus the short run impacts will be ignored. Equation (2) explores that unemployment rate in the U.S. are both positively influenced by real interest rate and oil price. Here, if there is an increasing of 1 percent real interest, it is expected that the unemployment rate will also rise around 0.026 percent. This result is supported by the findings of Meera and Larbani (2004), Hardi et.al (2012) and Putriani, et.al. (2012) that conclude interest rate has a negative impact on the economics performance. Meanwhile, the oil price affects greater, i.e. an increasing of 1 percent in oil price will contribute 0.071 percent rise in jobless people. In other words, the effect of oil price is almost 3 times greater than real interest rate. As expected before, industrial production has a negative significant impact on the level of unemployment. It implicitly means that if there is a decreasing of 1 percent in industrial production then it will turns out an increasing 2.388 percent of jobless people in the U.S.

Table 4: OLS Estimation<sup>3</sup>

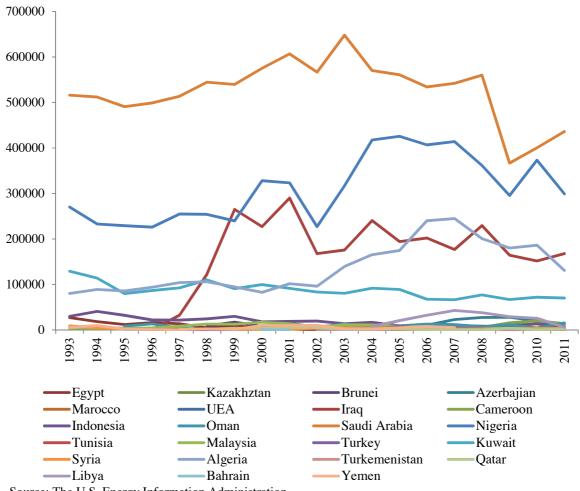
Tuble 4: OEB Estimation							
C	RIR	OIL	IP	$\mathbb{R}^2$	DW		
6.286*	0.026*	0.071*	-2.388*	0.501	2.682		
0.322	0.0028	0.037	0.240				

Source: IFS and BLS. Authors' calculation.

Notes: Standard error in parantheses

The asterisk (\*)indicate the rejection of the null hypothesis of a zero coefficient at the 1%, 5% and 10% significance level.

**Graph 1: The U.S. Oil Imports** 



Source: The U.S. Energy Information Administration

Author's calculation

In addition, the estimated coefficient in table (4) can be inferred that oil might be benefited as a potential bargaining power to oil importer countries in terms of political power. It is widely known

<sup>&</sup>lt;sup>3</sup> Table 4 shows the result after Cohcrane Orcutt procedures applied. To see the difference before and after iteration (see: Appendix).

that the U.S imports almost their oil from muslim countries. Up till now, the development of muslim countries are very left behind from developed countries, particularly to the U.S. In many cases of negotiation, muslim countries may not be able to bargain the offered options, however, it will harm them. The attack of Israel to Palestine, for instance, may not be shortly stopped. If all of oil importer muslim countries do agree to stop their oil import transaction to the U.S and allied states, hence it is expected that the war between Israel and Palestine can be stopped and the power of world economy will be governed by the muslim countries. Graph (1) shows oil volume imported by the U.S.

#### 5. CONCLUSIONS AND POLICY RECOMMENDATIONS

According to the outset empirical findings, there are some analysis and international trade policy recommendations for muslim countries in particular. First, since interest rate has been proven as one of the main root causes of unemployment (read: economic fluctuation), thus it needs to eliminate it from the economic system, especially in muslim countries. In this case, debt -along with interest imposed on it- is the real terrorist creating poverty in many countries, particularly in muslim countries. It might be referred that what is happening in muslim countries today caused by they do not consider the warning of Islam related to the peril of the existence interest (riba/usury) in the economy activities. In order to eliminate interest rate in the economic system, a muslim country could implement "little policy" as a starting point. For instance, by empowering the use of zakah, improving the role of islamic microfinance to eradicate unemployement and poverty, and encouraging society to develop cooperative system. By these three policies, it is expected that the role of interest rate in the economic system can be reduced in short run and totally eliminated in the long run.

Second, it is clearly showed that the estimated coefficient of oil price is 3 times greater compared to real interest rate. Therefore, it is expected to use oil as a political weapon in order to equalize the bargaining power amongst muslim countries to the US in particular. As of graph (1) shows that there is a dependency of the U.S to the almost muslim countries around the world.

Third, it urges to improve the quality of next muslim generation both soft and hard skill. Since the level of education of muslim countries are lower than developed countries, then their (muslim individual) position in terms of jobs will also be lower than others. Therefore, a muslim government must do concern about this matters.

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## **APPENDIX**

#### **OLS before Iteration** *Cochrane Orcutt*

Dependent Variable: UR Method: Least Squares Date: 11/19/12 Time: 08:51 Sample: 1980Q1 2012Q2 Included observations: 130

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C RIR OIL	16.83856 0.023799 0.150172	0.478419 0.001452 0.021542	35.19625 16.39161 6.971167	0.0000 0.0000 0.0000
IP	-2.341639	0.129518	-18.07958	0.0000
R-squared Adjusted R-squared S.E. of regression Sum squared resid Log likelihood F-statistic Prob(F-statistic)	0.796614 0.791771 0.111906 1.577879 102.2824 164.5036 0.000000	Mean depende S.D. depende Akaike info o Schwarz crite Hannan-Quin <b>Durbin-Wat</b>	ent var criterion erion nn criter.	9.016366 0.245234 -1.512037 -1.423805 -1.476186 <b>0.703739</b>

#### Note:

Autocorellation can be informally seen from low value of Durbin-Watson (DW) test i.e. less than 1.2. Based on the regression result above, the value of DW test is 0.703. In order to prove formally, then some tests of classical assumptions are applied as follows.

# **Classical Assumptions Test**

# Autocorelation

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	76.85663	Prob. F(2,124)	0.0000
Obs*R-squared	71.95452	Prob. Chi-Square(2)	0.0000

Since the value of tested probability of X > statistic probability ( $\alpha = 5\%$ ), hence residual of regression estimator has suffered by autocorellation.

## Heteroscedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	6.821465	Prob. F(3,126)	0.0003
Obs*R-squared	18.16395	Prob. Chi-Square(3)	0.0004
Scaled explained SS	12.78388	Prob. Chi-Square(3)	0.0051

Since the value of tested probability of X > statistic probability ( $\alpha = 5\%$ ), hence the regression equation has suffered by heteroscedasticity.

# Multicoleniarity

	UR	RIR	OIL	IP
UR	1	0.2496846	0.5157024	-0.0241626
RIR	0.249684	1	0.5718307	0.9467975
OIL	0.515702	0.5718307	1	0.4823032
IP	-0.024162	0.9467975	0.4823032	1

Generally, the value of estimated coefficient correlation all of observations shows is bigger than 0.80, except RIR variable with IP, viceversa. In other words, there is no multicoleniarity indication on the regression model. Nevertheless, according to Gujarati (2003), the multicoleniarity indication can be ignored since the model may yield BLUE estimation.

#### **OLS After Iteration Cochrane Orcutt**

Dependent Variable: UR2 Method: Least Squares Date: 11/19/12 Time: 18:01 Sample (adjusted): 1980Q2 2012Q2

Included observations: 129 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.285999	0.321849	19.53091	0.0000
RIR2 OIL2	0.025957 0.070725	0.002762 0.037219	9.397137 1.900240	0.0000 0.0597
IP2	-2.387777	0.037219	-9.938426	0.0000
R-squared	0.501211	Mean dependent var		3.309818
Adjusted R-squared	0.489240	S.D. depende	ent var	0.116498
S.E. of regression	0.083258	Akaike info	criterion	-2.103222
Sum squared resid	0.866492	Schwarz criterion		-2.014546
Log likelihood	139.6578	Hannan-Quinn criter.		-2.067191
F-statistic	41.86898	<b>Durbin-Wat</b>	son stat	2.682429
Prob(F-statistic)	0.000000			

## Note:

Based on the regression result above, the value of DW test has changed, i.e. 2.68. In other words, the result has no longer suffered by autocorellation.

# PERTUMBUHAN FIRMA, PEMBIAYAAN KEWANGAN DAN KEBEBASAN EKONOMI: SUATU DATA PANEL FIRMA PATUH SHARIAH DI BURSA MALAYSIA

Musa Muhamad Ali<sup>1</sup>

#### **ABSTRAK**

Kertas ini bertujuan mengkaji secara empirikal bagaimana bentuk pembiayaan kewangan firma berstatus patuh syariah (sama ada pembiayaan dalaman atau luaran) dan kebebasan ekonomi mempengaruhi pertumbuhan firma patuh syariah yang tersenarai di Bursa Malaysia dari tahun 2000-2010. Walaubagaimanapun penggunaan data konvensional turut dilibatkan bagi melihat asas perbandingan. Kaedah data panel statik dengan menggunakan model kesan tetap (fixed effect) telah digunakan untuk menganggar penentu pertumbuhan firma. Hasil kajian mendapati sumber kewangan dalaman dan kewangan luaran berhubungan positif dan signifikan mempengaruhi pertumbuhan firma. Di samping itu, pertumbuhan firma patuh syariah lebih sensitif dipengaruhi oleh kewangan dalaman berbanding dengan kewangan luaran manakala pertumbuhan firma patuh syariah berhubungan negatif dengan kebebasan ekonomi.

Kata kunci: kekangan kewangan; kebebasan ekonomi; pertumbuhan firma; data panel statik.

#### **ABSTRACT**

This paper aims to examine empirically how the types of finance (sources of financing) and economic freedom influencing the growth of syariah compliance firms' in which listed in Bursa Malaysia for the period of 2000-2010. However, convensional data for regression is used for make a comparison. A static panel data technique namely a fixed effect model is used to estimate the determinants of firms' growth. The findings revealed that the internal and external financing has a positive effects and statistically significance in influencing the firms' growth. The growth of syariah compliance firms' are more sensitive to internal finance than external finance. On the other hand, the growth of syariah compliance firms' are negatively affected by economic freedom.

**Keywords**: financial constraint, economic freedom, firms' growth, static panel data

## 1. PENGENALAN

Pertumbuhan firma adalah penting bagi memastikan sesebuah firma terus menikmati keuntungan sekaligus menggalakkan perkembangan ekonomi sesebuah negara (lihat Carrisoza, (2007). Di samping itu, pertumbuhan firma juga merupakan pra syarat kepada kemajuan inovasi dan motif utama perubahan teknologi (Pagano dan Schivardi, 2003). Persoalannya, apakah faktor-faktor yang mempengaruhi pertumbuhan firma? Kajian oleh Guariglia et al. (2011) dan Rahaman (2011) telah merumuskan sumber kewangan iaitu pembiayaan dalaman dan luaran adalah pembolehubah yang penting dalam mempengaruhi pertumbuhan firma. Sesetengah firma terutamanya firma kecil yang menghadapi kekangan kewangan sangat bergantung kepada sumber pembiayaan dalaman untuk menjana pertumbuhan, manakala firma besar yang memiliki profil kredit yang lebih kukuh tidak perlu terlalu bergantung kepada sumber kewangan dalaman kerana mempunyai alternatif sumber pembiayaan luaran.

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Selain daripada sumber pembiayaan, kebebasan ekonomi di sesebuah negara juga merupakan sebagai salah satu faktor yang boleh mempengaruhi pertumbuhan firma. Kebebasan ekonomi yang diberi kepada firma boleh meningkatkan produktiviti dan akhirnya meningkatkan pertumbuhan firma daripada aspek pertumbuhan aset, jualan, dan pelaburan. Bukti makro yang mengaitkan kebebasan ekonomi dengan pertumbuhan juga merumuskan bahawa negara yang memiliki darjah kebebasan ekonomi yang tinggi cenderung menikmati pertumbuhan ekonomi yang lebih cepat berbanding dengan negara lain (lihat Heckelman dan Knack, 2009; Powell, 2003; DeHaan dan Sierman, 1998). Kajian Azman-Saini et al. (2010) juga mendapati kebebasan ekonomi memainkan peranan yang penting sebagai pemacu pertumbuhan ekonomi dalam jangka panjang, dan negara yang memiliki darjah kebebasan ekonomi yang tinggi memperoleh faedah yang signifikan daripada kehadiran firma multinasional. Selain itu, kajian Sufian dan Habibullah (2010) telah mendapati kebebasan ekonomi signifikan mempengaruhi pertumbuhan firma dalam industri perbankan di Malaysia.

Oleh sebab itu kertas ini dibuat bertujuan untuk memberikan bukti empirikal baharu mengenai pengaruh sumber pembiayaan (pembiayaan dalaman dan luaran) dan kebebasan ekonomi ke atas pertumbuhan firma patuh syariah (*syariah compliance*) yang tersenarai di Bursa Malaysia. Ada dua sebab mengapa kajian ini sangat menarik untuk diterokai, dalam konteks negara Malaysia. Pertama, mutakhir ini, bilangan firma yang tersenarai di Bursa Malaysia telah berkembang dengan pesat sejak tahun 2000. Misalnya, dalam tempoh 11 tahun (2000-2010), penyenaraian firma baru di Bursa Malaysia telah meningkat hampir 30 peratus. Kedua, berdasarkan laporan daripada Suruhanjaya Sekuriti Malaysia mendapati penyenaraian firma patuh syariah telah mengalami peningkatan mendadak dan telah mendominasi bilangan firma konvensional di Bursa Malaysia (sila rujuk Jadual 3, di bahagian Lampiran). Justeru, adalah menarik untuk mengkaji secara empirikal bagaimana pertumbuhan firma patuh syariah dipengaruhi oleh sumber kewangan yang diperolehi.

Kajian ini memberikan sumbangan yang signifikan terhadap literatur dalam bidang 'finance-growth' nexus daripada tiga aspek. Pertama, sebahagian besar kajian terdahulu mengkaji isu 'finance-growth' dengan menggunakan data makro, dan secara umum mendapati pembangunan kewangan mempengaruhi pertumbuhan ekonomi (lihat Demirguc-Kunt et al. (1998), Levine et al. (2000), Ang (2007), Ang (2008) dan Karim et al. (2008)). Sebaliknya, kajian ini menyambung karya lepas dengan menggunakan data di peringkat mikro iaitu dengan melihat peranan kewangan (kewangan dalaman dan kewangan luaran) terhadap pertumbuhan firma patuh syariah di Malaysia. Penggunaan data mikro membolehkan firma secara individu membuat pilihan sumber pembiayaan yang bersesuaian untuk mencapai pertumbuhan yang diingini, di samping memberi panduan kepada firma untuk meningkatkan keuntungan pada masa hadapan. Kedua, walaupun kajian oleh Guariglia et al. (2011) mendapati kekangan kewangan memberi kesan positif kepada pertumbuhan firma, namun mereka hanya memberi fokus kepada pembiayaan kewangan dalaman sahaja. Oleh itu, kajian ini dilanjutkan dengan melihat pengaruh kewangan luaran terhadap pertumbuhan firma patuh syariah di Malaysia. Ketiga, selain pemboleh ubah kewangan, kajian ini juga mengambil kira pengaruh kebebasan ekonomi terhadap pertumbuhan firma. Kajian Sufian dan Habibullah (2010) hanya melihat hubungan kebebasan ekonomi dengan prestasi bank-bank di Malaysia, tetapi tiada kajian di Malaysia yang mengaitkan pertumbuhan firma dengan kebebasan ekonomi.

Dapatan kajian bolehlah diringkaskan seperti berikut. Pertama, kajian ini menyokong hipotesis 'finance-led growth' di peringkat firma, yang mana terdapat hubungan yang positif dan signifikan antara kewangan dalaman dan luaran dengan pertumbuhan firma. Kedua, pertumbuhan firma patuh syariah lebih sensitif dipengaruhi oleh kewangan dalaman berbanding dengan kewangan luaran. Ketiga, pertumbuhan firma patuh syariah berhubungan negatif dengan kebebasan ekonomi.

Untuk memudahkan analisis, kertas ini dibahagikan kepada lima bahagian. Bahagian kedua membuat sorotan kajian lepas. Bahagian ketiga pula membincangkan metodologi kajian. Hasil kajian dibincangkan dalam bahagian keempat, manakala bahagian kelima merumus dan membincangkan beberapa saranan untuk implikasi dasar.

## 2. KAJIAN LEPAS

Kebanyakan kajian lepas yang mengkaji hubungan antara pertumbuhan dengan kewangan (*finance-growth nexus*) menggunakan data di peringkat agregat (makro). Kajian empirikal yang paling awal telah dijalankan oleh Goldsmith (1969), McKinnon (1973) dan Shaw (1973) mendapati wujud hubungan yang signifikan antara pembangunan sektor kewangan dengan pertumbuhan ekonomi di beberapa buah negara. Seterusnya, King dan Levine (2000) telah menggunakan data panel di 71 buah negara dan mendapati pembangunan dalam sektor kewangan merupakan prasyarat kepada pertumbuhan ekonomi.

Walau bagaimanapun, sehingga kini terdapat batasan kajian terhadap hubungan antara 'finance-growth' yang melibatkan data pada peringkat mikro. Kajian di peringkat mikro yang menggunakan data peringkat industri telah dilakukan oleh Rajan dan Zingales (1998), manakala Demirguc-Kunt dan Maksimovic (1998) melakukan kajian pada peringkat firma. Sebagai contoh, kajian Demirguc-Kunt dan Maksimovic (1998) mendapati pembangunan sistem perbankan (pembiayaan luar) dan kecairan pasaran saham memberikan kesan yang positif terhadap pertumbuhan firma. Keputusan kajian ini menjelaskan kepentingan sumber kewangan luaran dan pasaran modal sebagai penjana pertumbuhan firma, dan seterusnya petumbuhan ekonomi negara.

Kajian 'finance-growth nexus' pada peringkat firma kemudiannya dilanjutkan oleh Love (2003) dan Beck et al. (2004), dan mendapati pengaruh kekangan kewangan (dalaman atau luaran) terhadap pertumbuhan firma amat bergantung kepada tahap pencapaian sistem kewangan sesebuah negara. Sebagai contoh, sistem kewangan yang lemah menyebabkan firma lebih bergantung kepada kewangan dalaman, sebaliknya sistem pembangunan kewangan yang baik menyebabkan firma lebih menumpukan pembiayaan luaran. Kajian Rahaman (2011) juga mendapati pembiayaan kewangan signifikan mempengaruhi pertumbuhan firma yang bergantung kepada kemudahan atau prasarana sistem kewangan. Misalnya, kesan kewangan dalaman terhadap pertumbuhan firma berkurangan apabila kemudahan terhadap akses kewangan luaran seperti kemudahan pinjaman bank meningkat. Maka, firma perlu beralih kepada pembiayaan kewangan luaran sebagai sumber utama kewangan bagi meningkatkan pertumbuhan.

Di Malaysia, kajian mengenai hubungan antara sektor kewangan dengan pertumbuhan ekonomi lebih memberikan tumpuan kepada isu makro. Sebagai contoh, kajian oleh Ansari (2002), Ang (2007) dan Karim et al. (2008) telah menyokong hipotesis pembangunan kewangan mendorong pertumbuhan ekonomi (*finance-led growth*). Walau bagaimanapun, sehingga kini tiada kajian empirikal di Malaysia yang mengkaji hubungan antara kewangan dengan pertumbuhan di peringkat firma. Justeru, kajian ini memberikan sumbangan yang bermakna kepada literatur '*finance-led growth*' dengan memberi tumpuan kepada pengaruh pembiayaan kewangan dalaman dan pembiayaan kewangan luaran terhadap pertumbuhan firma patuh syariah yang tersenarai di Bursa Malaysia.

Kajian kebebasan ekonomi dan kesannya ke atas pertumbuhan firma amat terbatas maklumatnya. Sebahagian besar kajian peringkat makro melihat kesan kebebasan ekonomi terhadap pertumbuhan ekonomi sesebuah negara. Sebagai contoh, kajian Heckelman (2000) mendapati wujud hubungan yang positif antara kebebasan ekonomi dengan pertumbuhan ekonomi. Kebanyakan kajian peringkat mikro melihat pengaruh kebebasan ekonomi terhadap pencapaian di industri perbankan sesebuah negara (Chantapong, 2005; Heffernan dan Fu, 2008). Misalnya, kajian oleh Beach dan Kane, 2008 menyimpulkan campurtangan kerajaan yang besar terhadap sistem perbankan menyebabkan berlaku ketidakefisenan dan menggalakkan korupsi. Di Malaysia, kajian yang dilakukan oleh Sufian dan Habibullah (2010) mendapati semakin tinggi darjah kebebasan ekonomi secara keseluruhan (*overall economic freedom*) akan meningkatkan keuntungan bank di Malaysia.

## 3. METODOLOGI KAJIAN

#### Data

Kajian ini menggunakan maklumat kewangan syarikat yang tersenarai di Bursa Malaysia yang merangkumi tempoh masa 11 tahun iaitu daripada tahun 2000 sehingga 2010. Data maklumat kewangan syarikat tersebut diperolehi daripada '*Thomson Financial Data Stream*'. Sehingga tahun 2010, terdapat secara puratanya sebanyak 1428 buah firma yang tersenarai di Bursa Malaysia yang terdiri daripada dua kategori iaitu firma patuh syariah dan konvensional,yang mana teras aktiviti utama berbeza mengikut sektor ekonomi.. Oleh kerana status firma patuh syariah tidak bersifat mutlak dan akan ditarik balik jika tidak memenuhi syarat yang ditetapkan (rujuk suruhanjaya sekuriti bahagian Majlis Patuh Syariah), maka data yang dipecahkan kepada dua bahagian adalah tidak konsisten. Ini kerana dalam tempoh 11 tahun, firma bila-bila masa boleh bertukar status. Justeru, data yang digunakan untuk tujuan penganggaran merupakan data panel yang tidak seimbang (unbalanced panel). Walaupun fokus kajian adalah terhadap firma patuh syariah, namun data firma konvensional di Bursa Malaysia turut diambil kira bagi melihat perbandingan pembiayaan kewangan dengan firma patuh syariah dan kesannya terhadap pertumbuhan firma.

## Definisi dan Keterangan Pembolehubah

Pembolehubah Bersandar

Pembolehubah bersandar dalam kajian ini adalahpertumbuhan firma yang merujuk kepada pertumbuhan aset.. Pertumbuhan firma dikira seperti berikut:

Pertumbuhan firma = 
$$\frac{\text{Aset baru - aset asal}}{\text{aset asal}} \times 100$$

atau

$$AG_{i,t} = \frac{A_{i,t} - A_{i,t-1}}{A_{i,t-1}} \times 100$$

yang mana, AG ialah pertumbuhan firma (aset), dan Aialah jumlah aset.

## Pembolehubah Bebas

Terdapat 3 pembolehubah bebas yang bertindak sebagai pembolehubah penerang bagi mengkaji hubungannya dengan pembolehubah bersandar (pertumbuhan aset). Antaranya;

i. Sumber pembiayaan kewangan dalaman (internal financing) atau INF

Ia merujuk kepada aliran tunai firma yang terlibat sebagai dana dalaman bagi menggerakkan operasi firma. Sumber kewangan dalaman dinyatakan sebagai peratusan daripada jumlah aset seperti berikut:

$$INF = \frac{Aliran tunai}{Aset}$$

Yang mana aliran tunai diperolehi daripada pendapatan sebelum cukai ditambah dengan susut nilai.

ii. Sumber pembiayaan kewangan luaran (External Financing) atau EXF

Ia merujuk kepada pinjaman jangka masa panjang yang dibuat oleh firma bagi mengerakkan operasi firma. Formula bagi sumber pembiayaan kewangan luar adalah seperti berikut:

$$EXF = \frac{\text{Pinjaman jangka panjang}}{\text{Aset}}$$

#### iii. Kebebasan Ekonomi atau EFR

Ia merupakan indeks yang menggambarkan darjah kebebasan ekonomi sesebuah negara. Indeks ini diberi dalam bentuk peratusan. Semakin tinggi peratus yang diberi, semakin bebas sesuatu dasar kerajaan terhadap aktiviti ekonomi sesebuah negara. Data indeks kebebasan ekonomi tersebut diperolehi daripada 'Heritage Foundation'. [lihat Jadual 4 di Bahagian Appendix]

#### MODEL ASAS

Untuk melihat hubungan antara pertumbuhan firma dengan sumber kewangan (kewangan dalaman dan kewangan luaran) dan kebebasan ekonomi, model asas telah dibina seperti berikut:

$$AG_{it} = \alpha_0 + \beta_1 INF_{it} + \beta_2 EXF_{it} + \beta_3 EFR_t + \varepsilon_{it}$$
 [1]

yang mana,

AG ialah pertumbuhan firma, İ ialah firma, dan t ialah tahun.

 $\alpha_0$  ialah nilai pintasan

 $\beta_1$  ialah nilai koefisien kewangan dalaman

*INF* ialah kewangan dalaman

 $\beta_2$  ialah nilai koefisen kewangan luaran

EXF ialah kewangan luaran

B<sub>3</sub> ialah nilai koefisen indeks kebebasan ekonomi

EFR ialah indeks kebebasan ekonomi

 $\varepsilon_{it}$  ialah terma ralat, yang diandaikan  $\varepsilon_{it}$  =  $IID(0, \sigma_{\varepsilon}^2)$ 

Persamaan [1] merupakan model data panel statik dengan menggunakan kesan tetap (fixed effect).

Nilai koefisien untuk setiap pembolehubah bebas dijangka adalah positif. Ini berdasarkan teori pertumbuhan firma yang berhubung secara positif dengan pembangunan kewangan dan kebebasan ekonomi. Ini bermakna, peningkatan dalam pembolehubah penerang akan menyebabkan peningkatan dalam pertumbuhan firma.

## PENGESANAN DATA PEMENCILAN (OUTLIERS)

Untuk mengesan data 'outliers', pengukuran statistik DFITS telah digunakan. Kaedah ini telah diperkenalkan oleh Belsey et al. (1980) dan kemudian dikemaskini oleh Belsey (1991). Statistik DFITS adalah melihat perbezaan di antara 'di dalam sampel' dan 'di luar sampel' yang mana nilai yang dijangka untuk pemerhatian kali ke-j. (Baum, 2006). DFITS juga menilai hasil daripada penyesuaian model regresi 'termasuk' dan 'tidak termasuk' pemerhatian. Statistik DFITS dihitung seperti berikut:

**DFITS** 
$$_{j} = r_{j} \sqrt{\frac{k_{j}}{1 - k_{j}}}$$
 di mana  $r_{j}$  adalah ralat standard, di mana  $r_{j} = \frac{e_{j}}{s_{j} \sqrt{1 - k_{j}}}$  dengan

 $\mathbf{s}_j$  merujuk kepada 'root mean squared error of the regression equation' dengan pemerhatian  $\mathbf{j}_{ih}$  dikeluarkan,  $\mathbf{e}_j$  adalah ralat dan  $\mathbf{h}_j$  adalah nilai leveraj.

Melalui penggunaan statistik ini, Kesannya data di dapati mengalami pengurangan cerapan sekali lagi. Selain itu, DFITS juga menilai kesesuaian model regresi. Terdapat 3 langkah dalam ujian statistik DFITS, pertamanya ialah mengira DFITS dalam model penganggaran terhadap pertumbuhan firma. Keduanya ialah menyusun statistik DFITS yang dikira secara menurun dan yang ketiga ialah dengan mengira nilai 'cut-off' yang dicadangkan sebagai penanda pemboleh ubah dengan mengandaikan nilai DFITS untuk setiap 'cut-off' = 1. Seterusnya senarai firma yang dikesan sebagai 'outliers' akan diperolehi.

Pada asal kajian, terdapat sebanyak 10,703 cerapan dengan 973 buah firma secara keseluruhan yang tersenarai di Bursa Malaysia yang terdiri daripada dua kategori iaitu firma patuh syariah dan konvensional. Namun begitu, setelah mengambil kira faktor seperti data dan maklumat kewangan yang tidak lengkap yang dikategorikan sebagai 'missing values generated', menjadikan jumlah firma yang dicerap adalah 10,673 cerapan dengan patuh syariah melibatkan 6684 cerapan (785 buah firma patuh syariah), manakala bagi firma konvensional melibatkan 3989 cerapan (443 buah firma konvensional). Atas sebab itulah wujud jumlah yang tidak seragam antara cerapan keseluruhan dengan sub cerapan yang terdiri daripada bahagian syariah dan tidak konvensional.

Memandangkan status firma patuh syariah tidak bersifat mutlak dan akan ditarikbalik jika tidak memenuhi syarat yang ditetapkan (rujuk suruhanjaya sekuriti bahagian majlis patuh syariah), maka data yang dipecahkan kepada dua bahagian adalah tidak konsisten. Ini kerana dalam tempoh 11 tahun, firma bila-bila masa boleh bertukar status. Kesannya didapati wujud ketidakseragaman di antara jumlah keseluruhan firma (firma patuh syariah dan konvensional) dan pecahan sub sektor di antara patuh syariah dan konvensional. Justeru, permasalahan data yang seperti yang dinyatakan sebelum ini untuk tujuan penganggaran merupakan data panel yang tidak seimbang (unbalanced panel) seperti mana pada jadual 1.

Jadual 1: Data sebelum dan selepas pemencilan (outlier)

Guana 10 Butta ses et ann sere pus permenentan (sucher)					
Kategori Firma	Sebelum	Selepas			
	pemencilan	pemencilan			
Keseluruhan	1428	1228			
(Firma patuh syariah & Konvensional)					
Firma Patuh Syariah	823	785			
Firma Konvensional	605	443			

#### 4. KEPUTUSAN KAJIAN

Jadual 2 meringkaskan keputusan penganggaran penentu pertumbuhan firma. Fokus utama adalah mengkaji pengaruh sumber kewangan (kewangan dalaman dan luaran) dan kebebasan ekonomi terhadap pertumbuhan firma patuh syariah. Walaubagaimanapun analisa terhadap firma konvensional turut dirumuskan sebagai asas perbandingan. Dapatan kajian bagi keseluruhan sampel menunjukkan sumber kewangan dalaman berhubung secara positif dan signifikan pada aras keertian 1 peratus dengan pertumbuhan firma. Misalnya, kenaikan 1% sumber kewangan dalaman menyebabkan peningkatan 0.21% pertumbuhan firma, sebaliknya peningkatan 1% sumber kewangan luaran telah meningkatkan pertumbuhan firma sebanyak 0.15%. Penemuan kajian ini selaras dengan kajian Demirguc-Kunt dan Maksimovic (1998) yang mendapati pengaruh kewangan dalaman lebih dominan berbanding dengan kewangan luaran terhadap pertumbuhan firma.

Daripada aspek kebebasan ekonomi, didapati wujud hubungan yang negatif iaitu peningkatan 1% dalam kebebasan ekonomi telah menyebabkan pertumbuhan firma merosot sebanyak 0.014%. Ini selaras dengan kajian yang dibuat oleh Sufian dan habibullah (2010) yang mendapati wujud hubungan negatif antara kebebasan monetari (sub daripada kebebasan ekonomi keseluruhan) dengan pencapaian bank – bank di Malaysia. Memandangkan pencapaian bank yang baik juga mewakili pertumbuhan

firma sesebuah bank, maka penemuan empirikal mendapati semakin tinggi campurtangan kerajaan dalam pasaran sebenarnya berupaya meningkatkan keuntungan bank ( pertumbuhan firma) di Malaysia. Ini berasaskan rasional iaitu dasar monetari yang stabil dan boleh dipercayai (reliable) akibat kurangnya kebebasan ekonomi menggalakkan dan merangsang pelaburan, simpanan dan pelan jangka masa panjang.

## Regresi Sub Sampel

Jadual 2 [kolum kedua dan ketiga] meringkaskan keputusan penganggaran model pertumbuhan firma patuh syariah dan konvensional. Dapatan kajian menunjukkan pertumbuhan firma patuh syariah berhubungan positif dan signifikan dipengaruhi oleh sumber kewangan dalaman dan luaran. Pertumbuhan firma patuh syariah lebih sensitif dipengaruhi oleh sumber kewangan dalaman berbanding dengan sumber kewangan luaran. Buktinya, peningkatan 1% kewangan dalaman telah meningkatkan pertumbuhan firma sebanyak 0.4%. Sebaliknya, peningkatan sumber kewangan luaran sebanyak 1% hanya meningkatkan pertumbuhan firma sebanyak 0.14%. Sebaliknya, kebebasan ekonomi berhubungan negatif dan signifikan mempengaruhi pertumbuhan firma patuh syariah. Contohnya, peningkatan 1% indeks kebebasan ekonomi telah mengurangkan pertumbuhan firma patuh syariah sebanyak 0.013%.

Bagi firma konvensional, sumber kewangan (dalaman dan luaran) juga menunjukkan hubungan yang positif dan signifikan mempengaruhi pertumbuhan firma pada aras keertian 1%. Walau bagaimanapun, pertumbuhan firma konvensional lebih sensitif dipengaruhi oleh kewangan luaran berbanding dengan kewangan dalaman. Sebagai contohnya, peningkatan 1% kewangan luaran telah meningkatkan pertumbuhan firma sebanyak 0.28% berbanding kewangan dalaman yang hanya meningkatkan pertumbuhan firma sebanyak 0.18%. Dapatan kajian ini selaras dengan kajian Demirguc-Kunt dan Maksimovic (1998) yang mendapati pembiayaan daripada sumber kewangan luaran cenderung menyebabkan pertumbuhan firma yang lebih besar berbanding dengan pembiayaan sumber dalamam. Pertumbuhan firma konvensional berhubungan positif dengan kebebasan ekonomi, tetapi secara statistiknya tidak signifikan. Ini menjelaskan pertumbuhan firma konvensional tidak dipengaruhi oleh tahap kebebasan ekonomi negara.

Jadual 2: Penentu Pertumbuhan Firma: Penganggaran Data Panel Statik – Model Kesan Tetap

Pembolehubah	Keseluruhan								
bersandar:	(Firma Patuh Syariah			Firma Patuh Syariah			Firma Konvensional		
	& Konvensional)								
Pertumbuhan									
firma (aset)									
Pembolehubah	Koefisien	Nilai	Nilai-p	Koefisien	Nilai-	Nilai -p	Koefisien	Nilai	Nilai-p
tak bersandar:	(ralat	-t		(ralat	t		(ralat	-t	
	piawai)			piawai)			piawai)		
Pembiayaan	0.207	15.47	0.000***	0.395	20.22	0.000***	0.186	9.31	0.000***
kewangan	(0.013)			(0.019)			(0.020)		
dalaman									
Pembiayaan	0.015	2.89	0.004***	0.138	2.87	0.004***	0.276	2.38	0.018***
kewangan	(0.052)			(0.048)			(0.116)		
luaran									
Kebebasan	-0.014	-5.24	0.000***	-0.0135	-5.63	0.000***	0.006	0.80	0.426
ekonomi	(0.003)			(0.002)			(0.008)		
$\mathbb{R}^2$	0.0443			0.0651			0.0279		
Bilangan	10, 673 cerapan			6684 cerapan			3989		
pemerhatian									
Bilangan	1228			785			443		
kumpulan									

**Nota:** Pembolehubah bersandar ialah pertumbuhan firma. Pembolehubah bebas ialah pembiayaan kewangan dalaman, pembiayaan kewangan luaran dan kebebasan ekonomi. Tanda aras keertian \*\*\* adalah signifikan pada aras keertian 1%, \*\*signifikan pada aras keertian 5%, dan \* signifikan pada aras keertian 10%.

Angka dalam kurungan ialah ralat piawai.

## 5. RUMUSAN DAN IMPLIKASI

Kajian empirikal mengenai hipotesis kewangan menerajui pertumbuhan (*finance-led growth hypothesis*) pada peringkat makro telah pun dikaji dengan mendalam oleh penyelidik sama ada di negara maju mahupun di negara sedang membangun. Walau bagaimanapun, kajian pada peringkat data mikro (data firma) belum lagi dikaji dengan mendalam, terutama bagi kes negara Malaysia. Maka, ketandusan literatur ini telah memberikan motivasi kajian untuk menerokai pengaruh faktor kewangan firma (kewangan dalaman dan luaran) terhadap pertumbuhan firma patuh syariah dan konvensional yang tersenarai di Bursa Malaysia. Kaedah data panel statik dengan menggunakan model kesan tetap telah digunakan untuk menganggar fungsi pertumbuhan firma.

Dapatan kajian dapatlah diringkaskan seperti berikut. Pertama, pertumbuhan firma patuh syariah dan konvensional signifikan dan berhubungan positif dengan kewangan dalaman dan kewangan luaran. Ini menunjukkan sumber pembiayaan sama ada dana dalaman atau dana luaran adalah pra syarat kepada perkembangan firma. Kedua, pertumbuhan firma patuh syariah lebih sensitif dipengaruhi oleh sumber kewangan dalaman berbanding dengan sumber kewangan luaran. Sebaliknya, pertumbuhan firma konvensional lebih sensitif kepada sumber kewangan luaran berbanding dengan kewangan dalaman. Penemuan kajian ini menunjukkan firma patuh syariah perlu meningkatkan pembiayaan daripada sumber dalaman untuk mencapai kelangsungan pertumbuhan pada masa hadapan. Ketiga, pertumbuhan firma patuh syariah signifikan dan berhubungan negatif dengan kebebasan ekonomi, sebaliknya, pertumbuhan firma konvensional tidak signifikan dipengaruhi oleh kebebasan ekonomi. Keputusan ini menunjukkan semakin tinggi tahap kebebasan ekonomi, maka semakin terjejas pertumbuhan firma patuh syariah, sebaliknya, kebebasan ekonomi yang tinggi tidak menggugat prestasi pertumbuhan firma konvensional.

Penemuan kajian ini memberikan beberapa implikasi penting kepada pelaksanaan dasar. Pertama, firma patuh syariah sewajarnya meningkatkan pembiayaan melalui sumber kewangan dalaman untuk meningkatkan pertumbuhannya. Ini memberi isyarat bahawa, firma patuh syariah mengalami kekangan kewangan kerana terpaksa bergantung kepada kewangan dalaman untuk mendapatkan dana. Sebaliknya, firma konvensional tidak perlu terlalu bergantung kepada kewangan dalaman, kerana mereka mempunyai profil kredit yang kukuh untuk mendapatkan pembiayaan daripada sumber luaran. Kedua, Majlis Penasihat Syariah di Suruhanjaya Sekuriti dan di Bank Negara Malaysia (BNM), perlulah memantau dana yang diperolehi daripada sumber luaran kerana berkemungkinan terdedah daripada unsur riba. Justeru, langkah atau peraturan dengan meletakkan nisbah yang tinggi terhadap pembiayaan kewangan dalaman adalah satu langkah yang pragmatik untuk mengelakkan unsur riba daripada aktiviti pinjaman daripada sumber luaran.

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Jadual 3: Bilangan firma patuh syariah dan konvensional yang tersenarai di Bursa Malaysia dari tahun 2000 - 2010

Tohum	Bilangan Firma Patuh	Bilangan Firma	Peratusan lulus	
Tahun	Syariah	Konvensional	syariah (%)	
2000	604	185	77	
2001	627	177	78	
2002	652	176	79	
2003	704	170	81	
2004	812	165	83	
2005	826	159	84	
2006	886	143	86	
2007	876	147	86	
2008	843	145	85	
2009	846	113	88	
2010	847	113	88	

Sumber: Diubahsuaikan dari Laporan Suruhanjaya Sekuriti Malaysia.

Jadual 4: Indeks darjah kebebasan ekonomi

Tahun	Indeks kebebasan ekonomi
	keseluruhan (%)
2000	66
2001	60.2
2002	60.1
2003	61.1
2004	59.9
2005	61.9
2006	61.6
2007	63.8
2008	63.9
2009	64.6
2010	64.8

Sumber: Heritage Foundation

# THE REAL DETERMINANTS OF FINANCIAL CRISIS AND HOW TO RESOLVE IT IN ISLAMIC ECONOMICS PERSPECTIVE

Ascarya<sup>1</sup>

#### **ABSTRACT**

The ongoing global financial crisis, which was triggered by US subprime mortgage crisis since 2007 and has spread to some EU countries, is just a repeat of previous financial crises. The new financial crisis usually has wider, deeper and more devastating impacts on the economy and the people. In the history of capitalism, there have actually been crises almost continuously for the past 200 years except for during one short period, 1945-1971, under Bretton Woods Agreement. Failing to learn the lessons from history will assure that the crises will continue to hobble the financial system. This study applies Vector Error Correction Model (VECM) to determine and compare conventional and Islamic quantitative variables of the financial crisis, as well as to analyze the impact of the real determinants of financial crisis to output and inflation.

The results show that the real determinants of financial crisis are structural in unstable monetary system (interest system and fiat money system), poor governance (administered price), and unsustainable fiscal system (volatile food), as well as misbehavior of economic actors (expectation). Interest system (Monetary) is the number one determinant of financial crisis with 43.66% share in inducing inflation and 24.85% share in curbing economic growth, followed by administered price (Governance) with 14.41% share in inducing inflation and 5.33% share in curbing economic growth, fiat money (Monetary) with 5.54% share in inducing inflation and 13.49% share in curbing economic growth, and volatile food (Fiscal) with 5.79% share in inducing inflation and 9.11% share in curbing economic growth. Meanwhile, the best cure of financial crisis is single global currency (External) and just money (Monetary) using gold standard with 8.03% share in curbing inflation and 3.50% share in inducing economic growth, followed by profit-and-loss sharing (Monetary) with 0.02% share in curbing inflation and 0.09% share in inducing economic growth.

Keywords: Financial crisis, Islamic economic perspective, VECM

#### 1. INTRODUCTION

The ongoing global financial crisis, which was triggered by US subprime mortgage crisis since 2007 and has spread to some EU countries, is just a repeat of previous financial crises. The new financial crisis usually has wider, deeper and more devastating impacts on the economy and the people than those of previous ones. In the history of capitalism, there have actually been crises almost continuously for the past 200 years except for during one short period, 1945-1971, under Bretton Woods Agreement. Failing to learn the lessons from history will assure that the crises will continue to hobble the financial system. One aphorism says that those who cannot remember the past are condemned to repeat it (Financial Crisis Inquiry Commission-FCIC, 2011; pp.444). Under Islamic tradition, Muslims should not make the same mistake twice, as mentioned in Al Qur'an at the end of surah Al Bagarah [2]:275.

The first financial crisis has been recorded in England 1825 and 1837. In the past century, financial crises started to erupt in 1915 and the world entered into great depression in 1929 as well as two world wars. After World War II, the world entered into new international monetary arrangement

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under Bretton Woods Agreement (BWA) in 1945. Unfortunately, BWA collapsed in 1971 and financial crises have spread wider all over the world. There is no one country that could escaped from financial crisis, even for some countries that have generally followed some sound fiscal and monetary policies (Chapra 2008). Moreover, financial crises have happened not because of cyclical or managerial failures, but because of structural failures in various countries under very different regulatory systems as well as at different stages of economic development (Lietaer, *et al.*, 2009).

A new database of financial crises in the period of 1970-2011 can be read in Laeven and Valencia (2012) which covers 147 banking crises, 218 currency crises (10 episodes in 2008-2011), and 66 sovereign debt crisis, including 68 twin crises and 8 triplet crises.

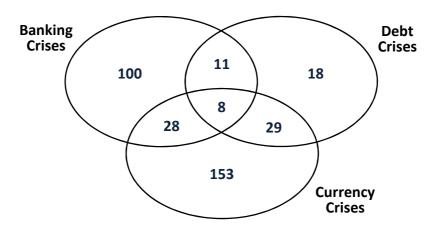


Figure 1.1: Simultaneous Crises in the Period of 1970 – 2011

Source: Laeven and Valencia (2012), with correction.

Indonesia is no exception. Multi-dimensional crisis has hit Indonesia in 1997-1998, inflation has jumped up to 64% and Rupiah value has plummeted from Rp2600/US\$ to Rp11000/US\$, while economic growth has contracted to 13.1% (Ascarya, 2011). All sectors in the economy have contracted significantly. Moreover, rapid currency depreciation had made public debt to reach US\$60 billion in November 1997, which imposed severe strains on the government's budget. Indonesia has suffered the most with fiscal cost reached 56.8% of GDP, while output loss reached 67.9% of GDP (Laeven and Valencia, 2008).

It seems that they have not learned the lessons yet on how to eradicate and/or control the financial crisis. Even though financial crisis has been repeated again and again, none of those affected countries has become economically stronger and more stable. Lipson (2010) argues that the current financial crisis is just a rerun of previous crises from which we have failed to learn our lessons.

Clearly, the current financial system has fundamental flaws which make it unstable and susceptible to financial crisis. This study aims to determine root causes of financial crisis from Conventional and Islamic perspectives using Vector Error Correction Model (VECM) using Indonesian data and propose real remedies to cure the financial crisis permanently and to avoid the similar mistakes in the future, so that financial crisis will not repeated again and again.

# 2. LITERATURE REVIEW

# 2.1 Theory of Financial Crisis

The development of financial crisis theory under conventional economic perspective was inspired by currency crises which initially occurred in England in 1825 and 1837. The theory mostly views the crisis from macro perspective, which has been developed from first-generation model, second-

generation model, and third-generation model. Other alternative theories include Austrian business cycle theory, Minsky's theory, world system theory, coordination game, herding model and learning model. On the other hand, viewed from Islamic economic perspective, financial crisis is a result of the transgressions of God's laws by economic actors which cause disruption in the balance of economic system, especially in the form of  $rib\bar{a}$  (usury or interest), maysir (gambling and game of chance or speculation) and gharar (excessive uncertainty) in their many forms.

# 2.1.1 First-Generation Model

First-generation model views financial crisis is originated from currency crisis or balance of payments crisis, which is caused by macroeconomic imbalances due to weak economic fundamentals. Under this model, the collapse of fixed exchange regime is due to unsustainable fiscal policy. The classic first-generation model was first proposed by Krugman (1979) and later by Flood and Garber (1984). These classic models have been extended, among others, by Obstfeld (1986), Calvo (1987), Drazen and Helpman (1987) and van Wijnbergen (1991), which incorporate consumer optimization and government's intertemporal budget constraint. Under fixed exchange rate regime the government should set the amount of money supply fixed in accordance with fixed exchange rate. This requirement would severely limit the ability of the government to raise *seigniorage* revenue from printing fiat money. Therefore, when the government runs persistent primary deficits (this is the hallmark of first-generation model), it has to use foreign reserves or borrow continuously. In the long run, this is not feasible, so that the government would have to print more money, which would lead to the collapse of fixed exchange regime (Flood and Marion, 1999).

Viewed from Islamic economic perspective, the root causes of first-generation financial crisis are international monetary system based on multiple fiat currency system, interest system, excessive fiat money supply, excessive fiscal deficits, excessive debt, expectation and speculation. The emphasize of first-generation model is currency crisis due to the debasement of currency, where fiat currency does not have any back up assets, to create the *seigniorage* necessary for a rational system of government money. The issuance of fiat money creates a new purchasing power out of nothing. Therefore, fiat money gives unfair benefit, usually known as *seigniorage*, to the money issuer authority. The creation of benefits without any counter value ('*iwad*) in terms of ownership risk (*ghurmi*), value added (*ikhtiyar*), or liability (*daman*) are categorized as *ribā* by Ibnu Arabi.

#### 2.1.2 Second-Generation Model

The second generation model is developed based on the drawbacks of the first generation model and suggests the central role of expectations and coordination failure among creditors, so the crisis could occur independent of soundness of economic fundamentals. This model was first proposed by Obstfeld and Rogoff (1986). When investors have doubts about whether the government is willing to maintain its exchange rate peg, this model generally will exhibit multiple equilibriums, so speculative attacks due to self-fulfilling prophecies may be possible. This means the reason investors attack the currency is that they expect other investors to attack the currency. One example is the model proposed by Obstfeld (1994 and 1996), where the central bank minimizes a quadratic loss function that depends on inflation and on the deviation of output from its natural rate (the detailed discussion of this type of loss function can be seen in Barro and Gordon, 1983). Ali (2006&2007) mentioned that in the context of a banking crisis it means that irrespective of solvent position of a bank (or of the banking sector as a whole) if a random event can adversely change the collective expectations of the depositors (i.e., its creditors) then it can precipitate a run on the bank and on the banking system. Thus there can be a range of economic fundamentals over which this type of a pure liquidity crisis can occur. Blanchard (2009) adds that there also exists modern version of bank runs. In traditional bank runs, it was the depositors that took their money out of the banks. In modern bank runs, troubled financial institutions can no longer finance themselves on money market (short-term wholesale funding). The result is however the same as in the old bank runs: Faced with a decrease in their ability to borrow, institutions have to sell their assets at 'fire sale prices'.

Viewed from Islamic economic perspective, the root causes of second-generation financial crisis are expectation, speculation, fractional reserve banking system, leverage system, non-performing loan, troubled financial institutions, and interest system. The emphasize of second-generation model is banking crisis due to fractional reserve banking system (in commercial banking) and leverage system (in investment banking and shadow banking), which create bank money similar to fiat money creation. For illustration, the leverage ratios of Lehman Brothers and Goldman Sachs before they went bankrupt were 30 and 26, respectively. Some European banks had even a higher leverage: BNP Paribas at 32; Dexia and Barclays' leverage ratios are both estimated at about 40; UBS' at 47; and Deutsche Bank's a whopping 83 (Lietaer, *et al.*, 2009). Similar to fiat money creation, bank money creation through fractional reserve or leveraging is considered *ribā*.

# 2.1.3 Third-Generation Model

The third-generation model is built on the shortcomings of the second-generation model by redefining the fundamentals more broadly to include micro incentives and policies. This model emphasizes the role of the financial sector in causing currency crises and propagating their effects, since many currency crises coincide with crises in the financial sector (see Diaz-Alejandro, 1985; Kaminsky and Reinhart, 1999). Some other models allow interaction between fundamentals and beliefs so that a crisis is triggered by both factors working together not by any one in isolation (Ali, 2006&2007). Keywords of third-generation model of financial crisis are mismatches in currency and in the characteristics of financial institutions, such as liquidity and maturity mismatches, so that Eichengreen and Hausmann (1999) argue that currency mismatches are an inherent feature of emerging markets. However, when there exist government guarantees, it is optimal for banks and firms to expose themselves to currency risk (McKinnon and Pill, 1996; and Burnside, et al., 2001). Therefore, different third-generation models explore various mechanisms through which balance-sheet exposures may lead to a currency and banking crisis. Burnside, et al. (2004) argue that government guarantees lead to the possibility of self-fulfilling speculative attacks, while Chang and Velasco (2001) state that liquidity exposure leads to the possibility of a Diamond and Dybvig (1983) style bank run. Moreover, Caballero and Krishnamurthy (2001) find that firms face a liquidity problem because they finance risky long-term projects with foreign loans but have access to limited amounts of internationally accepted collateral.

Viewed from Islamic economic perspective, the root causes of third-generation financial crisis are international monetary system based on multiple fiat currency system, fractional reserve banking system, leverage system, currency, liquidity and maturity mismatches, interest system, expectation and speculation. The emphasize of third-generation model is currency mismatch due to multiple fiat currency system, as well as liquidity and maturity mismatches due to fractional reserve banking system (in commercial banking) and leverage system (in investment banking and shadow banking), where both of them have been categorized previously as  $rib\bar{a}$ .

# 2.1.4 Austrian Business Cycle Theory

Austrian business cycle theory (ABCT) emerges from Austrian school of thought, which assumes that money is not neutral and financial flows are a mere mirror of what is happening in the real economy (Zelmanovitz, 2011). The main proponents of the Austrian business cycle theory historically were Ludwig von Mises and Friedrich Hayek followed by Murray Rothbard, James Keeler and Roger Garrison to name a few. Hayek won a Nobel Prize in economics in 1974 (shared with Gunnar Myrdal) in part for his work on this theory. Austrian business cycle theory, or preferably called credit cycle by Austrian economists, can be divided into four stages, namely, expansion, crisis, recession and recovery. *Expansion* stage starts when low interest rates or expansionary monetary policy tend to stimulate borrowing or credit expansion from the banking system to businesses and individual borrowers, which causes an expansion of the money supply through the money creation process in a fractional reserve banking system. In this stage production and prices increase. Subsequently, this leads to unsustainable credit-sourced boom during which the artificially stimulated borrowing seeks

out diminishing investment opportunities, which results in widespread mal-investments causing capital resources to be misallocated into areas that would not attract investment if the money supply remained stable. *Crisis* stage starts with a correction (or credit crunch or recession or bust) that occurs when exponential credit creation cannot be sustained. The money supply suddenly and sharply contracts. In this stage stock exchanges crash and multiple bankruptcies occur. *Recession* stage follows after the crisis when output and prices drop and interest rates increase. Recovery stage start when markets finally "clear" and causing resources to be reallocated back towards more efficient uses. In this stage stocks recover due to the fall in prices and incomes. Recovery and prosperity are associated with increases in productivity, consumer confidence, aggregate demand and prices.

Viewed from Islamic economic perspective, the root causes of ABCT financial crisis are fiat money system, fractional reserve banking system, leverage system, interest system, excessive credit creation, adverse selection, moral hazard, mal-investments, expectation and speculation. The emphasize of ABCT is excessive credit creation due to fractional reserve banking system, which is considered as  $rib\bar{a}$ , as well as expectation and adverse selection leading to mal-investments and finally causes stock market crash, due to expectation and speculation, which are considered as maysir and are prohibited in Islamic perspective.

# 2.1.5 Minsky's Theory

Hyman Minsky hypothesizes that the capitalistic economy has an inherent tendency to develop instability/fragility (also known as Financial Instability Hypothesis). High fragility leads to a higher risk of a financial crisis, which culminates in severe economic crises. The key mechanism that pushes the economy towards a crisis is the accumulation of debt. To facilitate his theory, Minsky makes a distinction between three types of firms as borrowers. The first type he labels *hedge borrowers* who can meet all debt payments from their cash flows. The second type is *speculative borrowers* who can meet interest payments but must constantly roll over their debt to be able to repay the original loan. The third group of borrowers Minsky labeled *Ponzi borrowers*; they can repay neither the interest nor the original loan. These borrowers rely on the appreciation of the value of their assets to refinance their debt. Ponzi borrowers lead to the most fragility.

The level of financial fragility moves together with the business cycle. In time of recession, firms only borrow as much as they can payback from their cash flows (in other words, they can only act as hedge borrower). As economic condition getting better and businesses grow, expected profits increase and firms tend to raise their level of debt beyond their ability to repay. However, they believe that profits will rise and the debt will eventually be repaid without much trouble. The rising profit attracts other firms or entrepreneurs to join in and encourages them to raise their level of debt. More debt leads to more investment, borrowers' financial health show visible improvement, the economy grows further, and this makes lenders more eager to lend to firms even without full guarantees of success.

As time goes by, the pace of debt accumulation starts to rise much faster than borrowers' ability to repay and serve the debt. This is Ponzi financing. In this way, the economy has taken on much risky credit. At this stage, the foundation for an economic bust is set in motion, started with the default of some big firms, which make lenders realize the actual risks in the economy and stop giving credit. Refinancing becomes impossible for many, and more firms default. If no new money comes into the economy to allow the refinancing process, a real economic crisis begins. During the recession, firms start to hedge again, and the cycle is closed. Many economists, such as Wray (2009a and 2009b) and Prychitko (2010), argue that current global financial crisis could be called the 'Minsky Moment' or 'Minsky Crisis'.

Viewed from Islamic economic perspective, the root causes of Minsky crisis are fiat money system, fractional reserve banking system, leverage system, interest system, excessive debt, expectation, speculation, moral hazard, adverse selection, and fraud. The emphasize of Minsky's theory is expectation and speculation in relation to *speculative borrowers*, as well as fraud in relation to *Ponzi borrowers*. All of these could lead to banking crisis due to credit defaults and stock market crash due

to firms' bankruptcies. Therefore, Minsky's crisis is caused by the intertwined among  $rib\bar{a}$ , maysir and fraud, which are all prohibited in Islamic perspective.

# 2.2 Previous Studies

Studies on current global financial crisis from conventional economic perspective are plenty, covering several school of thoughts, such as, mainstream (neo classic and new Keynesian), Austrian, binary economics and other minor views. There is an official report from Financial Crisis Inquiry Commission - FCIC (2011) which comprises of 22 chapters divided into five parts, as well as two dissenting views. There is an edited book by Kolb (2011) which comprises of 78 papers grouped in 11 parts. There is one special volume of Cambridge Journal of Economy, volume 33 (2009) which comprises of 15 papers. There is a CEPR (Centre for Economic Policy Research) publication edited by Felton and Reinhart (2008) which includes 38 papers divided into three parts. Since 2008, there have been more than 100 working papers of IMF and more than 25 working papers of NBER which study global financial crisis and its impacts from many different perspectives.

Meanwhile, studies on current global financial crisis from Islamic economic perspective are also plenty but not as many as those of conventional economic perspective. The Task Force on Islamic Finance and Global Financial Stability, organized by Islamic Development Bank – IDB, published a report on Islamic finance and global financial stability (2010), which discusses the resilience of Islamic finance against global financial crisis. There is one special volume of International Journal of Islamic and Middle Eastern Finance and Management, volume 3 number 4 (2010) which comprises of 8 papers. There is a compilation book by Islamic Economic Research Center, King Abdulaziz University - IERC-KAU (2009), which includes 18 papers of prominent Islamic economic and finance scholars. There are also many studies from various journals which discuss financial crisis. The summary of conventional and Islamic literatures which relate financial crisis with several root causes mentioned in the theory of financial crisis can be read in table 2.1.

Table 2.1: Root Causes of Financial Crisis in Conventional and Islamic Literatures

VARIABLE	CONVENTIONAL	ISLAMIC
BEHAVIOR		
-Maysir (speculation)	Marthinsen (2010:p. 59), Bardhan (2010: p.19), Burnside, <i>et al.</i> (1998: 3), Crotty (2009:p.577), Pereira (2010:p.4), Prychitko (2010:p.205)	Trabelsi (2011: p.17), Almoharby (2011: p.106), Ghoul (2011: p.58-59), Ahmed (2010: p.307), Hassan & Kayed (2009: p.36), Farooq (2009: p.8), Siddiqi (2009: p.8), Seidu (2009: p.29), Al-Masri (2009: p.290), Chapra (2008: p.16), Chapra (2007: p.164&166), Meera & Larbani (2004: p.10-11), Ahmed (2001: p.30), Oguz & Tabakoglu (1991: p.66), Zarqa (2009: p.247)
-Criminal Acts	Marthinsen (2010:p.59), Jalilvand & Malliaris (2010: p.139), Pereira (2010:p.12&18), Soral, et al. (2006:p.179-180)	Hassan & Kayed (2009: p.36), Mirakhor & Krichene (2009: p.29), Seidu (2009: p.30), Ali (2006&2007: p.26), Garcia, <i>et al</i> . (2004: p.1), Bashar (1997: p.48), Sabzwari (1984: p.3)
-Expectation	Harvey (2010: p.2 & 27), Corsetti, et al. (1999: p.306)	Siddiqi (2009: p.8)
EXTERNAL		
-Intl. Multiple Fiat Currency System	Corsetti, <i>et al.</i> (1999: p.306), Eichengreen & Hausmann (1999: p.2)	Trabelsi (2011: p.17), Meera & Larbani (2004: p.12), Ahmed (2001: p.10)

GOVERNANCE		
-Price Control	Rothbard (2009: p.1075-1076), Rothbard (1995: p.124)	Khan & Thaut (2008: p.11), Azid, et al. (2008: p.61), Iqbal & Khan (2004: p.2), Kahf (2000: p.9), Oguz & Tabakoglu (1991: p.64)
MONETARY		
-Ribā (interest or usury)	Lietaer & Dunne (2013:p.41-42), Bragues (2010: p.4-5), Kremer (2008:p.27-28), Shakespeare (2007:p.91-101), Shakespeare & Challen (2002:p.215-217)	Othman, et al. (2012: p.10), Trabelsi (2011: p.17), Ghoul (2011: p.58-59), Ahmed (2010: p.307), Smolo & Mirakhor (2010: p.375), Hassan & Kayed (2009: p.50), Mirakhor & Krichene (2009: p.9), Siddiqi (2009: p.6), Seidu (2009: p.29), Al-Masri (2009: p.289), Thaker & Azam (2009: p.10), IAIE (2009: p.267), Chapra (2008: p.3), Chapra (2007: p.162), Iqbal & Khan (2004: p.2), Ahmed (2001: p.30), Oguz & Tabakoglu (1991: p.66), Zarqa (2009: p.251)
-Fiat Money	Lietaer & Dunne (2013:p.23-36), Shakespeare (2007:p.79-90), Shakespeare & Challen (2002:p.213), Hoppe (1994: p.74), Rothbard (1990: 43-45)	Trabelsi (2011: p.17), Thaker & Azam (2009: p.10), Hassan & Kayed (2009: p.37), Meera & Larbani (2004: p.10)
-Fractional Reserve Banking	Lietaer & Dunne (2013:p.25&39), Bragues (2010: p.6), Shakespeare (2007:p.79-90), Nuri (2002:p.31-46), Shakespeare & Challen (2002:p.213- 214), Hoppe (1994: p.74), Rothbard (1990: 26), Bagus & Howden (2010:p.33&36)	Othman, et al. (2012: p.12), Trabelsi (2011: p.17), Farooq (2009: p.8), Mirakhor & Krichene (2009: p.14-15), Thaker & Azam (2009: p.10), Meera & Larbani (2004: p.10), Garcia, et al. (2004: p.1)
-Leverage	Gorton & Metrick (2012:p.21), Bragues (2010: p.4), Marthinsen (2010:p.59), Demiyanyk (2010: p.92), Bardhan (2010: p. 19), Georgiou (2009: p.3), Shakespeare (2007:p.79- 90), Pereira (2010:p.12)	Trabelsi (2011: p.17), Ahmed (2010: p.318), Smolo & Mirakhor (2010: p.372), Hassan & Kayed (2009: p.36), Mirakhor & Krichene (2009: p.26), Siddiqi (2009: p.3), Seidu (2009: p.28), Ahmed (2009: p.15), Chapra (2008: p.2), Chapra (2007: p.165&166)
FISCAL		
-Excessive Government Debt	Reinhart & Rogoff (2010: p.2), Reinhart & Rogoff (2009: p.1&3), Corsetti, et al. (1999:p.306); Burnside, et al. (1998: p.3), Park (2009:p.125)	Othman, et al. (2012: p.9), Chapra (2007: p.163), Ali (2006&2007: p.9), Iqbal & Khan (2004: p.34&95), Khan (2001: p.253)
-Poor Mgt. of Strategic Commodities	Rothbard (2009: p.137-142)	Chapra (2007: p.163), Oguz & Tabakoglu (1991: p. 64)

#### 3. RESEARCH METHOD

# 3.1 Data

This study will apply quantitative method, namely, Vector Error Correction Model (VECM), which needs time series quantitative data. This quantitative data needed by VECM method will be monthly time series secondary data of March 2004 to June 2012 obtained from several resources, such as Biro Pusat Statistik (BPS), Indonesian Economic and Finance Statistics of Bank Indonesia (SEKI-BI), Syariah Banking Statistics of Bank Indonesia (SPS-BI), Banking Statistics of Bank Indonesia (SPI-BI), Jakarta Stock Exchange (JSX) and Ministry of Energy and Mineral Resources (KESDM).

# 3.2 Vector Error Correction Model (VECM)

#### 3.2.1 VECM Overview

The methodology to be used is Vector Auto Regression (VAR), followed by Vector Error Correction Model (VECM), if cointegration occurred. VAR is an *n*-equation with *n*-endogenous variable, where each variable is explained by its own lag, as well as current and past values of other endogenous variables in the model. Therefore, in the context of modern econometrics, VAR is considered as multivariate time series that treats all variables endogenous, since there is no confidence that a variable is actually exogenous, and VAR allows the data to tell what actually happen. Sims (1980) argue that if there is true simultaneity among a set of variables, they should all be treated on an equal footing and there should not be any a priori distinction between endogenous and exogenous variables. Enders (2004) formulates a simple first-order bivariate primitive system that can be written as follows.

$$y_{t} = b_{10} - b_{12} z_{t} + \gamma_{11} y_{t-1} + \gamma_{12} z_{t-1} + \varepsilon_{yt}$$
(3.1)

$$z_{t} = b_{20} - b_{21} y_{t} + \gamma_{21} y_{t-1} + \gamma_{22} z_{t-1} + \varepsilon_{zt}$$
(3.2)

With assumptions that both  $y_t$  and  $z_t$  are stationary,  $\varepsilon_{yt}$  and  $\varepsilon_{zt}$  are white noise disturbances with standard deviations of  $\sigma_y$  and  $\sigma_z$ , respectively, and  $\varepsilon_{yt}$  and  $\varepsilon_{zt}$  are uncorrelated white-noise disturbances. Meanwhile, the standard form of the above primitive form can be written as follows.

$$y_t = a_{10} + a_{11}y_{t-1} + a_{12}z_{t-1} + e_{yt} (3.3)$$

$$z_{t} = a_{20} + a_{21}y_{t-1} + a_{22}z_{t-1} + e_{zt}$$
(3.4)

Where,  $e_{yt}$  and  $e_{zt}$  are composites of  $\varepsilon_{yt}$  and  $\varepsilon_{zt}$ . The primitive form is called structural VAR, while the standard form is called VAR. The detailed transformation from primitive form to standard form can be read in Enders (2004). In short, according to Achsani *et al.*, 2005, the general VAR model mathematically can be represented as follows.

$$X_{t} = \mu_{t} + \sum_{i=1}^{K} A_{i} + X_{t-1} + \varepsilon_{t}$$
(3.5)

Where  $x_t$  is a vector of endogenous variables with  $(n \times 1)$  dimension,  $\mu_t$  is a vector of exogenous variables, including constant (intercept) and trend,  $A_t$  is coefficient matrix with  $(n \times n)$  dimension, and  $\varepsilon_t$  is a vector of residuals. In a simple bivariate system  $y_t$  and  $z_t$ ,  $y_t$  is affected by current and past value of  $z_t$ , while  $z_t$  is affected by current and past value of  $y_t$ .

VAR provides systematic ways to capture dynamic changes in multiple time series, and possess credible and easy to understand approach for describing data, forecasting, structural inference, and policy analysis (Stock and Watson, 2001). VAR provides four tools of analysis, namely, forecasting, impulse response function (IRF), forecast error variance decomposition (FEVD) and Granger causality test. Forecasting can be used to extrapolate current and future values of all variables by

utilizing all past information of the variables. IRF can be used to trace current and future responses of each variable to the shock of certain variable. FEVD can be used to predict the contribution of each variable to the shock or changes of certain variable. Meanwhile, Granger causality can be used to determine the causal relationship among variables.

Like any other econometric models, VAR also comprises a series of process of model specification and identification. Model specification includes the selection of variables and their lag length to be used in the model. While, model identification is to identify the equation before it can be used for estimation. There are several possible conditions encountered in the identification process. *Overidentified* condition will be obtained if the number of information exceeds the number of parameter to be estimated. *Exactly identified* or *just identified* condition will be obtained if the number of information and the number of parameter to be estimated is equal. Meanwhile, *underidentified* condition will be obtained if the number of information is less than the number of parameter to be estimated. Estimation process can only be carried out under *overidentified* and *exactly identified* or *just identified* conditions.

The advantages of VAR method compared to other econometric methods, among others, are (Gujarati, 2004 and Enders, 2004): 1) VAR method is freed from various economic theory restrictions that often exists, such as spurious variable endogeneity and exogeneity; 2) VAR develops model simultaneously within complex multivariate system, so that it can capture all relationships among variables in the equation; 3) Multivariate VAR test can avoid biased parameters due to exclusion of relevant variables; 4) VAR test can detect the relationships among variables within equation system by treating all variables endogenous; 5) VAR method is simple where one does not have to worry about determining which variables are endogenous and which ones exogenous, since VAR treats all variables endogenous; 6) VAR estimation is simple where the usual OLS method can be applied to each equation separately; and 7) The estimate forecasts obtained are in many cases better than those obtained from other more complex simultaneous-equation models.

Meanwhile, the disadvantages and problems of VAR model, according to Gujarati (2004), are: 1) VAR model is a-theoretic, since it uses less prior information, unlike simultaneous-equation model where exclusion and inclusion of certain variables plays a crucial role in the identification of the model; 2) VAR model is less suited for policy analysis, due to its emphasis on forecasting; 3) Choosing the appropriate lag length is the biggest practical challenge in VAR modelling, especially when there are too many variables with long lag-length, so that there will be too many parameters that will consume a lot of degree of freedom and require a large sample size; 4) All variables should be (jointly) stationary. If not, all data should be transformed appropriately, e.g. by first-differencing. Long-term relationships will be lost in the transformation of data level needed in the analysis; and 5) Impulse Response function (IRF) is the centrepiece of VAR analysis, which has been questioned by researchers.

To overcome the drawback of first difference VAR and to regain the long-term relationships among variables, vector error correction model (VECM) can be applied, provided that there are cointegrations among variables. The trick is to reincorporate original equation in level into the new equation as follows.

$$\Delta y_{t} = b_{10} + b_{11} \Delta y_{t-1} + b_{12} \Delta z_{t-1} - \lambda (y_{t-1} - a_{10} - a_{11} y_{t-2} - a_{12} z_{t-1}) + \varepsilon_{vt}$$
 (3.6)

$$\Delta z_{t} = b_{20} + b_{21} \Delta y_{t-1} + b_{22} \Delta z_{t-1} - \lambda \left( z_{t-1} - a_{20} - a_{21} y_{t-1} - a_{22} z_{t-2} \right) + \varepsilon_{zt}$$
 (3.7)

Where a is long-term regression coefficient, b is short-term regression coefficient,  $\lambda$  is an error correction parameter, and the phrase in the bracket shows the cointegration between variables y and z. The general VECM model mathematically can be represented as follows (Achsani  $et\ al\ 2005$ ).

$$\Delta x_{t} = \mu_{t} + \prod_{t=1}^{k-1} x_{t-1} + \sum_{i=1}^{k-1} \Gamma_{i} \Delta x_{t-i} + \varepsilon_{t}$$
(3.8)

Where,  $\Pi$  and  $\Gamma$  are functions of  $A_i$ . The matrix  $\Pi$  can be decomposed into two matrices  $\lambda$  and  $\beta$  with  $(n \times r)$  dimension.  $\Pi = \lambda \beta^T$ , where  $\lambda$  is called an adjustment matrix and  $\beta$  is a cointegration vector. Moreover, r is a cointegration rank.

#### 3.2.2 VECM Procedure

VAR/VECM analysis process can be read on figure 3.1. After basic data is ready, data is transformed into natural logarithm form (*ln*), except for interest rates and the PLS return, to obtain consistent and valid results. The first test conducted was the unit root test, to find out whether data is stationary or still contain trends. If the data are stationary at levels, then VAR can be conducted at level. VAR level can estimate the long-term relationship between variables. If data are not stationary at level, then the data should be reduced at the first level (first difference), which reflects the difference or changes in data. If the data are stationary at first difference, then the data will be tested whether there is cointegration between variables. If there is no cointegration between variables, then VAR can only be done at the first difference, and it can only estimate the short-term relationship between variables. If there is cointegration between variables, then VECM can be done using data level to obtain long-term relationship between variables. VECM can estimate the short-term and long term relationship between variables. Innovation accounting for the level VAR and VECM will be meaningful for the long-term relationships.

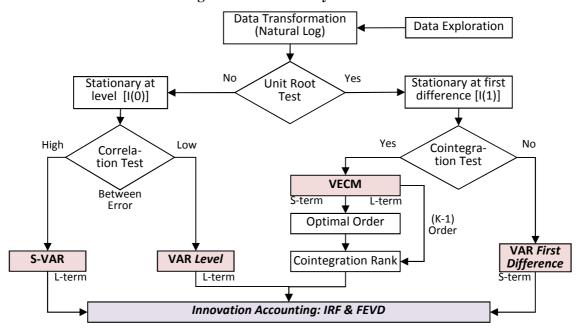


Figure 3.1: VAR Analysis Process

# 3.2.3 VECM Model

The general model of VECM can be expressed as equation (3.8).

$$\Delta x_t = \mu_t + \prod x_{t-1} + \sum_{i=1}^{k-1} \Gamma_i \Delta x_{t-i} + \varepsilon_t$$

Where:

 $x_k$  is k selected endogenous variables, specific for each model;

 $\varepsilon_k$  is disturbance or error term with zero means and constant variance-covariance.

#### Inflation model:

 $x_k = [Crisis (Inflation), Behavior, External, Governance, Monetary, Fiscal]$ 

# Growth model:

 $x_k = [Crisis (Growth), Behavior, External, Governance, Monetary, Fiscal]$ 

Proxies for selected endogenous variables (conventional and Islamic) can be seen in table 3.1 as follows:

**Variable Crisis Behavior External** Governance Monetary **Fiscal** Expectatio -Intl. Mult. -Price Interest Rate (INT) Poor Strategic n (XINFL) Fiat Currency Control; Comm. Mgt.; -Fiat Money (FM) Convention System Administere - Fractional Reserve Volatile Food al (EXCH) d Price (VF) Banking (FRB) -Inflation (ADM) (INFL); -No -Single Global - No Price - Profit-and-loss -Good Growth Expectatio Currency Control Sharing (PLS) Strategic (GRO); System/ Gold Comm. Mgt. n -Just Money Islamic Standard (GOLD) (GOLD) -Narrow Banking (NB)

**Table 3.1: Proxies of Endogenous Variables** 

The focus of differentiation between conventional and Islamic crisis variables will be in the area of  $rib\bar{a}$  monetary/financial system and international multiple fiat currency system, so that the crisis models (inflation and growth) under dual financial system are as follows:

- INFL = f (INT, PLS, FM, FRB, NB, EXCH, GOLD, VF, ADM, XINFL) (3.9)
- GRO = f(INT, PLS, FM, FRB, NB, EXCH, GOLD, VF, ADM, XINFL) (3.10)

# Where:

- INFL: the index of monthly CPI (consumer price index) inflation obtained from table "Indeks Harga Konsumen dan Inflasi Bulanan Indonesia", BPS.
- GRO: the index of monthly IPI (industrial production index) obtained from table "Indeks Produksi Bulanan Industri Besar dan Sedang, 2003-2011", BPS.
- INT: the rate of one-month conventional time deposits, obtained from table I.28 "Suku bunga simpanan berjangka rupiah menurut kelompok bank": Bank Umum 1/3/6/12/24 bulan, SEKI-BI.
- PLS: the rate of one-month Islamic time deposits (deposito iB), obtained from table 36 "Ekuivalen Tingkat Imbalan bagi hasil/fee/bonus Bank Umum Syariah dan Unit Usaha Syariah": Time Deposits 1 month, SPS-BI.
- FM: money creation originally issued by the central bank or money in circulation (M0), obtained from table I.2 "Neraca analitis otoritas moneter": Uang Kartal yang diedarkan, SEKI-BI.
- FRB: credit creation or fractional reserve banking, is the difference between broad money M2 and M0 monthly. Broad money M2, obtained from table I.1 "Uang Beredar dan Faktor-Faktor yang Mempengaruhinya": M2, SEKI-BI.
- NB: Narrow banking with no credit creation, is similar to just money supply or money needed in the economy in Islamic perspective, which is an equilibrium intrinsic M0 proximate by the monthly M1 and GDP data obtained from SEKI-BI and BPS.

- EXCH: International multiple fiat currency system or exchange rate, is the nominal Rupiah exchange rate to the US Dollar obtained from SEKI-BI.
- GOLD: Single global currency system and just money using gold standard or gold price, is international gold price index obtained from "Indeks Harga Energi", SEKI-BI.
- VF: Volatile food inflation, is monthly food price index for rice obtained from SEKI-BI.
- ADM: Administered price, is monthly gasoline (premium) price obtained from Ministry of Energy and Mineral Resources (KESDM).
- XINFL: Expected inflation, is the rate of monthly inflation, CPI index, of previous period obtained from table "Indeks Harga Konsumen dan Inflasi Bulanan Indonesia", BPS.

# 4. RESULTS

Several procedures of data testing should be followed as a standard procedures for using VAR/VECM method, such as unit root test, stability test, optimum lag test, and cointegration test (see figure 3.1). After all requirements have been met, results can be generated. The complete results of all VECM procedures can be obtained from the authors.

#### 4.1 Test Results

# a. Unit Root Test

Unit root test results show that most variables are not stationary in level, but all variables are stationary in first difference (see table 4.1).

**ADF Value McKinnon Critical Value** Variable 1st Difference Level Level 1<sup>st</sup> Difference **GRO** -5.586035 -15.88780 -3.455376 -3.455842 **PLS** -3.947138 -10.59308 -3.455376 -3.456319 **NB** -6.498920 -9.960527 -3.455842 -3.461094 -3.455842 **GOLD** -2.404773 -9.657199 -3.455376 JII -2.178969 -7.624593 -3.455842 -3.455842 VF -3.456319 -1.858362 -7.660940 -3.456319 **ADM** -1.625228 -3.455842 -10.13098 -3.455376 **XINFL** -0.736651 -6.786609 -3.457301 -3.457301 **INFL** -1.187897 -3.455376 -3.455842 -10.16923 -3.455842 INT -3.380070 -3.587209 -3.455842  $\mathbf{FM}$ -5.676494 -14.85347 -3.455376 -3.455842 -4.845790 -3.455376 -3.459397 **FRB** -5.242070 **EXCH** -3.123738 -4.577799 -3.456805 -3.4568605 **IHSG** -2.293074-7.682988 -3.455842 -3.455842

**Table 4.1: ADF Test Summary** 

# b. Stability Test

Stability test results show that both inflation model and growth model are stable up to 7 (seven) maximum lag (see table 4.2).

**Table 4.2: Stability Test Summary** 

No	Model	Modulus	Max Lag
1	INFL	0.339403 - 0.985622	7
2	GRO	0.501793 - 0.993559	7

# c. Optimum Lag Test

Optimum lag test results for inflation model show that lag optimum varies for every criteria from 0 to 6, namely, 0 (zero) for Schwarz information criterion SC, 1 (one) for Hannan-Quinn information criterion HQ, 2 (two) for Final prediction error FPE, 5 (five) for sequential modified LR test statistic LR, and 6 (six) for Akaike information criterion AIC (see table 4.3).

**FPE** AIC SC HQ Lag 2.78e-25 -25.32435 0 1201.244 NA -25.02673\* -25.20413 1 1466.753 463.2274 1.31e-26 -28.39900 -24.82756 -26.95640\* 2 1625.753 240.1912 6.41e-27\* -29.20750 -22.36225 -26.44252 3 1726.841 129.0488 1.28e-26 -28.78385 -18.66478 -24.69649 4 1846.860 125.1263 2.28e-26 -28.76298 -15.37010 -23.35324 5 2037.297 153.9706\* 1.50e-26 -30.24037 -13.57367 -23.50824 2270.353 133.8829 9.87e-27 -32.62453\* -12.68401 -24.57002 6

Table 4.3: Optimum Lag Test Summary of Inflation Model

Meanwhile, optimum lag test results for growth model show that lag optimum varies for every criteria from 0 to 6, namely, 0 (zero) for Schwarz information criterion SC, 1 (one) for Hannan-Quinn information criterion HQ, 2 (two) for sequential modified LR test statistic LR and Final prediction error FPE, and 6 (six) for Akaike information criterion AIC (see table 4.4).

Lag	$\mathbf{Log}\mathbf{L}$	LR	FPE	AIC	SC	HQ
0	1062.597	NA	5.32e-24	-22.37441	-22.07679*	-22.25419
1	1291.046	398.5700	5.49e-25	-24.66055	-21.08912	-23.21795*
2	1453.518	245.4360*	2.50e-25*	-25.54293	-18.69768	-22.77795
3	1540.746	111.3551	6.69e-25	-24.82438	-14.70531	-20.73702
4	1659.571	123.8814	1.23e-24	-24.77810	-11.38522	-19.36836
5	1834.556	141.4775	1.12e-24	-25.92673	-9.260028	-19.19460
6	2078.606	140.1988	5.83e-25	-28.54481*	-8.604292	-20.49030

**Table 4.4: Optimum Lag Test Summary of Growth Model** 

# d. Cointegration Test

Johansen cointegration test results for inflation model (INFL) show that there exist 2 (two) cointegrating equations at the 0.05 level and 3 (three) cointegrating equations at the 0.10 level. Moreover, cointegration summary results show that the optimal inflation model under AIC is linear with intercept and trend (assumption 4) model with 3 (three) cointegrating equations (see Appendix).

Meanwhile, Johansen cointegration test results for growth model (GRO) show that there exist 2 (two) cointegrating equations at the 0.05 level and 3 (three) cointegrating equations at the 0.10 level. Moreover, cointegration summary results show that the optimal inflation model under AIC is linear with intercept and no trend (assumption 3) model with 3 (three) cointegrating equations (see Appendix).

# 4.2 Inflation Model

Impulse Response Function (IRF) results of Inflation model can be seen in figure 4.1. The results show that all conventional variables (see figure 4.1, left) induce inflation or financial crisis, especially, interest rate 'INT' and administered price 'ADM'. Meanwhile, two Islamic variables curb inflation or financial crisis, namely, single global currency or just money 'GOLD' (gold or gold-backed money) and profit-and-loss sharing 'PLS' (prohibition of *ribā* or interest), while one Islamic variable still induces inflation or financial crisis, namely, narrow banking 'NB' (see figure 4.1, right).

-XINFL -FRB -VF -FM -ADM -INT -EXCH | -NB -GOLD -PLS | 0.01 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 | 0.005 |

Figure 4.1: IRF Results of INFLATION Model

Forecast Error Variance Decomposition (FEVD) results of Inflation model can be seen in figure 4.2. The results show that interest rate 'INT' gives the highest share (43.66%) to induce inflation or financial crisis, followed by administered price 'ADM' with 14.41% share, while single global currency or just money 'GOLD' gives the highest share (8.03%) to reduce inflation or curb the financial crisis.

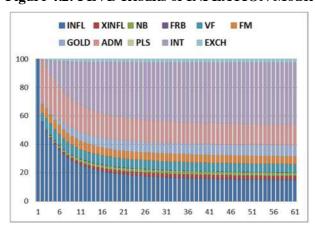


Figure 4.2: FEVD Results of INFLATION Model

VECM summary results of Inflation model can be seen in table 4.1. All conventional variables (see table 4.1, center), including expected inflation 'XINFL' (Behavior), multiple currency 'EXCH' (External), administered price 'ADM' (Governance), interest rate 'INT', fiat money 'FM' and fractional reserve banking 'FRB' (Monetary), as well as volatile food 'VF' (Fiscal), induce inflation or financial crisis. Meanwhile, some Islamic variables, including 'GOLD' as single global currency (External) and just money (Monetary), as well as profit-and-loss sharing 'PLS' (Monetary), reduce inflation or curb the financial crisis, while one Islamic variable, narrow banking 'NB' (Monetary), still induces inflation or financial crisis (see table 4.5, right), since narrow banking is being proxied by using M1, where M1 comprises of M0 (fiat currency) and Demand Deposits (part of fractional reserve banking) which are considered *ribā* in Islamic perspective.

**Table 4.5: VECM Summary Results of Inflation Model** 

VARIABLES	CONVENTIONAL	ISLAMIC
BEHAVIOR	- XINFL: (+), 2.82%	- n/a
EXTERNAL	- EXCH: (+), 2.40%	- GOLD: (-), 8.03%
GOVERNANCE	- ADM: (+), 14.41%	- n/a
	- INT: (+), 43.66%	- PLS: (-), 0.02%
MONETARY	- FM: (+), 5.54%	- NB: (+), 2.32%
	- FRB: (+), 0.08%	- GOLD: (-), 8.03%
FISCAL	- VF: (+), 5.79%	- n/a

# 4.3 Growth Model

Impulse Response Function (IRF) results of Growth model can be seen in figure 4.3. The results show that almost all conventional variables reduce economic growth or induce financial crisis, especially, interest rate 'INT', fiat money 'FM' and volatile food 'VF'. Fractional reserve banking 'FRB' and international multiple fiat currency system 'EXCH' still promote economic growth or curb financial crisis. Meanwhile, all Islamic variables promote economic growth or curb financial crisis, especially narrow banking 'NB' and single global currency/gold standard or just money 'GOLD'.

FM FRB VF XINFL INT ADM EXCH

0.01

0.005

0 1 6 11 16 21 26 31 36 41 46 51 56 61

-0.005

-0.01

-0.015

Figure 4.3: IRF Results of GROWTH Model

Forecast Error Variance Decomposition (FEVD) results of Growth model can be seen in figure 4.4. The results show that interest rate 'INT' gives the highest share (24.85%) to reduce growth or induce financial crisis, followed by fiat money 'FM' with 13.49% share, while fractional reserve banking 'FRB' (8.02%), narrow banking 'NB' (5,98%) and single global currency/gold standard or just money 'GOLD' give the highest share to improve growth or curb financial crisis. The results consistent with the tight money condition in Indonesia (with M2/GDP less than 0.4), where loosening monetary policy will improve growth.

TOO BOOLD FM FRB NB VF

XINFL INT ADM PLS EXCH

Figure 4.4: FEVD Results of GROWTH Model

VECM summary results of Growth model can be seen in table 4.6. Most conventional variables (see table 4.6, center), including expected inflation 'XINFL' (Behavior), administered price 'ADM' (Governance), interest rate 'INT' and fiat money 'FM' (Monetary), as well as volatile food 'VF' (Fiscal), reduce growth or induce financial crisis, while multiple currency 'EXCH' (External) and fractional reserve banking 'FRB' (Monetary) improve growth or curb financial crisis. Meanwhile, all Islamic variables (see table 4.6, right), including 'GOLD' as single global currency (External) and just money (Monetary), as well as profit-and-loss sharing 'PLS' and narrow banking 'NB' (Monetary), improve growth or curb financial crisis.

**Table 4.6: VECM Summary Results of Growth Model** 

VARIABLES	CONVENTIONAL	ISLAMIC
BEHAVIOR	- XINFL: (-), 0.24%	- n/a
EXTERNAL	- EXCH: (+), 1.21%	- GOLD: (+), 3.50%
GOVERNANCE	- ADM: (-), 5.33%	- n/a
	- INT: (-), 24.85%	- PLS: (+), 0.09%
MONETARY	- FM: (-), 13.49%	- GOLD: (+), 3.50%
	- FRB: (+), 8.02%	- NB: (+), 5.98%
FISCAL	- VF: (-), 9.11%	- n/a

# 4.4 Analysis

Overall VECM summary results of Inflation and Growth models can be re written as seen in table 4.7. Five conventional variables, including expected inflation 'XINFL' (Behavior), administered price 'ADM' (Governance), interest rate 'INT' and fiat money 'FM' (Monetary), as well as volatile food 'VF' (Fiscal), induce financial crisis through increased inflation and reduced growth (see table 4.7, left). Meanwhile, two Islamic variables, including 'GOLD' as single global currency (External) and just money (Monetary), as well as profit-and-loss sharing 'PLS' (Monetary), curb financial crisis through reduced inflation and improved growth. Moreover, two conventional variables, multiple currency 'EXCH' (External) and fractional reserve banking 'FRB' (Monetary), as well as one Islamic variable, narrow banking 'NB' (Monetary), on one hand induce financial crisis through increased inflation, on the other hand curb financial crisis through improved growth.

**Table 4.7: Overall VECM Summary Results** 

<b>↑INFLATION</b> and <b>↓GROWTH</b>	个INFLATION and 个GROWTH	<b>↓INFLATION</b> and 个GROWTH
	Conventional	
XINFL; ADM; INT&FM VF	EXCH; FRB	
	Islamic	
	NB	GOLD; PLS

In summary, interest rate 'INT' (Monetary) is the number one root cause of financial crisis with 43.66% share in inducing inflation and 24.85% share in curbing economic growth, followed by administered price 'ADM' (Governance) with 14.41% share in inducing inflation and 5.33% share in curbing economic growth, fiat money 'FM' (Monetary) with 5.54% share in inducing inflation and 13.49% share in curbing economic growth, and volatile food 'VF' (Fiscal) with 5.79% share in inducing inflation and 9.11% share in curbing economic growth. Meanwhile, 'GOLD' as single global gold currency (External) and just money (Monetary) is the number one cure of financial crisis with 8.03% share in curbing inflation and 3.50% share in inducing economic growth, followed by profit-and-loss sharing 'PLS' (Monetary) with 0.02% share in curbing inflation and 0.09% share in inducing economic growth. Narrow banking 'NB' will be more effective if it is combined by gold or gold backed currency.

Gold or gold-backed currency is proven to be the most effective means of stabilizing currency as mentioned by US Congressman Ron Paul in his April 2002 letters to US Treasury Department and the Federal Reserve Bank asking why IMF prohibits gold-backed currencies for its member states (Hosein, 2007). The letter is as follows.

# Dear Sirs:

I am writing regarding Article 4, Section 2b of the International Monetary Fund (IMF)'s Articles of Agreement. As you may be aware, this language prohibits countries who are members of the IMF from linking their currency to gold. Thus, the IMF is forbidding countries suffering from an erratic monetary policy from adopting **the most effective means of stabilizing their currency**. This policy could delay a country's recovery from an economic crisis and retard economic growth, thus furthering economic and political instability.

I would greatly appreciate an explanation from both the Treasury and the Federal Reserve of the reasons the United States has continued to acquiesce in this misguided policy. Please contact Mr. Norman Singleton, my legislative director, if you require any further information regarding this request.

Thank you for your cooperation in this matter.

Ron Paul

U.S. House of Representatives

Note: Neither the Federal Reserve Bank nor the US Treasury Department has so far responded to this request for an explanation.

Source: Hosein (2007).

In other words, to prevent financial crisis, in monetary side, interest system should be replaced by profit-and-loss sharing system, while international multiple fiat currency system should be replaced by single global currency based on gold or gold standard. Meanwhile, in government/fiscal side, there should be no price control on goods and services, but there should be good regulation, supervision and management of goods and services, especially for strategic commodities to stabilize their demands and supplies. Moreover, misbehavior of economic actors, especially speculation should be prohibited.

In Indonesia case, there is an anomaly of broad money supply (M2) which always significantly lowers than GDP (see figure 4.5), where M2/GDP in 2012 only reached 0.40. India has the closest M2/GDP figure, which reached 0.80 in 2012, or twice as much as that of Indonesia, while Thailand and Malaysia have very high M2/GDP of 1.32 (in 2012) and 1.42 (in 2011), respectively. That is why the increase of FRB (which uses M2 as its proxy) will give only 0.08% share in increased inflation, but it will give 8.02% share in increased economic growth. Note that M2/GDP of countries affected by 1998 Asian crisis (such as Thailand, Malaysia and South Korea) has reached their pre-crisis level or higher. This means that there is still plenty of room for Indonesia to stimulate economic growth without inducing inflation (or triggering financial crisis) by gradually increases M2/GDP to its optimal level. FRB will become a problem by inducing inflation and triggering financial crisis when M2 becomes excessive (money supply greater than the money needed by the economy), which is usually when M2/GDP becomes greater than its optimal level.

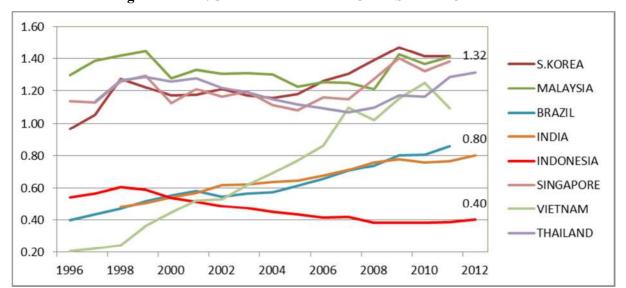


Figure 4.5: M2/GDP of Indonesia and Other Selected Countries

# 5. CONCLUSION AND RECOMMENDATION

# 5.1 Conclusion

- Under Inflation model, all variables induce inflation or cause financial crisis except two Islamic variables, 'PLS' as profit-and-loss sharing (Monetary) and 'GOLD' as single global currency (External) and just money (Monetary), which curb inflation or prevent financial crisis. It means that all conventional variables, namely, interest system 'INT', fiat money system 'FM' and fractional reserve banking system 'FRB' (Monetary), administered price 'ADM' (Governance) that should not be controlled, volatile food 'VF' (Fiscal) due to minimum control, expected inflation 'XINF' (Behavior), and international monetary system with multiple fiat currency 'EXCH' (External), contribute to financial crisis.
- The highest contributor to cause financial crisis through inducing inflation is interest system 'INT' (43.66%), followed by administered price 'ADM' (14.41%), volatile food 'VF' (5.79%) and fiat money system 'FM' (5.54%). The highest contributor to prevent financial crisis through curbing inflation is single global currency and just money 'GOLD' (-8.03%), followed by profit-and-loss sharing 'PLS' (-0.02%).
- Under Growth model, most conventional variables hinder growth or cause financial crisis, including (from the highest to the lowest contributor) interest system 'INT' -28.85% and fiat money system 'FM'-13.49% (Monetary), volatile food 'VF' -9.11% (Fiscal), administered price

- 'ADM' -5.33% (Governance), and expected inflation 'XINF' -0.24% (Behavior). Meanwhile, all Islamic variables prevent financial crisis through stimulating economic growth, namely, narrow banking 'NB' +5.98% and profit-and-loss sharing 'PLS' +0.09% (Monetary), as well as single global currency and just money 'GOLD' +3.50% (External and Monetary).
- Therefore, the real determinants or root causes of financial crisis are structural in unstable monetary system, poor governance, unsustainable fiscal system, misbehavior of economic actors, as well as in external factor. Interest system and fiat money system (Monetary), administered price (Governance), volatile food (Fiscal), as well as expectation (Behavior) are the most dominant variables to cause financial crisis through Inflation and Growth.
- Under Inflation and Growth models, interest system is the prime real determinant or root cause of financial crisis through inducing inflation and curbing economic growth, so that lowering the interest rate will decrease inflation and will induce economic growth, thus it will prevent financial crisis most effectively.
- Under Inflation model, narrow banking system 'NB' still induce inflation (thus, financial crisis), since the proxy used for NB is money use for transaction-M1, which is still represents fiat money and money creation of conventional system. When narrow banking system is combined with gold or gold backed currency, it will be most effective.
- Under Growth model, fractional reserve banking system 'FRB' still stimulates growth (or hinders financial crisis), since money supply needed in the economy-M2 is in shortage with the ratio of M2/GDP is less than 40% and in decreasing trend. Therefore the expansion of money supply will stimulate growth.
- Under Growth model, multiple international currency system 'EXCH' still also stimulates growth (or hinders financial crisis), since under multiple currency system, the depreciation of one country's currency will improve the competitiveness of that country in international trade and finance.

# 5.2 Recommendation

- Structural reforms are needed in monetary system, fiscal system and governance, as well as in international system, which are more fair, just, stable and sustainable. Moreover, behavior of economic actors should be controlled by market conduct regulation and improved by education.
- The share of Islamic finance should be increased, while the share of PLS system in Islamic finance should be increased to improve the stability of financial system in a country adopting dual financial system.
- International monetary system should move towards a just single currency system, which is not a currency of certain country. Gold standard is the most just and stable monetary system.
- In Indonesia case, to lower inflation, and at the same time prevent the CRISIS, interest rate should be lowered up to its optimal level.
- In Indonesia case, to stimulate growth, and at the same time prevent the CRISIS, M2/GDP should be gradually increased up to its optimal level.

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# **APPENDIX**

# 1. Inflation Model (INFL)

# a. Johansen Cointegration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None * At most 1 *	0.539129 0.463229	329.5569 253.6426	285.1425 239.2354	0.0002 0.0095
At most 2	0.383796	192.6685	197.3709	0.0833
At most 3 At most 4	0.341524 0.291278	145.2192 104.2722	159.5297 125.6154	0.2290 0.4662
At most 5	0.204191	70.53161	95.75366	0.7047
At most 6	0.180942	48.14882	69.81889	0.7158
At most 7	0.114425	28.58794	47.85613	0.7876
At most 8	0.081687	16.67915	29.79707	0.6636
At most 9	0.079682	8.327887	15.49471	0.4310
At most 10	0.001941	0.190388	3.841466	0.6626

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

# **b.** Cointegration Summary

Date: 12/10/12 Time: 13:30 Sample: 2004M01 2012M05 Included observations: 99

Series: INFL XINFL IM FRB VF FM GOLD ADM PLS INT

**EXCH** 

Lags interval: 1 to 1

Selected (0.05 level\*) Number of Cointegrating Relations by Model

Data Trend:	None	None	Linear	Linear	Quadratic
Test Type	No Intercept	Intercept	Intercept	Intercept	Intercept
	No Trend	No Trend	No Trend	Trend	Trend
Trace	3	4	2	2	2
Max-Eig	3	2	1	1	1

<sup>\*</sup>Critical values based on MacKinnon-Haug-Michelis (1999)

# Information Criteria by Rank and Model

Data Trend:	None	None	Linear	Linear	Quadratic
Rank or	No Intercept	Intercept	Intercept	Intercept	Intercept
No. of CEs	No Trend	No Trend	No Trend	Trend	Trend

<sup>\*</sup> denotes rejection of the hypothesis at the 0.05 level

<sup>\*\*</sup>MacKinnon-Haug-Michelis (1999) p-values

	Log Likeliho	ood by Rank (1	rows) and Mo	del (columns)	
0	1517.742	1517.742	1553.662	1553.662	1557.615
1	1560.250	1564.073	1598.212	1599.433	1603.377
2	1598.974	1605.027	1626.966	1632.218	1635.328
3	1626.922	1633.176	1654.220	1660.769	1663.755
4	1646.031	1660.370	1673.743	1680.870	1683.046
5	1663.506	1677.892	1689.908	1697.059	1699.218
6	1675.128	1691.341	1700.724	1711.238	1712.667
7	1685.152	1701.514	1708.397	1721.584	1722.953
8	1692.618	1709.185	1712.815	1729.169	1730.536
9	1695.434	1713.597	1715.763	1733.452	1734.578
10	1697.653	1716.403	1718.569	1736.323	1737.444
11	1698.424	1718.616	1718.616	1738.602	1738.602
Akai	ke Information	n Criteria by F	Rank (rows) ar	nd Model (col	umns)
0	-28.21701	-28.21701	-28.72045	-28.72045	-28.57808
1	-28.63132	-28.68834	-29.17599	-29.18047	-29.05812
2	-28.96917	-29.05105	-29.31244	-29.37815	-29.25916
3	-29.08934	-29.15508	-29.41858	-29.49028*	-29.38900
4	-29.03093	-29.23980	-29.36855	-29.43171	-29.33426
5	-28.93951	-29.12912	-29.25067	-29.29413	-29.21652
6	-28.72985	-28.93618	-29.02473	-29.11592	-29.04377
7	-28.48793	-28.67705	-28.73529	-28.86027	-28.80713
8	-28.19430	-28.36736	-28.38010	-28.54887	-28.51588
9	-27.80674	-27.99186	-27.99521	-28.17076	-28.15309
10	-27.40713	-27.58391	-27.60746	-27.76410	-27.76655
11	-26.97827	-27.16396	-27.16396	-27.34550	-27.34550
	Schwarz Crite	eria by Rank (	(rows) and Mo	odel (columns)	)
0	-25.04520	-25.04520	-25.26029*	-25.26029*	-24.82958
1	-24.88281	-24.91362	-25.13914	-25.11740	-24.73292
2	-24.64397	-24.67342	-24.69889	-24.71217	-24.35727
3	-24.18744	-24.17454	-24.22835	-24.22140	-23.91041
4	-23.55234	-23.65636	-23.60162	-23.55993	-23.27898
5	-22.88423	-22.94278	-22.90704	-22.81943	-22.58455
6	-22.09788	-22.14693	-22.10441	-22.03832	-21.83510
7	-21.27926	-21.28489	-21.23828	-21.17977	-21.02177
8	-20.40894	-20.37230	-20.30639	-20.26546	-20.15383
9	-19.44469	-19.39389	-19.34481	-19.28444	-19.21434
10	-18.46838	-18.38303	-18.38036	-18.27487	-18.25111
11	-17.46283	-17.36018	-17.36018	-17.25336	-17.25336

# 2. Growth Model (GRO)

# a. Johansen Cointegration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.604103	349.8794	285.1425	0.0000

At most 1 *	0.478326	258.1459	239.2354	0.0052
At most 2	0.436010	193.7254	197.3709	0.0747
At most 3	0.327820	137.0263	159.5297	0.4238
At most 4	0.291920	97.70057	125.6154	0.6729
At most 5	0.206646	63.52595	95.75366	0.8959
At most 6	0.160746	40.60884	69.81889	0.9379
At most 7	0.110090	23.25991	47.85613	0.9567
At most 8	0.059663	11.71303	29.79707	0.9414
At most 9	0.049332	5.622807	15.49471	0.7396
At most 10	0.006186	0.614348	3.841466	0.4332

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

# **b.** Cointegration Summary

Date: 12/10/12 Time: 09:42 Sample: 2004M01 2012M05 Included observations: 99

Series: GRO GOLD FM FRB IM VF XINFL INT ADM PLS

**EXCH** 

Lags interval: 1 to 1

Selected (0.05 level\*) Number of Cointegrating Relations by Model

Data Trend:	None	None	Linear	Linear	Quadratic
Test Type	No Intercept	Intercept	Intercept	Intercept	Intercept
	No Trend	No Trend	No Trend	Trend	Trend
Trace	4	4	2	3	3
Max-Eig	4	4	1	1	1

<sup>\*</sup>Critical values based on MacKinnon-Haug-Michelis (1999)

# Information Criteria by Rank and Model

Data Trend:	None	None	Linear	Linear	Quadratic		
Rank or	No Intercept	Intercept	Intercept	Intercept	Intercept		
No. of CEs	No Trend	No Trend	No Trend	Trend	Trend		
	Log Likelihood by Rank (rows) and Model (columns)						
0	1338.785	1338.785	1369.874	1369.874	1373.166		
1	1376.547	1384.776	1415.741	1417.705	1420.984		
2	1409.489	1420.058	1447.951	1450.819	1454.097		
3	1441.097	1452.262	1476.301	1479.258	1482.373		
4	1468.510	1480.328	1495.964	1501.689	1503.944		
5	1485.108	1499.108	1513.051	1520.015	1522.014		
6	1499.281	1514.801	1524.510	1535.828	1537.785		
7	1509.650	1525.682	1533.184	1546.564	1548.072		
8	1517.909	1534.348	1538.957	1555.236	1556.715		
9	1520.830	1540.011	1542.003	1560.735	1561.662		
10	1522.966	1542.707	1544.507	1563.711	1564.638		
11	1523.380	1544.814	1544.814	1565.985	1565.985		

<sup>\*</sup> denotes rejection of the hypothesis at the 0.05 level

<sup>\*\*</sup>MacKinnon-Haug-Michelis (1999) p-values

Akaike Information Criteria by Rank (rows) and Model (columns)					
0	-24.60172	-24.60172	-25.00756	-25.00756	-24.85185
1	-24.92013	-25.06619	-25.48972	-25.50918	-25.37341
2	-25.14120	-25.31430	-25.69599	-25.71352	-25.59791
3	-25.33530	-25.50025	-25.82426*	-25.82339	-25.72471
4	-25.44465	-25.60259	-25.77704	-25.81189	-25.71603
5	-25.33551	-25.51734	-25.67780	-25.71748	-25.63665
6	-25.17739	-25.36971	-25.46484	-25.57228	-25.51080
7	-24.94243	-25.12490	-25.19564	-25.32452	-25.27417
8	-24.66484	-24.83532	-24.86783	-25.03508	-25.00434
9	-24.27939	-24.48508	-24.48490	-24.68151	-24.65985
10	-23.87810	-24.07489	-24.09105	-24.27699	-24.27551
11	-23.44202	-23.65281	-23.65281	-23.85828	-23.85828
Schwarz Criteria by Rank (rows) and Model (columns)					
	Schwarz Crite	eria by Rank	(rows) and Mo	del (columns)	)
0	Schwarz Crite -21.42990	eria by Rank ( -21.42990	(rows) and Mo -21.54740*	del (columns) -21.54740*	-21.10334
0 1		•			
1 2	-21.42990	-21.42990	-21.54740*	-21.54740*	-21.10334
1	-21.42990 -21.17163	-21.42990 -21.29147	-21.54740* -21.45287	-21.54740* -21.44612	-21.10334 -21.04821
1 2	-21.42990 -21.17163 -20.81600	-21.42990 -21.29147 -20.93668	-21.54740* -21.45287 -21.08244	-21.54740* -21.44612 -21.04754	-21.10334 -21.04821 -20.69602
1 2 3	-21.42990 -21.17163 -20.81600 -20.43340	-21.42990 -21.29147 -20.93668 -20.51972	-21.54740* -21.45287 -21.08244 -20.63402	-21.54740* -21.44612 -21.04754 -20.55451	-21.10334 -21.04821 -20.69602 -20.24613
1 2 3 4	-21.42990 -21.17163 -20.81600 -20.43340 -19.96607	-21.42990 -21.29147 -20.93668 -20.51972 -20.01915	-21.54740* -21.45287 -21.08244 -20.63402 -20.01011	-21.54740* -21.44612 -21.04754 -20.55451 -19.94011	-21.10334 -21.04821 -20.69602 -20.24613 -19.66075
1 2 3 4 5	-21.42990 -21.17163 -20.81600 -20.43340 -19.96607 -19.28023	-21.42990 -21.29147 -20.93668 -20.51972 -20.01915 -19.33100	-21.54740* -21.45287 -21.08244 -20.63402 -20.01011 -19.33417	-21.54740* -21.44612 -21.04754 -20.55451 -19.94011 -19.24279	-21.10334 -21.04821 -20.69602 -20.24613 -19.66075 -19.00468
1 2 3 4 5 6	-21.42990 -21.17163 -20.81600 -20.43340 -19.96607 -19.28023 -18.54542	-21.42990 -21.29147 -20.93668 -20.51972 -20.01915 -19.33100 -18.58046	-21.54740* -21.45287 -21.08244 -20.63402 -20.01011 -19.33417 -18.54452	-21.54740* -21.44612 -21.04754 -20.55451 -19.94011 -19.24279 -18.49468	-21.10334 -21.04821 -20.69602 -20.24613 -19.66075 -19.00468 -18.30214
1 2 3 4 5 6 7	-21.42990 -21.17163 -20.81600 -20.43340 -19.96607 -19.28023 -18.54542 -17.73376	-21.42990 -21.29147 -20.93668 -20.51972 -20.01915 -19.33100 -18.58046 -17.73274	-21.54740* -21.45287 -21.08244 -20.63402 -20.01011 -19.33417 -18.54452 -17.69862	-21.54740* -21.44612 -21.04754 -20.55451 -19.94011 -19.24279 -18.49468 -17.64401	-21.10334 -21.04821 -20.69602 -20.24613 -19.66075 -19.00468 -18.30214 -17.48881
1 2 3 4 5 6 7 8	-21.42990 -21.17163 -20.81600 -20.43340 -19.96607 -19.28023 -18.54542 -17.73376 -16.87948	-21.42990 -21.29147 -20.93668 -20.51972 -20.01915 -19.33100 -18.58046 -17.73274 -16.84026	-21.54740* -21.45287 -21.08244 -20.63402 -20.01011 -19.33417 -18.54452 -17.69862 -16.79412	-21.54740* -21.44612 -21.04754 -20.55451 -19.94011 -19.24279 -18.49468 -17.64401 -16.75167	-21.10334 -21.04821 -20.69602 -20.24613 -19.66075 -19.00468 -18.30214 -17.48881 -16.64228

# ENHANCING FINANCIAL SYSTEM STABILITY IN INDONESIAN DUAL FINANCIAL SYSTEM

Adinda Ratu Nur Illiyyin<sup>1</sup>

#### ABSTRACT

In a country adopting dual financial system (conventional and Islamic), monetary authority has the responsibility to maintain financial stability and synergy of both systems by stabilizing price level and promoting economic growth. Three main pillars, which differentiate between the Islamic and conventional financial system, are international monetary system, banking system and financial operation system. Conventional financial system adopts fiat money/ multiple fiat currency, fractional reserve banking and interest systems. Meanwhile, Islamic financial system adopts gold money, Islamic narrow banking and profit-and-loss sharing systems. The main objective of this study is to compare the three main pillars of conventional and Islamic financial system in curbing inflation and promoting economic growth. This study applies Vector Error Correction Model (VECM) using Indonesian data. The results show that interest (INT), fiat money (M0) and multiple fiat currency (EXCH) systems in conventional financial system are the main determinants that induce inflation as well as hinder economic growth. INT induces inflation with 38.44% share and hinders economic growth with 71.72% share. The results also show that profit-and-loss sharing (PLS) and Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) systems in Islamic financial system are the main determinants that curb inflation, as well as promote economic growth for GOLD. GOLD curbs inflation with 0.66% share and promote economic growth with 4.07%. Therefore, the share of Islamic financial system with PLS and GOLD should be increased to its optimum level.

**Keywords**: Islamic Financial System, Conventional Financial System, Inflation, Economic Growth, VECM

# 1. INTRODUCTION

# 1.1 Background

Economic growth and price stability are two of the objectives of economic development for every country, so that sustainable economic development and financial stability could be achieved. However, in the past two centuries these conditions have rarely occurred. Instead, financial crises have occurred one after another since the first financial crisis in England 1825. In the past century, financial crisis have occurred after the gold standard regime in 1915 collapsed. The crisis started with depression in Japan (1920) and followed by other countries such as Germany (1922), Austria (1931), France (1944), Hungary (1944) and Nigeria (1945). The return to gold standard under Bretton Woods Agreements (BWA) has made the world economy developed and international economic stability maintained (Davies, 1996).

After the breakdown of BWA in 1971, international economic stability has gone, while financial crises have reemerged. Leaven and Valencia (2012) recorded that there were 431 episodes of financial crises (147 banking crisis, currency crisis and sovereign debt crisis) in the period of 1970-2011. According to Lietaer, *et al.* (2009), these financial crises happened not because of cyclical or managerial failures, but

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because of structural failures in various countries under very different regulatory systems as well as at different stages of economic development.

Indonesia has also hit by multi-dimensional crisis in 1997-1998. In this multi-dimensional crisis, inflation has increased up to 64% and Rupiah value has jumped to Rp11000/US\$ from Rp2600/US\$, while economic growth has contracted to 13.1% (Ascarya, 2011). All sectors in the economy have contracted significantly. Moreover, currency depreciation had made public debt to reach US\$60 billion in November 1997, which imposed severe strains on the government's budget. Indonesia has suffered the most with fiscal cost reached 56.8% of GDP, while output loss reached 67.9% of GDP (Laeven and Valencia, 2008). In the middle of multi-dimensional chaos, Bank Muamalat Indonesia, the only Islamic bank existed at that time has survived from this crisis. Islamic finance has proven to be more resilient to financial crisis than that of conventional finance. From this experience, Indonesia reformed its financial system and adopted dual financial system, where conventional financial system exists side by side with Islamic financial system, in 1999.

In a country adopting dual financial system, the authority has the responsibility to maintain financial stability and synergy of both systems by stabilizing price level and promote economic growth. Therefore, there should be a study to investigate the impact of conventional and Islamic financial systems in an economy under dual financial system, such as Indonesia, to economic growth and financial stability.

# 1.2 Objective

There are three main distinct characteristic pillars of Islamic and conventional financial systems. These three main pillars are money system, banking system, and financial operation system. The objective of this study is to compare the three main pillars in curbing inflation and promoting economic growth.

# 1.3 Data and Methodology

The data used in this study is secondary data of monthly time series obtained from Indonesian Economic and Finance Statistics of Bank Indonesia (SEKI-BI), Shariah Banking Statistics of Bank Indonesia (SPS-BI), as well as PLS returns from major full-fledged Islamic for the period of January 2004 to June 2012. While, the method applied is Vector Auto Regression (VAR) followed by Vector Error Correction Model (VECM).

# 2. LITERATURE REVIEW

There are various schools of thought in economic system. The two contrasting economic systems are conventional economic system and Islamic economic system. These two systems have different paradigms. The three main differences between these two systems lay in the three main pillars, namely, money system/ multiple fiat currency, banking system and financial operation system. The comparison between conventional financial system and Islamic financial system can be read in Table 1.1.

**Table 1.1: Comparisons of Conventional and Islamic Financial Systems** 

	Islamic	Conventional		
Money System/ International Monetary System	Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD)	Fiat Money/ Multiple Fiat Currency		
Banking System	Narrow Banking System	Fractional Reserve Banking System		
Financial Operation System	Profit-and-Loss Sharing System (PLS)	Interest System		

Source: Ascarya (2007), modified by authors.

# 2.1 Fiat Money/Multiple Fiat Currency and Gold (or Gold-backed) Money and/or Single Gold Standard

Fiat money is something (usually in the form of paper or coin) that is acknowledged as a legal medium of exchange in a certain jurisdiction or state, even though it does not carry a value or back up equivalent to its nominal value. The issuance of fiat money creates a new purchasing power out of nothing. Therefore, fiat money gives unfair benefit, usually known as *seigniorage*, to the money issuer authority. Within economic system where fiat money is used, the institution given the authority to issue money (usually central bank, monetary authority, treasury department, or other appointed institution) gains this *seigniorage* benefit. Consequently, aggregate purchasing power of money will decrease (in the form of inflation) equivalent to the percentage of new money added (issued) in the economy. Money in Islam is either full bodied money or fully backed money. In this new money issuance, there is no new purchasing power created (no *seigniorage*). Furthermore, in the printing process of new money, the cost of printing is the government responsibility, so that there is no party suffers financial loss (Ascarya, 2007). The value of a currency is relatively stable when it is backed by gold. But, when a currency has no more back up from gold, its value depreciates quickly.

Current international monetary system is based on multiple fiat money of every country in the world without any back-up of real assets. Therefore, each country gains *seigniorage* profits of printing the national currency on the burden of all people as money holders in the form of depleting purchasing power. Super power country gains a huge *seigniorage*, since its currency is used as international currency. This condition makes persistent inflation and unfairness, especially for small countries with un-convertible currency. The more a currency is used as international payment, the more a country gains *seigniorage* and country with un-convertible currency can only enjoy *seigniorage* in national level.

Meera and Larbani (2006) state that fiat money system, together with fractional reserve banking system, was argued to redistribute ownership of assets in the economy unjustly and indiscriminatingly. The wealth-distributing mechanism was argued to be similar to theft while taxing the whole economy in the form of inflation. Indeed, fiat money system was argued to be unjust, unstable and unsustainable in the long-run.

Meanwhile, money in Islamic financial system is either full bodied money (money, in the form of gold or silver, which has intrinsic value equivalent to its nominal value) or fully backed money (money, usually in the form of paper or coin), which its nominal value is backed by 100 percent gold equivalent stored by the issuing authority. In this new money issuance, there is no new purchasing power created (no *seigniorage*), so that there is no *riba* involved. Furthermore, in the printing process of new money, the cost of printing is the government responsibility, so that there is no party suffers financial loss.

In the Islamic financial system where Islamic money is used, the institution given the authority to issue money does not gain *seigniorage* benefit; even it has to take the responsibility of printing costs. The amount of money added (issued) to the economy is aligned with the growth of value added of the economy, so that Islamic economic in general does not have inflationary nature and tends to be stable. Therefore, the value of dinar (in gold) and dirham (in silver) have always been relatively stable.

# 2.2 Fractional Reserve Banking System and Narrow Banking System

Fractional reserve banking system means that a bank is required to hold reserve in only a certain percentage of deposits mobilized. With this system, bank has the ability to create another kind of fiat money, i.e. bank money (demand deposits, electronic money), through multiple deposit creation. In this case, money is created when a bank extends loan. For example, if the required minimum reserve is 10%, Rp1 million deposit, first, will be recorded as 'Deposit' in liability side and cash 'Reserve' in asset side. Second, since reserve requirement is only 10%, the bank can extend loan as much as Rp 9 million, so that the total deposit becomes Rp10 million. This transaction illustrated below (Ascarya, 2009).

# BALANCE SHEET 1 Reserve 1 mn Deposit 1 mn BALANCE SHEET 2 1 mn Deposit 1 mn Loan 9 mn Deposit (Loan) 9 mn

The formula of multiple deposit creation can be written as follows (Meera, 2004):

# $D = 1/r \times R$

Where, D = change in total deposit; r = minimum reserve ratio (e.g., 10%); and R = change in reserve (e.g., new deposit Rp1 million). In this example, deposit of Rp1 million can create new money (deposit) nine times of its original value, Rp9 million, so that the total deposit becomes Rp10 million. Therefore, fractional reserve banking system also gives unfair *seigniorage* profit to the bank which authorized to create new bank money. Consequently, the creation of bank money will also make the aggregate purchasing power of money to decrease (in the form of inflation) equivalent to the percentage of new bank money created by bank. The party who suffer a loss with the creation of new bank money is, again, the whole population who holds this money.

Narrow banking system does not give the opportunity for bank to create new bank money, since narrow banking system has to be deposited back to central bank. A bank can only extend loan as much as the original deposit. Therefore, there will be no *seigniorage*, there is no inflationary effect, and there is no party suffered any loss. For example, Rp1 million deposits, first, will be recorded as 'Deposit' in liability side and cash 'Reserve' in asset side. Second, since reserve requirement is 100%, the bank can only extend loan as much as Rp1 million, so that in the asset side, the 'Reserve" becomes 'Loan' of Rp1 million. This transaction can be illustrated below (Ascarya, 2009).

	BALAN	CE SHEET 1	
Reserve	1 mn	Deposit	1 mn
	BALAN	ICE SHEET 2	_
Loan	1 mn	Deposit	1 mn

Money creation through fractional reserve banking system has made the 20th century one of the highest inflationary centuries on the historical record; inflation is obviously not a problem specific to the process of money issuance by governments (Lietaer et al., 2008).

# 2.3 Interest and Profit and Loss Sharing

Interest system is a risk shifting so that there is always unfairness. When all market players don't want to share the risk, someone will become a victim of the system. It also means interest rate is basically provides guaranteed profit for one party against unpredictable future events. Interest rate will force the market to give positive return while real productivity could be higher or lower than the interest rate, so that the business may gain profits or suffer losses.

The emergence and expansion of interest system with money as a commodity and rate of interest as its price, new financial markets emerged in parallel with the main market of goods and services in the real

sector, such as capital market, money market, bond market and derivatives market. Since financial markets offer fixed and predetermined rate of return, capital that originally is invested in the real sector, flows swiftly to financial sector (which cannot produce real value added), so that the amount of capital concentrated in financial sector has exceed tens of times to that in the real sector (which can produce real value added). Financial sector, which is originally serves as supporting entity to the real sector, has developed as a separate sector that has its own products and prices (Ascarya 2009).

Sakti (2007) argues that the economy is inevitably dichotomized into two main activities, namely real activity and monetary activity. Interest rate should reflect productivity level of the capital but that never happens and the consequent of this misallocation of resources has made lack of capital to grow in the real sector. Because of that there is always a gap between interest rate and real productivity that leads to market distortion. When this gap exited, the market will react negatively. Then, there is always a bubble in economic growth. This bubble economy is like a time bomb that will explode at some point in the future in the form of crisis.

In conventional economy, money as commodity, and the permissibility of speculation cause the creation of money (paper money and bank money) and concentration of money in monetary sector to seek higher return with less or no risk. Consequently, money or investment that should be channeled to the real sector for productive purposes mostly flows to the monetary sector and impedes growth, and even reduces the size of real sector. The creation of money without value addition will cause inflation. In the end, the goal of economic growth will be impeded.

Interest System

Money Creation & Concentration

Real Sector Contraction

Figure 2.1 The Implication of Interest to Economy

Source: Sakti (2007)

The alternative of interest system in Islamic financial system is profit-and-lost sharing (PLS) system. The *zakah* system, PLS system and the prohibition of speculation will accelerate investment activities to the real sector for productive purposes. This will ensure the distribution of wealth and income as well as the growth in the real sector. The improvement in productivity and opportunity to work and to do business finally will accelerate economic growth, and therefore, social wellbeing will be achieved (read figure 2.2).

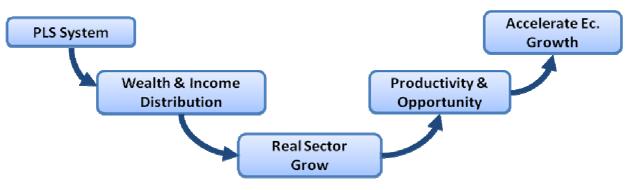


Figure 2.2 The Implication PLS System to Economy

Source: Sakti (2007)

# 2.4 Previous Studies

The studies on determinants of inflation and growth are plenty under conventional perspective, but not so many under Islamic perspective. Nonetheless, there are still some Islamic perspective studies on determinants of inflation and growth. The studies under conventional perspective include, Yanuarti and Hutabarat (2006), Husman (2007), Suselo *et al* (2008), Tabi (2011), Barro (1997) and Motley (1994). The studies under Islamic perspective include Ascarya (2009), Rab (2010), Meera and Larbani (2006), Ibrahim (2006). Moreover, Darrat (2000), Ascarya (2011) and Ryandono (2006) cover these subjects under conventional as well as Islamic perspectives.

In empirical studies, Ryandono (2006) compares conventional interest system and Islamic PLS system. He concludes that interest system has negative relationship with the economy and causes money turns over becomes ineffective and inefficient at macro and micro levels, which subsequently cause instability in the economy. This finding is in line with Ascarya (2011) who analyses how to eradicate inflation under dual monetary system, which's concludes that the highest contributor to induce inflation is Interest system. Moreover Darrat (2000), which takes Iran and Pakistan for his case study in determining the stability of demand for money under interest system as well as interest-free system, finds that interest-free system a) improves overall macroeconomic performance; b) leads to a smoother behavior of money velocity; c) provides policymakers with a more controllable monetary environment; and d) strengthens the linkage between policy instruments and the main policy goal of price stability. Moreover, in his descriptive study, Rab (2010) believes that system of interest cannot be sustained without monetary manipulation and it is in gross conflict with nature as its efficient working require rate of return of economic activities to be nearly equal while natural laws ensure that it is distributed over a wide range, which leads to unemployment as well as inefficient allocation of resources. Furthermore, it causes gross economic imbalance.

Meera and Larbani (2006) state that fiat money system, together with fractional reserve banking system, was argued to redistribute ownership of assets in the economy unjustly and indiscriminatingly. The wealth-distributing mechanism was argued to be similar to theft while taxing the whole economy in the form of inflation. Indeed, fiat money system was argued to be unjust, unstable and unsustainable in the long-run. Rab (2010) states that currency is the measure of wealth that market uses as the scale in the process of determination of prices, which constitutes measurement of wealth. It is implied that error in measurement has to be corrected and it means that we must correct our accounting. This manipulation of currency is extremely harmful for the economy in the long run and it is the root cause of most of the major economic, social and political problems.

In the empirical study, Ascarya (2011) finds that the root causes of inflation are fiat money, price control and fractional reserve banking system. Meanwhile, Ibrahim (2006) finds three evidences, namely: 1) the results portray clearly an important causal role of money supply for other macroeconomic variables; 2) expansion in money supply is inflationary; and 3) money supply – interest rate and money supply – stock price interactions are destabilizing. Moreover, Yanuarti and Hutabarat (2006), Husman (2007) and Ascarya (2009; 2011; 2012) find exchange rate (i.e., multiple fiat money system) has proven to be one of the main contributors to induce inflation in several countries, including Indonesia, while exchange rate is not only contribute to induce inflation but also hinder economy growth. Suselo, *et al.* (2008) also finds the depreciation of rupiah and volatility of exchange rate will hinder economy growth in Indonesia.

Meera and Larbani (2003) argue that using gold instead of national currencies in multiple payment arrangement (MPA) eliminates exchange rate risk while allowing countries without any international reserves to trade freely. Using gold will greatly reduce, if not eliminating, speculative and arbitrage activities among the currencies of the participating countries. The MPA is more efficient and requires a much lower amount of gold for settling the trade balances. The overall benefits are thus monetary stability, justice, increased trade and economic prosperity with minimum international reserves, i.e. things that are very much at stake in the current highly 'blown-up' vulnerable global fiat monetary system. There are also some proves from Ascarya (2009; 2011; 2012), where he finds that the highest contributor to prevent Inflation is gold standard and Profit-and-loss sharing (PLS). To prevent crisis effectively Ascarya suggests that lower interest rate will decrease inflation, while international

monetary system should move towards a just single (Gold) currency system where Gold standard is the most just and stable monetary system. M. Yusuf, *et al.* (2002) argue that if Malaysia implement the Gold Dinar side by side with Ringgit Malaysia, it is possible the that speculators will change from speculating on currencies toward on gold prices to obtain profit. However, the impact of manipulation currencies toward one economy could be reduced because of the gold does not inflate in value as it is a commodity and has an intrinsic value.

Ryandono (2006) finds that interest system can impede investment and economic growth, so that it is difficult to synchronize monetary sector and real sector, since the two sides have different interests and objectives in the economy which is difficult to settle. In contrast, PLS system has positive relationship with the economy and causes money turnover becomes effective and efficient at macro and micro levels, and subsequently will cause stability in the economy. PLS system can stimulate investment and economic growth, so that it will synchronize monetary sector and real sector, since the two sides have similar interests and objectives in the economy.

There are a number of reasons why persistent inflation might tend to reduce economic growth. Motley (1994) finds that inflation may affect saving and investment decisions, reducing the proportion of GDP devoted to investment and so causing the economy to accumulate less human or physical capital. For example, when inflation is high, it is usually more volatile, so that it is harder to forecast. This condition may make it more difficult to deduce the real returns on investments from available market information and may cause savers and investors to be less willing to make long-term nominal contracts or to invest in long-term projects. The resulting reduced stocks of productive capital may, in turn, imply lower levels of future GDP. In addition, Barro (1997) also finds that growth rate is enhanced by lowering inflation and government consumption. Meanwhile, Tabi (2011) analyzes Cameroon data from 1960-2007 on inflation and growth. The results show that money in circulation causes growth and growth causes inflation.

# 3. METHODOLOGY

# 3.1 Type and Source of Data

The data used in this study is secondary data of monthly time series obtained from Indonesian Economic and Finance Statistics of Bank Indonesia (SEKI-BI), KITCO, BPS, Sharia Banking Statistics of Bank Indonesia (SPS-BI), as well as PLS returns from major full-fledged Islamic for the period of January 2004 to June 2012.

# 3.2 Variable and Operational Definition

The variables used in this study and their operational definitions are as follows.

- 1. Inflation (INF) is the index of monthly CPI inflation obtained from SEKI-BI.
- 2. Growth (GRWTH) is the index of monthly Industrial Production Index, data obtained from BPS.
- 3. Interest System (INT) is the monthly 1-month working capital loan rate of conventional banks obtained from SEKI-BI.
- 4. Profit-and-Loss Sharing System (PLS) is the returns of investment from Islamic bank represented by equivalent rate from the actual returns of *Mudharabah* time deposit or investment obtained from full-fledged Islamic banks and sharia Banking Statistics of Bank Indonesia (SPS-BI).
- 5. Multiple Fiat Currency (EXCH) is the nominal Rupiah exchange rate to the US Dollar obtained from SEKI-BI.
- 6. Fiat money (M0) is equilibrium intrinsic proximate by the monthly M0, data obtained from SEKI-BI.

- 7. Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) is gold price index obtained data obtained from KITCO.
- 8. Fractional Reserve Banking System (M2) is the monthly M2, data obtained from SEKI-BI.

#### 3.3 Method of Estimation

This study will apply Vector Auto Regression (VAR)/Vector Error Correction Model (VECM) to determine the dynamics of Islamic bank financing channel. VAR is an *n*-equation with *n*-endogenous variable, where each variable is explained by its own lag, as well as current and past values of other endogenous variables in the model. Therefore, in the context of modern econometrics, VAR is considered as multivariate time series that treats all variables endogenous, since there is no confidence that a variable is actually exogenous, and VAR allows the data to tell what actually happen (Ascarya, 2010). Sims (1980) argue that if there is true simultaneity among a set of variables, they should all be treated on an equal footing and there should not be any a priori distinction between endogenous and exogenous variables. The general VAR model mathematically can be represented as follows.

$$x_{t} = \mu_{t} + \sum_{i=1}^{k} A_{i} + X_{t-1} + \varepsilon_{t}$$
(3.1)

Where xt is a vector of endogenous variables with  $(n \times 1)$  dimension,  $\mu t$  is a vector of exogenous variables, including constant (intercept) and trend, Ai is coefficient matrix with  $(n \times n)$  dimension, and  $\varepsilon t$  is a vector of residuals. In a simple bivariate system yt and zt, yt is affected by current and past value of zt, while zt is affected by current and past value of yt. When data level is not stationary and there is a cointegration between variables, the dynamic relationships of cointegrated system can be determined by VECM. VECM will also overcome the drawback of first difference VAR and regain the long-term relationships among variables. The trick is to reincorporate original equation in level into the new equation as follows.

$$\Delta x_{t-1} = \mu_t + \prod x_{t-1} + \sum_{i=1}^{k-1} \Gamma_i \Delta x_{t-i} + \varepsilon_t$$
(3.2)

Where,  $\Pi$  and  $\Gamma$  are functions of Ai. The matrix  $\Pi$  can be decomposed into two matrices  $\lambda$  and  $\beta$  with  $(n \times r)$  dimension.  $\Pi = \lambda \beta T$ , where  $\lambda$  is called an adjustment matrix and  $\beta$  is a cointegration vector. Moreover, r is a cointegration rank.

VAR/VECM analysis process can be read on figure 3.1. After basic data is ready, data is transformed into natural logarithm form (*ln*), except for interest rates and the PLS return, to obtain consistent and valid results. The first test conducted was the unit root test, to find out whether data is stationary or still contain trends. If the data are stationary at levels, then VAR can be conducted at level. VAR level can estimate the long-term relationship between variables. If data are not stationary at level, then the data should be reduced at the first level (first difference), which reflects the difference or changes in data. If the data are stationary at first difference, then the data will be tested whether there is cointegration between variables. If there is no cointegration between variables, then VAR can only be done at the first difference, and it can only estimate the short-term relationship between variables. Innovation accounting would not be meaningful for the long-term relationship between variables. VECM can estimate the short-term and long term relationship between variables. Innovation accounting for the level VAR and VECM will be meaningful for the long-term relationships.

Data Transformation Data Exploration (Natural Log) No Yes Stationary at **Unit Root** Stationary at first difference [I(1)] level [I(0)] Test Yes High No Correla-Low Cointegration Test tion Test VECM Between L-term Error (K-1)Optimal Order Order VAR First S-VAR VAR Level Cointegration Rank Difference L-term L-term S-term Innovation Accounting: IRF & FEVD

Figure 3.1: VAR Analysis Process

Source: Ascarya, 2010

Impulse response function analysis is performed to see the response of an endogenous variable to the shocks of other variables in the model. Decomposition variance analysis is also carried out to see the relative contribution of a variable in explaining the variability of the endogenous variable. The software used in this research is *Eviews*.

The advantages of VAR method compared to other econometric methods, among others, are (Gujarati, 2004 and Enders, 2004): 1) VAR method is freed from various economic theory restrictions that often exists, such as spurious variable endogeneity and exogeneity; 2) VAR develops model simultaneously within complex multivariate system, so that it can capture all relationships among variables in the equation; 3) Multivariate VAR test can avoid biased parameters due to exclusion of relevant variables; 4) VAR test can detect the relationships among variables within equation system by treating all variables endogenous; 5) VAR method is simple where one does not have to worry about determining which variables are endogenous and which ones exogenous, since VAR treats all variables endogenous; 6) VAR estimation is simple where the usual OLS method can be applied to each equation separately; and 7) The estimate forecasts obtained are in many cases better than those obtained from other more complex simultaneous-equation models.

Meanwhile, the disadvantages and problems of VAR model, according to Gujarati (2004), are: 1) VAR model is a-theoretic, since it uses less prior information, unlike simultaneous-equation model where exclusion and inclusion of certain variables plays a crucial role in the identification of the model; 2) VAR model is less suited for policy analysis, due to its emphasis on forecasting; 3) Choosing the appropriate lag length is the biggest practical challenge in VAR modeling, especially when there are too many variables with long lag-length, so that there will be too many parameters that will consume a lot of degree of freedom and require a large sample size; 4) All variables should be (jointly) stationary. If not, all data should be transformed appropriately, e.g. by first-differencing. Long-term relationships will be lost in the transformation of data level needed in the analysis; and 5) Impulse Response function (IRF) is the centerpiece of VAR analysis, which has been questioned by researchers.

# 3.4 VECM Model

The VECM model of this study follows the general model of VECM as expressed in equation 3.2, which will be divided into two models. The first model uses inflation (which will be represented by consumer price index, CPI) as final objective, while the second model uses growth (which will be

represented by industrial production index, IPI) as final objective. These simplified models can be represented, as follows.

#### Inflation Model:

 $x_k = \{\text{Inflation (INF), Financial Opt. System, Money System/International Monetary System, Banking System}\}$ 

#### Growth Model:

 $x_k = \{Growth (GRWTH), Financial Opt. System, Money System/International Monetary System, Banking System\}$ 

The proxies of endogenous variables mentioned above, conventional as well as Islamic, can be read in the following table (Table 3.1).

Variable Financial Opt. Money System/ **Banking System** System International **Monetary System** Interest System Fiat money (MO)/ Fractional Conventional (INT) Multiple Fiat Reserve Banking Currency System System (M2) -Inflation (INF) (EXCH) -Growth Profit-and-Loss Gold (or Gold-**Islamic** Narrow Banking (GRWTH) Sharing (PLS) backed) Money System (-) and/or Single Gold Standard (GOLD)

**Table 3.1: Proxies of Endogenous Variables** 

Narrow banking system variable will not be included in the model, because once fractional reserve banking system is replaced by narrow banking system, there is no more money creation from banking system.

Therefore, the complete inflation and growth models can be expressed as follows.

$$INF = f(INT, M2, EXCH, PLS, M0, GOLD)$$
(3.3)

and

$$GRWTH = f (INT, M2, EXCH, PLS, M0, GOLD)$$
(3.4)

#### 4. RESULTS AND ANALYSIS

Required preliminary tests which should be carried out in VAR/VECM method include unit root test, stability test, optimum lag test, and cointegration test.

# **4.1 Stationary Test**

Stationary test or unit root test is intended to identify the state of the data, whether it is stationary or non-stationary (or, whether it is stationary in level or stationary in first difference). In other words, stationary test is used to identify the variable's order of integration. When unit root exists, it means that the data is not stationary and has trend component in it, which should be removed to produce un-spurious results. Augmented Dickey-Fuller or ADF test and Phillips-Perron or PP test are used

simultaneously to test the existence of unit root or the stationary of the data. Using 5% McKinnon critical value, all variables are stationary at first difference.

## 4.2 Selection of Optimal Lag

Optimum lag length should be used in the VAR system to overcome the problem of autocorrelation. Optimum lag test will determine lag length based on *Akaike Information Criterion* (AIC), *Schwarz Information Criterion* (SC) or *Hannan-Quinn Information Criterion* (HQ). Every models have two possible optimum lags, namely 2 (two), if it based on AIC, Moreover, Every models with lag 2 (two) also produce more realistic results.

## **4.3** Cointegration Test

Stationary tests have concluded that all variables are stationary in first difference or I (1). The use of level data to obtain long-run relationships (using VECM method) is only possible when there is at least one cointegration between variables. Cointegration test will determine the number of equation systems that can explain long-run relationship based on trace statistics. Trace test of all models indicates cointegrating equations. Therefore, VECM method can be carried out.

# **4.4 Stability Test**

Stability test is aimed to identify the stability of VAR system, so that the results of Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) are valid. The stability test based on modulus or unit-circle will be applied to determine maximum lag length of the VAR system which is still stable within its unit-circle or with modulus less than one. The result of stability test for inflation model shows that the VAR system is stable up to lag 10 with modulus 0.196742-0.989835. Similarly, the result of stability test for growth model shows that the VAR system is also stable up to lag 10 with modulus 0.259181-0.999761.

#### 4.5 Results

The results of VECM including *Impulse Response Function* (IRF) and *Forecast Error Variance Decomposition* (FEVD) will be discussed in this section.

# a. Impulse Response Function

Impulse Response Function (IRF) results for Inflation model (see figure 4.1) show that conventional variables, namely interest system (INT), fractional reserve banking system (M2), fiat money (M0) and multiple fiat currency (EXCH) give positive and permanent impact to inflation in the long run. In other words, all conventional variables induce inflation. Meanwhile, two Islamic variables, namely profit-and-loss sharing system (PLS) and Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) give negative and permanent impact or curb inflation in the long run.

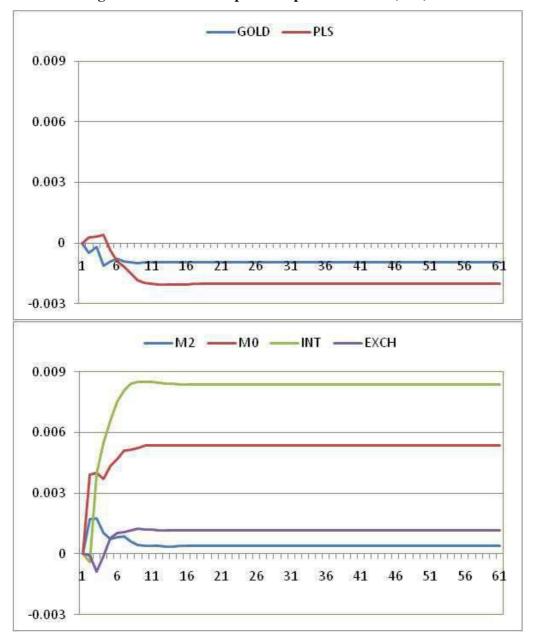


Figure 4.1: Result of Impulse Response Function (IRF) for Inflation Model

Results of *Impulse Response Function* (IRF) for Growth model (see figure 4.2) show that two conventional variables, namely interest system (INT), multiple fiat currency (EXCH) and fiat money (M0) give negative and permanent impact or hinder economic growth, while fractional reserve banking system (M2) gives positive and permanent impact or promote economic growth in the long run. Meanwhile, one Islamic variable, namely Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) gives the biggest positive and permanent impact or promote economic growth, while two Islamic variables, namely, profit-and-loss sharing system (PLS) give diminutive negative and permanent impact to economic growth, in the long run.

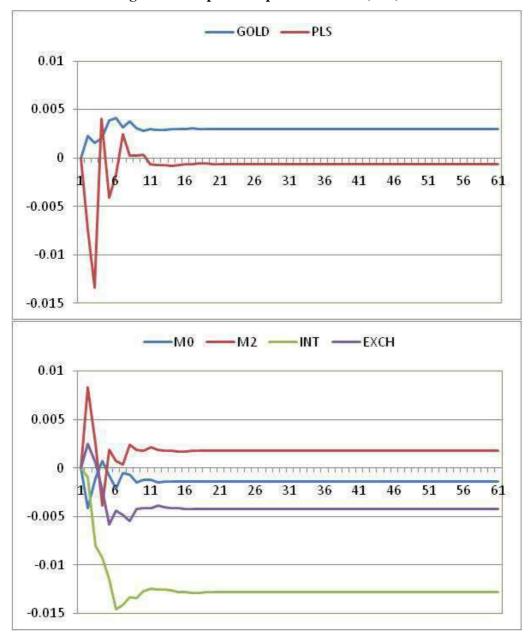


Figure 4.2: Impulse Response Function (IRF) for Growth Model

# **Forecast Error Variance Decomposition**

Results of *Forecast Error Variance Decomposition* (FEVD) for inflation model (see figure 4.3) show that the shares of the conventional variables to the variation of inflation are 0.16% for fractional reserve banking system (M2), 38.44% for interest system (INT), 15.69% for fiat money (M0), and 0.72% for multiple fiat currency (EXCH). Note that all of these conventional variables induce inflation. Meanwhile, the shares Islamic variables to the variation of inflation are 2.11% for profit-and-loss sharing (PLS) and 0.66% for Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD). Note that all of these Islamic variables curb inflation.

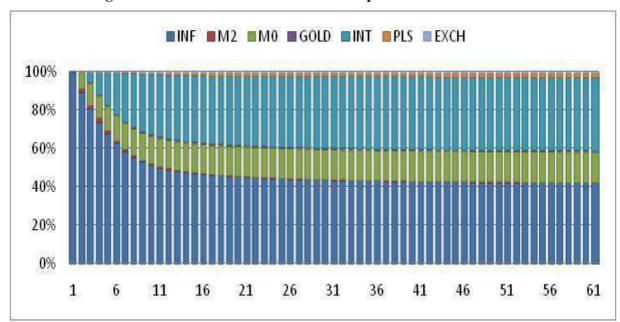


Figure 4.3: Forecast Error Variance Decomposition for Inflation model

Result of *Forecast Error Variance Decomposition Inflation* (FEVD) for Growth model (see figure 4.4) show that the shares of conventional variables to the variation of growth are 2.01% for fractional reserve banking system (M2), 71.72% for interest system (INT), for 0.96% for fiat money (M0), and 7.86% for multiple fiat currency (EXCH). Note that all of these conventional variables hinder growth, except fractional reserve banking system (M2). Meanwhile, the shares of Islamic variables to the variation of growth are 2.22% for profit-and-loss sharing (PLS) and 4.07% for Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD). Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) promotes economic growth, while profit-and-loss sharing (PLS) marginally hinder economic growth.

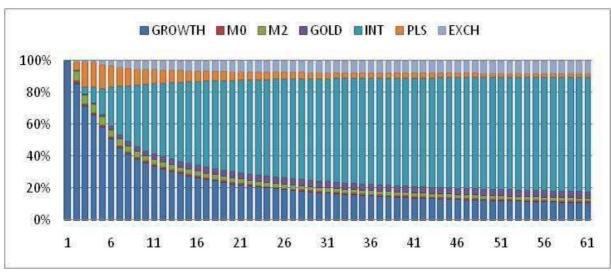


Figure 4.4: Forecast Error Variance Decomposition for Growth Model

#### 4.6 Analysis

#### 4.6.1 Inflation Model

Interest system in conventional financial system induces inflation with 38.44% share, while its counterpart, PLS system in Islamic financial system, curbs inflation with 2.11% share. These results inline with the prohibition of riba (usury or interest) in Islamic economics, which could damage the economy with high inflation and price increase overtime. In a country adopting dual financial system, where interest system operates side by side with PLS system, the objective of price stability and low inflation could be achieved by increasing the share of PLS system or reducing the share of interest system in the economy. Fiat money (M0) and multiple fiat currency (EXCH) in conventional financial system induces inflation with 15.69% and 0.72% share, while its counterpart Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) in Islamic financial system, curbs inflation with 0.66% share. Although these figures are small, they are inline with Islamic economics, which suggest the adoption of gold or gold backed currency system.

Fractional reserve banking system in conventional financial system creates new money which eventually will induce inflation while narrow banking system in Islamic financial system does not create new money, so that it will not induce inflation. The result shows that fractional reserve banking system (M2) induces inflation with 0.16% share.

#### 4.6.2 Growth Model

Interest system in conventional financial system hinders economic growth with 71.72% share, while its counterpart, PLS system in Islamic financial system, only slightly hinders growth with 2.22% share. These result inline with the prohibition of riba (usury or interest) in Islamic economics, where *riba* could damage the economy with misallocation of resources, asset flows to financial sector (not to real sector), and decoupling of financial and real sector. As a resulted there is always a gap between interest rate and real productivity that leads to market distortion. In a country adopting dual financial system, where interest system operates side by side with PLS system, the objective of economic growth could be achieved by reducing the share of interest system or increasing PLS system in the economy.

Multiple fiat currency (EXCH) and fiat money (M0) in conventional financial system hinders economic growth with 7.86% and 0.96% share. While its counterpart, Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) in Islamic financial system promotes growth with 4.07% share. Although these figures are small, they are inline with Islamic economics, which suggest the adoption of gold or backed money system. The result shows anomalies that fractional reserve banking system (M2) promote economic growth with 2.01% share. The anomaly could be resulted from very tight money supply condition where M2/GDP in 2012 has only reached 40% (see figure 4.5) this means that when M2 is raise under tight money supply, it will promote growth until it reached sufficient money supply (M2  $\approx$  GDP).

GDP M2 M2/GDP 9000 46% 45% 7500 41% 43% 42% 41% 40% 6000 38% 36% 4500 31% 3000 26% 1500 21% O 16% 2004 2005 2006 2007 2008 2009 2010 2011 2012

Figure 4.5: M2/GDP Indonesia 2004-2012 (Rp. Trillion)

Source: Author's compilation

## 4.6.3 Overall Analysis

**Table Summary Result** 

INFL↑ GRWTH↓	INFL↑ GRWTH↑	INFL↓ GRWTH↓	INFL↓ GRWTH↑				
Conventional							
INT; EXCH; M0	M2	-	-				
Islamic							
-	-	PLS	GOLD				

From result shows interest system (INT) is the most inducing inflation with 38.44% share and the most curbing economic growth with 71.72% share, followed by multiple fiat currency (EXCH) with 0.724% share in inducing inflation and 7.86% share in curbing economic growth, fiat money (M0) with 15.69% share in inducing inflation and 0.96% in curbing economic growth. Meanwhile, Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) is the only one variable that provides positive impact to economy with 0.66% share in curbing inflation and 4.07% in promoting economy growth. Profit-and-loss sharing system (PLS) is the biggest variable that curbing inflation with 2.11% share and also slightly (negligibly) curbing economic growth with 2.22% share. Fractional reserve banking system (M2) induces inflation with 0.16% share and promotes economic growth with 2.01% share.

The results show anomalies that fractional reserve banking system (M2) in conventional financial system only induce slightly inflation with 0.16% share and promote economic growth with 2.01% share. The anomaly could be resulted from very tight money supply condition where M2/GDP in 2012 has only reached 40% (see figure 4.5). This means that when M2 is raise under money tight supply, it will promote growth until it reached sufficient money supply (M2  $\approx$  GDP).

#### 5. CONCLUSION AND RECOMMENDATION

#### **5.1 Conclusion**

The result shows that in conventional financial system interest rate is the main source of inflation with the share of 38.44%, while fiat money, fractional reserve banking system and multiple fiat currency give trivial share to inflation with the share of 15.69%, 0.16% and 0.72%, respectively. Meanwhile, under Islamic financial system, PLS system and Gold (or Gold-backed) Money and/or Single Gold Standard (GOLD) are the main cure for inflation, where they curb inflation with the share of 2.11% and 0.66%, respectively. The results also show that in conventional financial system, interest system, multiple fiat currency and fiat money are the hindrance of economic growth with the share of 71.72%, 7.86%, and 0.69%, respectively. Conversely, fractional reserve banking system promotes economic growth with the share of 2.01%. Meanwhile, under Islamic financial system, Gold (or Gold-backed) Money and/or Single Gold Standard promotes economic growth with the share of 4.07%. Conversely, PLS system slightly hinders economic growth with the share of only 2.22%. To curb inflation and promote economic growth in dual financial system, such as Pakistan, Malaysia and Indonesia can be achieved by increasing the share of PLS system. If interest system is replaced by PLS system, inflation could be decreased by 40.33%, while economic growth could be increased by 69.50%.

The results show anomalies, where fractional reserve banking system in conventional financial system only induces inflation slightly with only 0.16% share and promotes economic growth with 2.01% share. The anomaly could be resulted from very tight money supply condition where M2/GDP in 2012 has only reached 40% (see figure 4.5). This means that when M2 is raised under tight money supply, it will promote growth until it reached sufficient money supply (M2  $\approx$  GDP).

#### 5.2 Recommendation

Under dual financial system in Indonesia, to minimize the negative impact of inflation and promote growth can be achieved by returning to gold standard and increasing the share of PLS system. It is sound difficult, but it is not impossible to be implemented gradually. The suggestion for government, central bank and Financial Service Authority (FSA) to minimize the negative impact of inflation, promote growth and enhance the stability of the financial system are as follows.

- The government should have political will and courage to gradually and systematically return to gold standard for a better economy;
- Increase central bank gold reserves;
- The government should ensure people freedom to choose a completely different fair currency;
- Implement gold payment system (including e-gold payment);
- Implement multilateral payment arrangements in gold with other country;
- Convert state owned conventional bank to state owned Islamic bank;
- Develop gold based Islamic financial products, such as gold account;
- Encourage people to save in gold and open two account (fiat money account and gold account)
- State owned enterprises should use Islamic finance for part of their financial activities;
- Muslim civil servants should have account in Islamic bank;
- Islamic businesses and organizations should use Islamic finance for their financial activities;
- Conduct research to develop Islamic financial system

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# INSTRUMENTS FOR MEETING CAPITAL ADEQUACY REQUIREMENTS OF ADDITIONAL TIER 1 AND TIER 2 UNDER BASEL III: A SHARI'AH PERSPECTIVE

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# **ABSTRACT**

Basel III has reformed regulatory capital requirements for banking institutions in order to further strengthen the banking sector's resilience, by increasing the minimum capital levels to be maintained by banks as well as redefining the criteria for qualifying regulatory capital instruments. Inevitably, Basel III regulations have an impact on Islamic banking institutions (IBIs). The main concern is whether the Basel III capital instruments are acceptable from the Shari'ah perspective. This research thus compares the qualifying AT1 and T2 capital instruments under Basel III. Furthermore, it examines Shari'ah issues related to subordination, arising in both equity-based and exchange-based contracts when used for structuring AT1 and T2 capital instruments. The study relies on the content analysis of the classical and contemporary literature as well as case studies of *musharakah* and *mudarabah sukuk* issued for meeting regulatory capital requirements under Basel III and Basel III.

The study finds that there are two possible approaches to comply with Basel III and Shari'ah requirements. First, to avoid the Shari'ah issues related to the issue of subordination, it recommends *musharakah* instruments for both AT1 and T2 capital whereby CET1, AT1 and T2 will all be ranked *pari passu* with one another. This approach would still be compliant with the philosophy of Basel III which in substance aims to strengthen the resilience of the banking sector by increasing the total equity of the Risk Weighted Assets (RWA). The second approach is to use *musharakah sukuk* for AT1 and convertible *murabaha* or *ijarah sukuk* for T2 instruments to achieve the effect of subordination among CET1, AT1, T2 and current and saving accounts and general creditors during going-concern and gone-concern scenarios. However, the Shari'ah issues surrounding the current structures of these exchange-based contracts need to be resolved first before this approach can become a reality.

Keywords: Basel III, Capital Adequacy Requirements, Additional Tier 1, Tier 2, Subordination

#### 1. INTRODUCTION

The Rosel III regulators

The Basel III regulatory framework has set out new capital and liquidity standards for banking institutions. In particular, Basel III has increased the minimum capital levels to be maintained by banks and redefined the criteria for qualifying regulatory capital instruments to be included under Tier 1 (T1) and Tier 2 (T2) capital. The overall objectives of the reforms are to enhance the banking sector's ability to absorb shocks arising from financial and economic stress and reduce the risk of spillover from the financial sector to the real economy (BCBS, 2011: 1).

The revised definition of regulatory capital by Basel III has in turn raised some key questions concerning the capital raising exercise of Islamic banking institutions (IBIs). It is asked whether the Basel III capital instruments are equally acceptable from a Shari'ah perspective – in terms of contracts and characteristics – and in terms of

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meeting the objective of strengthening the resilience of IBIs in the event of economic and financial stress. Accordingly, regulatory bodies such as Bank Negara Malaysia (BNM) and standard setting bodies such as the Islamic Financial Services Board (IFSB) have issued guidelines for IBIs on the maintenance of regulatory capital in compliance with Basel III regulations. The Capital Adequacy Framework issued by BNM (2012) is applicable to IBIs in Malaysia; while Exposure Draft-15 issued by IFSB (2012) – which is still going through the process of revision based on public consultation and expected to be finalized by the end of 2013 – provides guidance to regulators and IBIs worldwide on the maintenance of high-quality regulatory capital components which comply with Shari'ah rules and principles.

Currently discussions about suitable instruments which will meet both Shari'ah requirements and the objectives of Basel III are not yet settled. This research accordingly looks into the regulatory capital instruments for IBIs and in this respect, has set out the following main objectives: (i) to examine the key criteria for classifying capital instruments under Additional Tier 1 (AT1) and Tier 2 (T2) capital under Basel III; (ii) to discuss the current subordinated *sukuk* issued by IBIs worldwide for meeting regulatory capital requirements; (iii) to examine the Shari'ah issues relating to the capital instruments of IBIs arising in both equity-based and exchange-based contracts; and (iv) to deliberate on the most suitable Shari'ah-compliant contracts for raising regulatory capital by IBIs that will meet the objectives of Basel III.

Accordingly, the research is organized as follows: **Section 2** examines the definition of capital and criteria of the instruments from Basel III perspective. **Section 3** thereafter examines the current subordinated *sukuk* issued by IBIs for meeting regulatory capital. **Section 4** then deliberates on the Shari'ah issues arising from the consideration of equity-based and exchange-based contracts to structure AT1 and T2 capital instruments. In particular, this section focuses on the issue of subordination and conversion of the capital instruments. In the light of the discussions, **Section 5** deliberates on the Shari'ah-compliant structures most suitable for meeting regulatory capital requirements of IBIs. **Section 6** finally concludes the discussion.

## 2. CAPITAL: BASEL III PERSPECTIVE

The need for good quality capital is essential during times of crisis. Basel III effectively aims to ensure that banks have sufficient regulatory capital to meet their obligations in the event of losses and thus reduce the need for bail out by the public sector – as was the case during the last financial crisis. This section examines the definition of regulatory capital under Basel III, delineates the criteria set out by Basel III for classifying instruments under T1 and T2 capital, and summarizes the type of instruments that will meet Basel III criteria for T1 and T2 capital.

## 2.1. Definition of Regulatory Capital: From Basel II to Basel III

It is noted that Basel II classified capital under Tier 1, Tier 2 and Tier 3. While total regulatory capital has been maintained at 8% of risk-weighted assets (RWA) under Basel III (similar to Basel II), Basel III abolished Tier 3 and classified regulatory capital under only T1 and T2. The components of T1 and T2 have also been changed from 4% each under Basel II to T1 being 6% and T2 being 2% under Basel III. Common Equity Tier 1 (CET1) under Basel III has been increased from 2% under Basel II to 4.5% to improve the quality of the capital base. Moreover, a Capital Conservation Buffer CET1 of 2.5% has been added which is to be attained by 2019. This will increase total regulatory capital to 10.5% as compared to the current 8% of RWA. These changes are depicted in Figure 1.

Figure 1: Basel III Changes to Capital Structure Basel II Significant Basel III increase in CET1 to improve 2.5% quality of Buffer CET1 capital base 2019 8 % Tier 2 Tier 2 Tier 2 2% Tier 2 1.5% Additional Tier 1 4 % Max 100% Tier 2 of Tier 1 Max 50% of Tier 1 Common Equity T1 Loss Absorption Going Concern Innovative 2% Tier 1 4.5% 4 % Tier 1 At least Common 50% of Tier 1 Equity T1 2%

Adapted from KFH Research Ltd. (2011: 9), European Central Bank (2010: 126); BCBS (2006)

As indicated above, Basel III has distinguished between going-concern (where the bank is still solvent and continuing operation) and gone-concern (where the bank is insolvent and will be wound-up) scenarios and has thus specified the type of capital instruments that will be affected by adverse economic conditions based on the stage at which the crisis happens. T1 capital, which comprises Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1), will absorb losses during going-concern. T2 refers to gone-concern capital, which will absorb further losses when the bank reaches the point of non-viability (but may not be necessarily wound up).

Given the distinction between going-concern and gone-concern capital, it means that losses will be deducted from respective capital components in certain specific order: first, it will be borne by CET1; then followed by AT1 capital; ultimately, further losses will be absorbed by T2 capital when the bank reaches the point of non-viability. In principle, depositors and general creditors will be last to bear losses in the event of liquidation. This ranking of the capital instruments supports the overall objective of Basel III which aims at ensuring that the bank has sufficient capital to bear losses during times of crises. Hence, the strategy adopted by Basel III is for banks to issue capital instruments which make capital available on a long term basis and which are equity-like in principle – or at least be convertible to common equity or has mandatory write-down features – such that they have the ability to absorb losses by being ranked below other categories of liabilities.

## 2.2. Criteria for Regulatory Capital

According to Basel III, the key criteria for the instruments issued by banks to meet the CET1 (particularly common shares), AT1 and T2 capital requirements are summarized in Table 1.

<sup>&</sup>lt;sup>4</sup> In between the situation of financial health during going-concern and the winding-up scenario during gone-concern is also the situation of non-viability where the bank is still running but faces times of financial stress. Often, measures are taken at this point to ensure continuity in the operations of the bank so that it is not necessarily wound-up.

Table 1: Key Criteria for Classifying Capital Instruments under Basel III

Common Shares	AT1	T2
Issued and paid-in	Issued and paid-in	Issued and paid-in
Most subordinated claim in liquidation of the bank	Subordinated to depositors, general creditors and other holders of subordinated debt of the bank (i.e. it must be senior only to common equity)	Subordinated to depositors and general creditors of the bank (i.e. it must be senior to AT1 and common equity)
Absorb losses on going-concern basis and pari-passu within the highest quality of capital	Absorb losses on going-concern basis	Absorb losses on gone-concern basis
	Not secured, nor guaranteed by bank or related entity that enhances seniority of claim vis-a-vis other creditors	Not secured, nor guaranteed by bank or related entity that enhances seniority of claim vis-a-vis other creditors
Principal is perpetual (i.e. has no scheduled repayment/maturity date) and never repaid outside of liquidation.	Perpetual in nature (i.e. has no scheduled repayment/maturity date) and has no step-up or other features which provide incentives to redeem Callable after minimum of 5 years at initiative of bank only subject to conditions	Minimum maturity shall be at least 5 years and has no step-up or other features which provide incentives to redeem  Callable after minimum of 5 years at initiative of bank only subject to conditions
Bank does not create an expectation at issuance that instrument will be bought back, redeemed or cancelled	Any repayment of principal (through repurchase or redemption) must be with prior supervisory approval	Investor has no right to accelerate repayment of future scheduled payments (coupon or principal) except in bankruptcy and liquidation
Dividend is fully discretionary and non-cumulative. Non-payment is not an event of default.	Dividend/coupon is fully discretionary and non-cumulative. Non-payment is not an event of default.	
Distributions paid only after all legal and contractual obligations have been met and payments on more senior capital instruments made.	Distribution of profits should not be linked to the credit rating of the bank.	Distribution of profits should not be linked to the credit rating of the bank
Classified as equity for accounting purposes	Instruments cannot contribute to liabilities exceeding assets	
	Instruments classified as liabilities must have principal loss absorption capacity through either (i) conversion to common shares at a pre-specified trigger point or (ii) write down mechanism which allocates losses to the instrument at a pre-specified trigger point	
Bank can not directly or indirectly have funded the purchase of the instrument.	Neither the bank nor a related party to the bank can purchase the instrument.  Instrument can be issued indirectly	Neither the bank nor a related party to the bank can purchase the instrument.  Instrument can be issued indirectly

via an SPV and proceeds must be	via an SPV and proceeds must be		
immediately available.	immediately available.		

Source: BCBS (2011)

Based on the criteria set out in Table 1 above, AT1 and T2 capital instruments should in principle be:

- (i) Long-term in nature with maturity of at least 5 years for T2 instruments and perpetual for AT1 instruments (although AT1 instruments may be callable after minimum of 5 years at the initiative of the bank subject to certain conditions). This criterion limits the redemption of the instruments, hence assuring the availability of the capital raised through the issuance of these instruments on a long-term basis.
- (ii) Subordinated instruments that can be ranked junior in right and priority of payment compared to other creditors and would be able to absorb losses in the event of non-viability. In the case of T2 instruments, they will absorb losses only under gone-concern scenarios. T2 instruments rank junior in their rights of payment compared to deposit liabilities and general creditors and senior vis-à-vis AT1 instruments. On the other hand, AT1 instruments will bear losses in even going-concern scenarios and will rank junior to T2 instruments. Nonetheless, both AT1 and T2 instruments will rank senior to common equity (CET1).
- (iii) Unsecured in nature (i.e. not backed by any collateral or covered by any guarantee of the bank). This ensures that there is no security to rely upon for repayment of the capital raised through the instrument during times of losses and consequently the instrument will be able to absorb losses.
- (iv) In the case of AT1 capital instruments, debt instruments must have principal loss absorption capacity through mandatory conversion to common shares or write-down at a pre-specified trigger point. Conversion of debt instruments to equity structures at some trigger point ensures that the instrument will not have its capital guaranteed (or represent liabilities) and thus is able to absorb losses (by representing equity).

Therefore based on the above criteria for classifying capital instruments, CET1, AT1 and T2 capital can take the form as described in Table 2. Table 2 further compares the capital instruments with those under Basel II.

Table 2: Forms of Capital Instruments in Basel II and Basel III

Basel II		Basel III	8%
<ul> <li>Tier 3</li> <li>Short term subordinated debt</li> <li>Tier 2</li> <li>Undisclosed reserves</li> <li>Asset revaluation reserves</li> <li>General provisions/loan-loss reserves</li> <li>Hybrid (debt/equity) capital instruments e.g. Perpetual cumulative preference shares; Long term preference shares; Perpetual debt instruments</li> <li>Long term subordinated debt</li> <li>Fixed term subordinated securities</li> <li>Perpetual subordinated debt</li> </ul>	4%	<ul> <li>Tier 3</li> <li>Abolished</li> <li>Tier 2</li> <li>Long term instruments (of at least 5 years maturity) which behave like debt in principle, are unsecured and can be subordinated or ranked junior to other debts (e.g. depositors and general creditors) in terms of their right and priority of payment.</li> <li>This subordinated debt will however rank senior to AT1 instruments and CET1 (Classified as liability for accounting purposes).</li> </ul>	2%
<ul><li>Innovative Tier 1</li><li>Innovative tier 1 instruments</li></ul>	2%	Additional Tier 1     Perpetual Instruments which are equity in nature, e.g., perpetual non-cumulative	15%

		preference shares (classified as equity for		
		accounting purposes).		
		Perpetual instruments (or at least long term		
		with minimum of 5 years maturity) which are		
		equity-like in nature, are unsecured, and can be		
		subordinated or ranked junior to T2		
		instruments, depositors and general creditors.		
		AT1 instruments will however rank senior to		
		CET1 (classified as equity for accounting		
		purposes).		
		Debt-based instruments which are convertible		
		to common equity or be written down at some		
		pre-specified trigger event (classified as		
		liability for accounting purposes).		
Core Tier 1	2%	Common Equity Tier 1 (CET1)	4.5%	
Paid up share capital		Common shares issued by the bank		
Disclosed reserves		Stock surplus		
		Retained earnings		
		Other comprehensive income and		
		disclosed reserves		
		Common shares issued by		
		consolidated subsidiaries of the bank		
		and held by third parties		

Sources: BCBS (2006); Gleeson (2010: 46); Authors' Own

# 3. SUBORDINATED SUKUK ISSUED BY IBIS AS REGULATORY CAPITAL

This section examines the types of *sukuk* which have been issued by IBIs for meeting regulatory capital requirements. It is noted that so far only two *sukuk* have been issued worldwide based on Basel III capital requirements – notably, the subordinated, perpetual *mudarabah sukuk* issued by Abu Dhabi Islamic Bank (ADIB) in 2012 as AT1 capital; and the issuance of a USD 1 billion AT1 perpetual *sukuk* by Dubai Islamic Bank (DIB) in March 2013.

A list of subordinated *sukuk* issued by various IBIs as T2 capital under Basel II is provided in Table 3. It is to be noted that the criteria for T2 capital under Basel II align with the need to issue subordinated capital instruments under Basel III. Accordingly, the *sukuk* issued in compliance with Basel II are still deemed relevant to the discussion of this paper.

Table 3: List of Subordinated Sukuk Issued by IBIs

	IBIs	Programme	Issued Amount	Issuance Date	Shari'ah Structure	Maturity	Profit Rate	Type of Capita l	In Co mpli - ance with
1	CIMB Islamic Bank	RM 2,000 mil	RM 550 mil	25 Sep 2009: RM 300 mil	Musharakah	25 Sep 2025	5.85%	Т2	Base 1 II
	CIMB Islamic Bank			21 Apr 2011: RM 250 mil	Musharakah	21 Apr 2021	4.20%	T2	Base 1 II
2	Maybank Islamic		RM 1,000 mil	31 Mar 2011	Musharakah	31 Mar 2021	4.22%	Т2	Base 1 II
3	Bank Muamalat Malaysia		RM 400 mil	15 June 2011	Musharakah	15 June 2021	5.15%	T2	Base 1 II
4	Am Islamic Bank	RM 2,000 mil	RM 600 mil	30 Sept 2011	Musharakah	30 Sept 2021	4.40%	Т2	Base 1 II
5	Bank Al Jazira		SAR 1,000 mil	29 Mar 2011	Mudarabah (51%) and Murabahah (49%), callable after 5 years	29 Mar 2021	SIBOR +170 bps	Т2	Base 1 II
6	Saudi Hollandi Bank		SAR 775 mil	2009	Mudarabah callable after 5 years	2019	SIBOR + 190 bps	Т2	Base 1 II
7	Saudi British Bank		SAR 1,500 mil	2012	Senior 2008 SR1,705 million SABB notes	2017	-	T2	Base 1 II
8	Bank Syariah Mandiri		bil (\$ 29,972,7 52) and IDR 150 bil (\$16,348 ,773)	19 Dec 2011	Mudarabah (callable after 5 years)	19 Dec 2021	10%	T2	Base 1 II

9	Abu Dhabi Islamic Bank (ADIB)	USD 1,000 mil	2012	Mudarabah	Perpetual	6.375%	AT1	Base 1 III
1 0	Dubai Islamic Bank (DIB)	USD 1,000 mil	2013	Mudarabah (callable at year 6)	Perpetual	6.25%	AT1	Base 1 III

In general, the following key features were observed about the *sukuk* issued by IBIs for raising regulatory capital:

## i. General Obligation Sukuk

In practice, IBIs have been issuing general obligation *sukuk* whereby the *sukuk* is linked neither to any specific project nor to any underlying asset. No specific assets are also purchased with the *sukuk* proceeds; instead, the *sukuk* proceeds (total or partly) are co-mingled in the general Shari'ah-compliant financial services business of the obligor (IBI). Under this type of *sukuk*, the obligor will have a general obligation to pay the *sukuk* holders.

The appropriate Shari'ah structure suitable for issuing general obligation *sukuk* is in fact unrestricted equity-based contracts, which do not require a specific underlying asset to be associated with the issuance (Mokhtar, unpublished). Indeed, from Table 3, it is noted that most of the *sukuk* issued have been structured using the *musharakah* or *mudarabah* principles. The *musharalah sukuk* in some cases referred to (i) a partnership being established among the *sukuk* holders (investors) (e.g. AmIslamic bank, CIMB Islamic bank) and (ii) in other cases represented a partnership established between the *sukuk* holders and the IBI (e.g. Maybank Islamic, Bank Muamalat Malaysia). The first form essentially works like a *wakalah*, with the *sukuk* holders (investors) representing the principal (*muwakkil*) and the IBI representing the agent/manager (*wakil*); yet the structure has been recognized as a *musharakah sukuk* on basis of the partnership formed among the *sukuk* holders. The second form is a *musharakah* which is formed between the issuer (IBI) which contributes its share of the business and the *sukuk* holders who invest their share of capital to the partnership venture.

Even when the *sukuk* has been called a *mudarabah sukuk*, essentially the *sukuk* represented a *musharakah* structure, with the partnership formed between the *sukuk* holders and the IBI. One such case is the *mudarabah sukuk* issued by the Saudi Hollandi Bank where both the *musharakah* and *mudarabah* principles apply; the bank, in this case represented a *mudarib* (manager) of and a *musharik* (partner) in the ownership of the portfolio of assets (Elgari, n.d.). The forms of *musharakah* and *mudarabah* subordinated *sukuk* issued in practice are as depicted in Figure 3 below.

Mudarabah Sukuk Musharakah Sukuk Musharakah Sukuk Bank (as one side of Bank (as mudarib-Bank (as a manager of the partnership) managing the venture) the musharakah venture) Sukukholders Sukukholders Sukukholders (where the (representing the other (represent investors as musharakah is among side of the partnership) rabb al-mÉl) the sukukholders) (Essentially a musharakah between (Essentially a wakalah but (Musharakah is between the bank the bank and sukukholders called a musharakah) and the sukukholders) but called a *mudarabah*)

Figure 3: Forms of Mudarabah and Musharakah Subordinated Sukuk issued in Practice

Source: Authors' Own

#### ii. Subordinated Sukuk

Overall, the principle of subordination has been applied to the equity-based *sukuk* issued. In general, the ranking of the subordinated *sukuk* vis-à-vis other obligations of the issuer follows the order as below: (i) Deposit liabilities and other liabilities; (ii) Senior Creditors; and (iii) Subordinated *Sukuk* ranked *pari passu* with other Subordinated debt of issuer.

The Principal Terms and Conditions (PTC) of most of the *sukuk*, however, do not specify the ranking of the *musharakah* or *mudarabah sukuk* vis-à-vis ordinary share capital. AmIslamic Bank is the only exception which clearly specifies that the *Musharakah Sukuk* will rank senior to ordinary share capital.

#### iii. Unsecured Sukuk

The *sukuk* represented unsecured obligations of the issuer and no collateral is given to back their repayment. In the case of the Malaysian *sukuk*, although no collateral was used as security for the *sukuk*, the elements of Purchase Undertaking and Sale Undertaking (PU and SU) were present to ensure purchase of the trust assets by the obligor. It is noted that according to the practice in Malaysia, it is allowed to include a PU to repurchase the assets from the *sukuk* holders at nominal value at maturity (Saripudin et. al., 2012). According to Securities Commission Malaysia (2012: 161), PU is not considered a condition in the contract between the issuer and the investors as it is not included in the main *sukuk* contract. In form, therefore, it is not deemed as representing the guarantee of capital repayment of the *sukuk*.

## 4. SHARI'AH ISSUES RELATING TO CAPITAL INSTRUMENTS FOR IBIS

According to Basel III, some instruments would have to be ranked senior or junior to others to enable them bear losses either under going-concern or gone-concern scenarios (e.g. T2 bears losses only under gone-concern and is ranked senior to AT1; AT1 bears losses even during going-concern scenario and is ranked senior to common equity). This therefore necessitates the issuance of subordinated instruments by banks for their capital raising purposes. Subsequently, the questions asked are: What is meant by subordination? Would the issuance of subordinated instruments by IBIs implicate any issues from the Shari'ah perspective? This section will discuss

the issue of subordination in relation to both equity-based and exchange-based instruments, along with discussing the issue of conversion of capital from the Shari'ah perspective. This is because AT1 instruments under Basel III can either be converted into common equity upon some trigger event to enable them bear losses or be writtendown.

#### 4.1. What is Subordination?

The key characteristic to achieve loss absorbency is through subordination. Subordination is "a transaction whereby one creditor (the subordinated or junior creditor) agrees not to be paid by a borrower or other debtor until another creditor of the common debtor (the senior creditor) has been paid" (Wood, 2007: 177). According to FSA (2007: 6), subordinated instruments act as a buffer to absorb losses during a gone-concern situation thus providing protection to all senior creditors, especially depositors.

## 4.2. Subordination in relation to Equity-based Instruments

As elaborated in Section 3, most of the IBIs have so-far raised regulatory capital via equity-based *sukuk* such as *musharakah* and *mudarabah* structures to meet both Basel II and Basel III requirements. Although some of the equity-based *sukuk* are structured using *mudarabah*, the structure is essentially a *musharakah* whereby a partnership is formed between the *sukuk* holders and the IBI as the capital raised from the *sukuk* holders (investors as *rabb al-mal*) is co-mingled with that of the issuer (IBI as *mudarib* who manages the *musharakah* venture) and used for the general obligation of the IBI. In theory, the *rabb al-mal* in *mudarabah* subordinated *sukuk* has an ownership claim over the proportion of the assets financed by his *mudarabah* funds. However, in practice, once the assets have been used by the IBI for its general obligation (not for a specific asset), the *mudarabah* funds of the *rabb al-mal* can no longer be distinguished from the IBI's assets. Hence, although the structure is called *mudarabah*, in essence it takes the ruling of *musharakah*.

Meanwhile, there are two forms of *musharakah* subordinated *sukuk* issued by IBIs as regulatory capital under Basel II: (i) partnership between the issuer (IBI) and the investors (*sukuk* holders); and (ii) partnership among the investors, where the issuer acts as a manager/agent (*wakil*) of the venture and investors become principal (*muwakkil*).

It is noted that in principle, wakalah contract can also be used to raise regulatory capital to meet Basel III requirements for AT1 as under this contract, the loss is borne solely by the principal (investors) and the profit also belongs to him. As such, the element of subordination is inherently embedded. Nonetheless, similar to the mudarabah structure, the wakalah sukuk is also essentially a musharakah as the capital raised will be used for the general obligations of the IBIs, not for investment in a specific asset. Even though in theory the muwakkil of the wakalah fund has the ownership claim over his proportion of assets, once his funds are co-mingled with the manager's assets, the segregation between both funds are quite impossible. Thus, even though the structure is called wakalah, in essence it works like musharakah.

Therefore, the paper is of the view that only *musharakah sukuk* can be used for structuring AT1 instruments for meeting Basel III requirements. Other equity-based structures such as *mudarabah* and *wakalah sukuk* (either restricted or unrestricted) cannot be considered for AT1 under Basel III for the capital raised thereof should be used for specific assets, similar to the investment account holders (IAH) account, thus cannot be calculated as part of the IBIs' capital.

Given the above facts, the discussion on subordination in relation to equity-based instruments will focus on the concept of subordination in the *musharakah* contract. Accordingly, this section looks in detail whether ordinary shareholders can be subordinated to equity-based *sukuk* holders despite *musharakah* is the underlying contract for both, or should each ordinary shareholders and equity-based *sukuk* holders be ranked *pari passu* with one another in terms of payment. The section also examines the need to achieve loss absorbency via the conversion of equity-based *sukuk* into ordinary shares.

## 4.2.1 Subordination in Musharakah Contract

In principle, under a *musharakah* contract, it is not possible for one partner to be subordinated vis-à-vis another partner, whereby one partner has a priority in receiving payments (i.e. the expected profit on the periodical distribution date and capital in the event of winding up) based on the following two fundamental rules of a *musharakah* contract: "*Profit is based on the agreement of the parties, but loss is always subject to the capital contribution [of investment]*" (Al-San'ani, 1403H, 8: 248).

## Profit and Loss Sharing among Musharakah Partners

The above rule underlines how profit is to be distributed and loss is to be shared among partners in a *musharakah* contract. Although jurists unanimously agree that each *musharakah* partner should bear losses in proportion to their capital contribution only (Al-Sarakhsi, 1993, 11: 156), they have different opinions regarding the bases for entitlement to profit. Hanafis and Hanbalis view that partners are entitled to profit based on three factors: wealth, work and liability for bearing loss, relying on the following principle: "The entitlement to profit is either due to wealth (mal) or work ('amal) or liability for bearing loss (daman)" (Al-Kasani, 1986, 6: 62)

Accordingly, they allow for *musharakah* partners to agree on the profit to be in proportion to the capital contribution or in excess of it based on stipulation. Hence, they permit excess profit for excess work, except that Hanbalis allow the excess of profit to be merely based on stipulation, regardless whether the partner is a working or sleeping partner (Ibn Qudamah, 1968, 5: 23); while Hanafis argue that if partners stipulate that only one partner will manage the *musharakah* venture, then the sleeping partner will not get more than his capital contribution (Al-Sarakhsi, 1993, 11: 154).

The AAOIFI (2010: 208) also adopts the opinion of Hanafis where the Shari'ah standard on *musharakah* provides that: In principle, the shares of profit must be in proportion to the percentage of each partner's contribution to the Sharika capital. Nevertheless, the partners may agree to make profit-sharing not proportionate to their contributions to capital, provided that the additional percentage of contribution to the capital is not in favour of a sleeping partner. If a partner did not stipulate a condition that he be a sleeping partner, then he is entitled to stipulate an additional profit share over his percentage of contribution to the capital even if he did not work.

Malikis and Shafi'is, on the other hand, opine that the proportion of profit, similar to the sharing of loss, should conform to the capital contribution (Al-Madani, 1994, 3: 605; Al-Sharbini, 3: 227).

While the above arguments indicate that there are differences of opinion among schools of thought with regard to the percentage of profit due to each partner, no discussion is found in the *fiqh* literature on whether it is possible to give priority of payment to one partner in a *musharakah* venture before another partner is paid.

Nonetheless, some contemporary scholars have allowed subordination in *musharakah*, through the concept of *tanazul*. The resolutions of the Securities Commission Malaysia Shari'ah Advisory Council (2007: 92-93) provide that non-cumulative preference shares are permissible based on the concept of *tanazul*, which refers to "surrendering the rights to a share of the profits based on partnership, by giving priority to the preference shareholders". This *tanazul* is willingly given upfront by the ordinary shareholders to the preference shareholders during the Annual General Meeting (AGM) of a company.

The definition, at a first glance, indicates that *tanazul* connotes the same meaning with *isqat al-haq* (relinquishment of one's right), which is normally discussed in the context of *ibra*'. Yet, *ibra*' itself has been

defined by jurists in two ways, either as *isqat* (relinquishment of one's right) or *tamlik* (transfer of ownership), or both as in the case of providing *ibra*' for outstanding debts.<sup>5</sup>

Nevertheless, a closer look at these terminologies, i.e. *isqat al-haq* and *ibra*', reveals that they are related to something which has been established, or the causes for entitlement have already existed, while *tanazul* in the context of *musharakah* is related to something which is yet to exist (Hasan, 2010). In other words, when one partner forgoes his right to be ranked *pari passu* with other partners in receiving payments, neither the profit nor the causes for his entitlement to profit (i.e. the investment) have yet existed.

Hasan (2010) suggests that this kind of *tanazul* can be considered a gift for something which is not in existence (*hibah bi al-ma'dum*), based on the view of Malikis who allow one partner to willingly give more profit to another partner on a charitable (*tabarru'*) basis. Al-Khurashi (n.d, 6: 45-46) mentions:

"Profit and loss are based on the capital contribution, which means that when the capital of partnership gains profit or loss, it is compulsory to distribute it among the partners according to their capital contribution, which can be equal or variant, whether they stipulate it or are silent about it. Similar to profit and loss, work shall also be proportionate to capital. The sharikah is void when any variance is stipulated, as each partner is entitled to a fee for the work done for the other partners. This means the sharikah is void when variance to the profit is stipulated in the contract... Nevertheless, one of the partners can make a voluntary donation, give a loan or a hibah after the contract. In other words, he can donate a portion of the profit or the work to his partner after concluding the contract [emphasis added]. He can also give him a loan or gift him something [from the profit] after concluding the sharikah contract, because what comes after the [conclusion] of contracts is different from what is included in them."

The above quotation indicate that Maliki jurists allow the percentage of profit distribution to be in excess of the capital contribution (i.e. different from the percentage of capital contribution) if it is voluntarily given via *tabarru*' or *hibah* after the conclusion of the contract, not before or in the contract. For instance, if A contributes 30% and B contributes 70% of capital, in the contract, A and B shall receive 30% and 70% profit respectively (whether it is stipulated or otherwise), as profit should be proportionate to the capital contribution. Nevertheless, after the conclusion of the *musharakah* contract, both can negotiate to amend the percentage of the profit where B can voluntarily give 10% of his profit percentage to A, and thus the new percentage of profit shall be 40% for A and 60% for B.

By saying this, Malikis do not in any way indicate that one of the partners can have a priority in getting the profit or the capital as embodied in the concept of subordination. Therefore, it is inaccurate to claim that *hibah bi alma'dum* can be a basis for allowing *tanazul* of right that has not been acquired or established, as Malikis' opinion in this context is similar to that of Hanafis' and Hanbalis' on permitting variance of profit from the capital contribution, as mentioned earlier, except that the former do not allow for a stipulation in the contract unlike the latter.

In line with this, AAOIFI (2010: 204) rules that the determination of the percentage of profit due to each partner should not be deferred until the realization of the profit; rather to be determined at the time of concluding the *musharakah* contract. However, partners may mutually agree to amend the percentage of profit sharing on the

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Ibn Humam (n.d, 4: 389) defines *ibra*' as "waiving the ownership that is in one's liability", while Al-Khurashi (n.d, 4: 7) defines it as "considering one's debt to be a gift to [the debtor]". Accordingly, the Hanafis and an opinion of the Malikis and the Shafi'is and the preponderant view of the Hanbalis refer to *ibrÉ*' as an act of relinquishing one's right. On the other hand, some Malikis, Shafi'is and Hanbalis consider *ibrÉ*' as an act of transferring the ownership of one's right. Other jurists such as Ibn Nujaym are of the view that *ibrÉ*' can refer to both meanings, as in the case of providing *ibrÉ*' for outstanding debt. See: Al-Mawsu'ah Al-Fiqhiyyah (1983, 1: 148-149).

date of distribution. A partner may also relinquish a portion of the profit that is due to him in favour of the other partners on the date of distribution.

Moreover, if one of the partners is given priority in receiving payment either through stipulation in the contract or through a promise after the contract, this will go against one of the *muqtada al-'aqd* (nature and implication of the contract) and objective of *musharakah* which is about the making of profit and sharing it among the partners. Al-Sarakhsi (1993, 11: 156) states:

"This contract is a trust-based contract, and its objective is to gain profit, which is attained through the conscientious discharge of fiduciary duties. The amount of capital contributed by each partner should be made clear because, when it comes time to distribute the profit, each partner's capital contribution must be accounted for in order to determine the profit."

Similarly, with regard to loss, jurists unanimously agree that each *musharakah* partner should bear losses in proportion to their capital contribution only. Indirectly, it can be said that jurists do not agree on giving conditional priority to others in receiving payment so that loss is borne by one partner only. Accordingly, AAOIFI (2010: 204) provides:

"It is not permitted, therefore, to agree on holding one partner or a group of partners liable for the entire loss or liable for a percentage of loss that does not match their share of ownership in the partnership. It is, however, valid that one partner takes, without any prior condition, the responsibility of bearing loss at the time of loss".

Based on the above arguments therefore, it can be summarized that: (i) Hanafis and Hanbalis agree that the ratio of profit sharing can be equal to capital contribution or in excess of it based on the agreement among the partners in the contract; while Malikis allow for voluntary renegotiation of the profit sharing ratio in excess of capital contribution after the conclusion of the *musharakah* contract; (ii) there is no discussion among jurists that one of the partners can have a conditional priority in getting the profit or the capital as embodied in the concept of subordination; (iii) jurists unanimously agree that losses should be borne by each partner in proportion to capital contribution and thus no partner can be ranked junior to absorb more losses. Nevertheless, one partner can voluntarily bear the loss at the time of loss without any prior condition.

## Unilateral Promise (Wa'ad) for Isqat al-Haq

Although as mentioned above, it is not possible for *tanazul* to be based on *hibah bi al-ma'dum*, one possible mechanism of structuring subordinated equity-based instruments is via *wa'ad bi isqat al-haq*, commonly known as *wa'ad bi tanazul* (promise to relinquish one's right). According to AAOIFI (2010), a *wa'ad* (promise) is not considered an integral part of a transaction and as such would not lead to a combination of two contracts in one. However, since *wa'ad* is legally binding according to Hanafi (Ibn Nujaym, 1999: 247) and Maliki scholars (Ibn Rushd, 1988: 15: 318) if it is contingent upon a condition or related to a cause (in our case, the cause being the loss in the event of non-viability), the promisor (equity *sukuk* holder) has no option but to forgo his right to receive the profit or capital. Accordingly, the inclusion of the *wa'ad* will lead to violation of the *mughada al-'aqd* of the *musharakah* contract, which is about sharing profit and loss. Therefore, this paper is of the view that subordination of equity holders via *wa'ad* is a *hilah* (legal stratagem) and should not be adopted.

Knowing the fact that Muslim jurists unanimously agree that *musharakah* partners rank *pari passu* in terms of loss, can we still rank *musharakah sukuk* holders above ordinary shareholders in order to meet Basel III requirements? This issue will be deliberated in the following sub-section.

### 4.2.2. Subordinating Ordinary Shareholders vis-à-vis Musharakah Sukuk holders

Under Basel III, ordinary shareholders (CET1) are considered the lowest in rank compared to AT1 and T2 capital instruments. Shari'ah issues therefore arise if AT1 and T2 instruments were structured using *musharakah* contracts which usually represent *sukuk* whose proceeds are invested in the general financial business of the IBIs. In substance therefore these general obligation *musharakah sukuk* are similar to ordinary shares and should be ranked *pari passu*. However, based on the argument provided in Section 4.2.1, where some scholars have allowed for subordination of one partner vis-à-vis another on the principle of *tanazul*, ordinary shareholders can be subordinated in ranking vis-à-vis *musharakah sukuk* holders (whether AT1 or T2) if they agree that they are the last in rank to receive payment and agree to waive their right of receiving payment on the basis of *tanazul*. In other words, the *musharakah sukuk* holders will be given priority to receive payment compared to ordinary shareholders.

However, based on the justifications given earlier, this paper is of the view that subordination of CET1 vis-à-vis *musharakah sukuk* is not possible. From a Shari'ah viewpoint, they should be ranked *pari passu* and be treated equally in terms of loss absorption.

Accordingly, from the Shari'ah perspective, it is not possible to maintain Basel III's ranking order of CET1 (ordinary shares) representing the most subordinated claim in the event of liquidation, to be followed by AT1 and then T2 capital, if both AT1 and T2 are structured using *musharakah* contracts (unless legal stratagem like *wa'ad bi tanazul* is applied). Nonetheless, if the IBIs would like to comply with the philosophy of Basel III which in substance aims to increase the percentage of total equity in 8% of the RWA, they can issue *musharakah* subordinated *sukuk* for both AT1 and T2 instruments (as an additional capital) without making any distinction between going-concern and gone-concern capital.

## 4.2.3. Conversion of Equity-based Sukuk into Ordinary Shares

If equity (*musharakah*) *sukuk* holders and ordinary shareholders are ranked *pari passu*, the question asked is whether it is necessary for equity-based *sukuk* to be converted into ordinary shares in the event of loss?

From the Shari'ah perspective, as argued earlier, both ordinary shares and the general obligation equity-based *sukuk* are categorized equally and thus will bear losses equally in the event of loss or liquidation. Hence, there is no need to 'convert' equity-based *sukuk* into ordinary shares *per se* to make them absorb losses. In addition, if the *musharakah sukuk* issued by the IBIs is classified as non-voting common shares or Class B shares – like in conventional finance – the *sukuk* holders are ranked *pari passu* with the ordinary shareholder in the event of loss. Yet, both can mutually agree that equity *sukuk* holders may receive a higher profit rate compared to the shareholders. This is permissible based on the opinion of Hanafis, Hanbalis and AAOIFI standard mentioned earlier regarding profit and loss sharing, provided that equity *sukuk* holders do not stipulate a condition that they are sleeping partners even though they do not actually work.

Nonetheless, from a practical perspective, it can be argued that these equity-based *sukuk* after all represent a different legal form, especially in the case of Malaysia where generally equity-based *sukuk* include features such as purchase undertaking (PU) or sale undertaking (SU) which, in substance, provide some form of guarantee of capital to the *sukuk* holders. As such, their conversion into ordinary shares is necessary to make them actually bear losses.

It should also be noted that although Basel III suggests that AT1 instruments can be written down, such mechanism for the equity-based *sukuk* cannot be adopted as it is not in line with the nature of equity contracts which are inherently loss absorbent.

## 4.3 Subordination in relation to Exchange-based Instruments

This section discusses the possibility of structuring AT1 and T2 using exchange-based contracts. The discussion will focus on two main issues: (i) subordinating AT1 to T2 capital instruments and (ii) subordinating T2 capital instruments to depositors and other creditors of the IBI.

## 4.3.1 Subordinating AT1 to T2 Capital Instruments

There are two possible scenarios that can be discussed in relation to the subordination of AT1 to T2 capital instruments: (i) subordinating equity-based AT1 to exchange-based T2 capital instruments; and (ii) subordinating exchange-based AT1 to exchange-based T2 capital instruments.

As for the first scenario, it can be said that subordinating holders of AT1 capital instruments to holders of T2 capital instruments is justified since the holders of the equity-based AT1 instruments are considered partners of the IBI's shareholders and as a result, they are exposed to losses whilst the IBI is still in operation. On the other hand, the holders of exchange-based T2 instruments represent liabilities and are entitled to receive payments of their outstanding debt, with their right of payment being unaffected by the normal losses borne by the IBI during the course of its operations. Therefore, T2 capital instruments remain immune from bearing any losses during the going-concern scenario. The same rule applies when the IBI reaches the point of non-viability (gone-concern scenario), because all the outstanding debts resulting from T2 capital instruments are a liability that must be settled as long as the IBI is still in operation regardless of whether it reached the point of non-viability or not. Finally, in the event of the IBI declaring its bankruptcy T2 exchange-based capital instruments will still be senior to AT1 equity-based instruments. Therefore, the debt claims of such instruments must be settled first before holders of AT1 equity-based capital instruments and common shareholders can receive their share of whatever remains of the IBI's assets.

The second scenario as we have mentioned above involves the subordination of AT1 exchange-based capital instruments to T2 exchange-based capital instruments. Such a scenario is unlikely because having AT1 capital instruments structured using exchange-based contracts is not in line with the Basel III requirements, which requires that such instruments should be perpetual in nature and no debt instrument can have such characteristic. Therefore, there is no need to look into such a scenario from Shari'ah perspective, since it is impossible for such a scenario to exist in reality.

## 4.3.2 Subordinating T2 Capital Instruments to Deposit Liabilities and General Creditors

This sub-section addresses the issue of subordinating T2 capital instruments to current and saving accounts and general creditors of the IBI during the going-concern, gone-concern (non-viability) and liquidation scenarios.

Since we have already established in the previous sub-section that it is not possible to issue exchange-based AT1 capital instruments, the only plausible scenario is having AT1 equity-based capital instruments and T2 exchange-based capital instruments along with current and saving accounts and general creditors of the IBI. In such a scenario, AT1 capital instruments rank lower than the debt claims of T2 capital instruments, current and saving accounts and general creditors of the IBI during the going-concern, gone-concern (non-viability) and liquidation scenarios. This is due to the reasons mentioned in the previous sub-section. However, the debt claims of T2 capital instruments cannot be ranked junior to the debt claims of current and saving accounts and those of the general creditors of the IBI during the gone-concern and liquidation scenarios. In other words, all debt claims must be ranked *pari passu* with one another in terms of their right to receive payment. The Shari'ah evidence for such position can be seen in various Hadiths that call upon the debtor to repay his creditor without giving preference to one creditor over the other. Among these hadiths is the saying of Prophet Muhammad - peace be upon him - (Al-Bukhari, 1422 A.H., 3:124-125, Hadith No. 2387) in which he stated: "Whoever takes the money of people with the intention of repaying it, Allah will repay it on his behalf, and whoever takes it in order to spoil it, then Allah will spoil him"

The above-mentioned Hadith is general in nature and call upon debtors to pay their creditors without giving priority for some creditors over others, as all of the creditors have equal rights in terms of receiving payment of their outstanding debts.

#### 4.3.3 Mechanisms to Subordinate Exchange-Based T2 Capital Instruments

As mentioned earlier, Basel III suggests that AT1 instruments can be subordinated either through write-down mechanism or conversion to common shares at a pre-specified trigger point. Thus, the main issue of discussion in this sub-section is to find out whether these two mechanisms which were suggested to subordinate AT1 capital instruments, can also be used to achieve the effect of subordination for T2 exchange-based capital instruments without contravening the rules and principles of Shari'ah.

#### Write down Mechanism via Ibra'

The first mechanism suggested by Basel III to achieve the effect of subordination is the use of a write-down mechanism, whereby a portion of the outstanding debt will be written-down at a pre-specified trigger point. Therefore, we have the scenario of using *murabaha* and *ijarah sukuk* for structuring T2 capital instruments. In this regard, the main question is: can the use of write-down mechanism achieve the desired effect of subordinating T2 exchange-based capital instruments to current and saving accounts and general creditors of the IBI during the gone-concern and liquidation scenarios.

Before attempting to provide an answer to this question, it is essential that the mechanism of write-down be briefly discussed from the Shari'ah perspective. In this regard, it can be said that the mechanism of write-down is linked to the concept of *ibra*', which can be defined either as *isqat* or *tamlik*, or both as in the case of providing *ibra*' for outstanding debts.

## i. Classical Jurists' Views on Ibra'

The general ruling concerning *ibra*' is that it is recommended because it is a type of *ihsan* (benevolence), since it involves relinquishing one's right to receive one's outstanding debt from an insolvent debtor and even if the debtor is solvent, then providing *ibra*' will strengthen the relationship between the creditor and the debtor (Al-Mawsu'ah Al-Fiqhiyyah, 1983, 1:147). This view is based on the Qur'an (2: 280) when Allah says: "And if the debtor is in a hard time (has no money), then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know."

Furthermore, the Prophet (Al-Tirmithi, 1975, 3:591, Hadith No. 1306) mentioned the great rewards that await those who give respite to insolvent debtors as he said: "He who gives respite to someone who is in straitened circumstances, or grants him remission, Allah will shelter him in the shade of His Throne, on the Day of Resurrection, when there will be no shade except His shade."

Having said that, it is important to note that Muslim jurists did not discuss the issue of providing *ibra*' as a condition that can be stipulated in the initial agreement, rather they discussed the issue of having a conditional *ibra*' that takes place after the initial agreement has been executed (Al-Attram, 2006: 345, 355). In this regard, they discussed its pillars, conditions, types and various other issues related to it without deliberating on the issue of including it as a condition in an exchange-based contract. One reason could be due to the prohibition of combining an exchange-based contract with a charitable one. The prohibition of such combination is based on a Hadith by the Prophet (Abu Daud, n.d., 3: 283, Hadith No. 3504) in which he said: "It is not permissible to combine a loan and sale in one contract, or two conditions in one contract of sale, or gaining profit from an item not in your ownership, or to sell what you do not possess."

In this regard, Ibn Taymiyyah (2003, 29: 62-63) affirmed the prohibition of combining an exchange-based contract with a charitable contract as the inclusion of the latter is done to facilitate the execution of the exchange-based contract and is not done solely for the purpose of charity. The logic behind such prohibition can be attributed to the fact that the essence of an exchange-based contract is based on the principle of justice, which is reflected through the equivalency of the two counter values (Al-Sarakhsi, 1993, 13:197; Al-Kasani, 1986, 5: 187). On the other hand, a charitable contract is based on the principle of benevolence, since one party does not get anything in return for what he gave the other party. Therefore, combining an exchange-based contract with a charitable one is not permissible as each one has its own purpose.

Furthermore, jurists are of the opinion that *ibra*' is a type of contract that must be issued in a form that is not appended to the future, regardless of whether the time in the future is specified or not. In other words, the effects of the contract must take place immediately as long as its pillars and conditions are fulfilled (Al-Mawsu'ah Al-Fiqhiyyah, 1983, 1:166).

Based on the above arguments, it can be summarized that: (i) jurists considered *ibra*' a type of charitable contract. Therefore, combining it with an exchange-based contract is not permissible since each type of contract has its own unique purpose. As such, including a charitable contract in an exchange-based transaction will not be for the purpose of charity; and (ii) jurists unanimously agree that *ibra*' is a type of contract whose effects must take place immediately and cannot be appended to a time in the future.

# ii. Ibra' in Contemporary Applications

At this point, it is important to note that contemporary scholars debated the issue of including *ibra*' as a condition in a financing agreement, whereby an IBI provides *ibra*' for the early settlement of an outstanding debt due by the customer. In this regard, it was the opinion of the *Shari'ah* Advisory Council of BNM that the inclusion of such a clause is permissible (BNM, 2010: 123). On the other hand, the Council of the Islamic Fiqh Academy prohibited the inclusion of such a clause in the financing agreement (OIC Islamic Fiqh Academy, 1985-2000: 135).

However, it is to be noted that the above-mentioned resolutions by the SAC of BNM and the Council of Islamic Fiqh Academy are not directly related to the issue of providing *ibra*' by the *sukuk* holders to the IBI. This is because in the case of the IBI providing *ibra*' to the customers, such an *ibra*' is given in the case of early settlement (or implicitly when the customer defaults given the fact that the total outstanding debt becomes due), whereby the IBI waives the unearned profit from the liability of the customer. However, in the case of *sukuk* holders providing *ibra*' to the IBI, they are being requested to waive not only their unearned profit but also their principal amount at a pre-specified trigger point.

Moreover, it can be argued that *ibra*' in a financing agreement is a mechanism to ensure that the principle of justice is achieved in the transaction, since the IBI is being asked to waive its unearned profit for the remaining duration of the contract only. This mechanism is justified since the profit arises because of the deferment and since the debtor was able to settle his debt before its due time. As such, the IBI cannot request the customer to pay the full price and if it does, then the IBI is taking that portion of the price without counter-value. In this regard, Ibn Abideen cites the case of a person purchasing an asset for ten on a spot basis and then selling it to another party for twenty on a deferred payment basis, the deferral period being ten months. If the buyer settles the debt or dies after five months, the seller shall take five as profit and leave the other five (Ibn Abideen, 1992, 6: 757). Based on this, if the customer settles his debt before its due time, the IBI should be compelled to forgo its unearned profit, without the need to mention this as a condition in the agreement (Al-Attram, 2006: 361). On the other hand, in the case of the *sukuk* holders, they are being asked to forgo their principal, which gives strong ground to assume that it is a genuine case of combining an exchange-based with a charitable contract.

Based on the above general discussion, it can be said that the use of the write-down mechanism for T2 *murabaha* and *ijarah* capital instruments can achieve the desired effect of subordinating the claims of the holders of such instruments to the claims of current and saving accounts and general creditors of the IBI during the gone-concern and liquidation scenarios. However, the use of the write-down mechanism is not in line with Shari'ah rules and regulations because it will lead to the combination of an exchange-based contract with a charitable contract. This is because when the holders of the *murabaha* or *ijarah sukuk* agree to write down the *murabaha* outstanding debt or outstanding rental payment they are in effect combining *ibra*' which is a charitable contract with *murabaha* and *ijarah* both of which are exchange-based contracts.

As a result there is a strong ground to argue that the inclusion of an *ibra*' clause in the agreement will have an effect on the pricing of the instrument.<sup>6</sup> In other words, the inclusion of such a clause will be in return for an increase in the rate of return of the instrument – in the case of *murabaha*, increase in the mark-up and in the case of *ijarah*, increase in the rental payment– which is why such a combination is prohibited.<sup>7</sup> Moreover, the *ibra*' clause will be appended to an unknown time in the future, which is the time when a pre-specified trigger point is reached.

#### Write-down Mechanism via Wa'ad bi Ibra'

The use of a unilateral binding promise (wa'ad) given by the holders of the sukuk to write down the outstanding debt or outstanding rental payment can be an alternative mechanism that can achieve the effect of subordination for T2 capital instruments. In this regard, since the wa'ad is not considered an integral part of the contract, the issue of combining an exchange-based contract with a charitable one will not arise. However, since the wa'ad is binding on the sukuk holders if it is contingent upon a condition or related to a cause (in our case, the cause being the trigger of non-viability, then the promisor (i.e. the sukuk holder) will have no option but to relinquish his right to receive the principal amount of the outstanding debt. Therefore, the inclusion of the wa'ad – although it resolves the problem of combining an exchange-based contract with a charitable contract – will not lead to the equivalency of the counter-values being exchanged between the buyer and the seller, as the sukuk holders will still be required to waive their right to receive their outstanding debt. In other words, when we look at the transaction in its entirety, the result would be the same as compared when the write-down mechanism is included in the agreement via a clause, which means that in essence the whole arrangement is in fact a combination of an exchange-based contract with a charitable contract. As such, this paper is of the view that the use of the write-down mechanism via wa'ad bi ibra' should not be adopted.

#### Conversion into Ordinary Shares

With regard to T2 exchange-based capital instruments, there is the possibility of converting the outstanding debt resulting from *murabaha sukuk* or the outstanding rental payment resulting from *ijarah sukuk*.

One possible way to look at the issue of converting the outstanding debt into ordinary shares is by considering it a form of selling debt to the debtor. In this case, it can be said that such sale falls under the sale of a confirmed debt (principal plus outstanding installments) to the debtor. An example of such type of confirmed debt is the price of an already purchased item, or the compensation for a usufruct that has already been utilized. In these two

Ibn Taymiyyah (1995, 29:62-63) stated that combining *tabarru*' contract with *mu'awadhah* contract is done to facilitate the *mu'awadhah* transaction and not for the purpose of charity. Therefore, the charitable contract becomes part of the price. To illustrate this point he gave the example of a person who gave another person a loan of 1000 and sold him an asset worth 500 for 1000. In this example, the seller agreed to lend the 1000 to the buyer only because of the higher selling price of the asset and the buyer agreed to pay the higher price of the asset only because of the loan he is going to receive from the seller. Thus, in reality the seller gave the buyer an asset and 1000 in return for 2000 from the buyer. It is clear from this example that the inclusion of the *tabarru*' contract had an effect on the pricing of the asset, which was sold by the seller for a price higher than the market price. In the case of the sukukholders, they are agreeing to forgo their principle itself in case the IBI reaches the point of non-viability. Therefore, if receiving a loan from the seller can have an effect on the pricing of the sold item, receiving an *ibra*' for the entire outstanding debt at the point of non-viability will definitely have the same effect on the pricing of the instrument. As a result, the commodities will be sold to the IBI for a mark-up higher than the normal mark-up in the market in the case of *murabaha sukuk*, or the asset will be rented for a higher rental than the normal rental in the market in the case of *ijarah sukuk*.

This is similar to the practice of tranching in *sukuk* whereby investors subscribe to a single *sukuk* issuance that has multiple classes with different ratings (e.g. Class A – AAA; Class B – AA; Class C – BBB, etc.). In such a mechanism, subscribers to Class A tranche will receive a lower rate of return and face a lower probability of loss; while subscribers to Class C will receive a higher rate of return and face a higher risk of loss.

examples the debt has already been established on the liability of the debtor, which is why it is called a confirmed debt.

The majority of jurists permitted the sale of confirmed debt to the debtor. (Al-Kasani, 1986, 5:148; Ibn Rushd, 2004, 3:215; Al-Nawawi, n.d., 9:275; Ibn Qudamah, 1968, 4: 37-38). Thus, the creditor can sell the debtor the confirmed debt, which is established on the debtor's liability for its repayment in kind. This group of jurists relied on the following Hadith (Al-Taylasi, 1999, 3:393, Hadith No. 1980) which is narrated by Abdullah Ibn Umar who said:

"I used to sell camels at al-Baqi for dinars and take dirhams for them, and sell for dirhams and take dinars for them. I would take these for these and give these for these. I went to the Apostle of Allah (peace be upon him) while he was about to enter the house of Hafsah. I said: Apostle of Allah: I sell camels at al-Baqi'. I sell (them) for dinars and take dirhams and I sell for dirhams and take dinars. I take these for these, and give these for these. The Apostle of Allah (peace be upon him) then said: There is no harm in taking them at the current rate so long as you do not separate leaving something to be settled.".

The underlying reasoning for allowing such sale of debt is the fact that the debtor is already in possession of what is established on his liability. Therefore, if he pays the price of such liability to the creditor, then this sale will be akin to a normal sale whereby the two counter values are exchanged at the same time (Al-Zuhaili, 1997, 26).

It is important to note that Muslim jurists regarded the issue of selling debt to the debtor as a mechanism that can be used in reducing the overall amount of debt in the society and at the same time enabling the creditor to obtain an asset in return for his outstanding debt. In other words, the issue of selling debt to the debtor was not discussed in the context of providing a loss absorbing mechanism; whereby the IBI can convert a debt into ordinary shares and by doing so subordinate the claims of holders of T2 capital instruments to saving and current accounts and general creditors of the IBI. Nevertheless, this does not mean the use of such mechanism is not Shari'ah compliant, because its use still achieves the same purpose envisaged by Muslim jurists, when they allowed the sale of debt to the debtor, which is the reduction of the overall debt in the society. Thus, converting outstanding debt into ordinary shares is tantamount to changing the method of paying the outstanding debt from using cash to using ordinary shares. As a result, the relationship between the IBI and the *sukuk* holders would not end upon the sale of the outstanding debt as in the case of the classical sale of debt to the debtor; rather it would change from that of a debtor and creditor relationship to a partnership. This means that the creditors of the IBI have become its new partners and they can share the losses of the IBI on a pro rata basis.

Based on the above the *sukuk* holders (creditors) will sell their debt owed by the issuer (IBI) in return for ordinary shares. It can be argued that this arrangement can be included as a clause in the sukuk agreement and will not be considered a form of combining two contracts, because converting outstanding debt into ordinary shares is a method of payment and not a new contract. This argument is plausible given the fact that the conversion will only take place when the IBI becomes financially stressed upon reaching the point of non-viability. Thus, if the Shari'ah encourages creditors to give grace period to debtors who are in financial difficulty, then it becomes obvious that the Shari'ah will not have an objection to changing the method of payment for the insolvent debtor from paying in cash to paying in ordinary shares via the sale of the outstanding debt by the creditor. Thus, it is envisaged that the *sukuk* holders will enter into an exchange-based contract, which is based upon the principal of equivalency of the two counter values. This exchange-based contract, be it murabaha or ijarah, will include a clause to convert the outstanding debt into ordinary shares only if a pre-specified trigger point is reached. This means that if the IBI does not face financial difficulties, it is obliged to pay the debt using the traditional method of payment. However, if the point of non-viability is reached then the method of payment will automatically change, whereby a conversion formula is used to determine the number of ordinary shares that the creditor deserves for his outstanding debt. However, it must be noted that the use of the conversion formula must have the intended objective of giving the creditor the equivalent value of his outstanding debt in the form of ordinary shares.

It is important to note that the *murabaha sukuk* based on the concept of *tawarruq* will raise serious Shari'ah objections as to the legitimacy of such structure. This is because the OIC Fiqh Academy in its 19<sup>th</sup> session has declared the use of both types of *tawarruq* (organized and reversed) to be not in line with Shari'ah principles. Thus, this can be an obstacle for the use of the contract in structuring exchange-based T2 capital instruments. Moreover, *murabaha sukuk* are not tradable in the international market which will make it less attractive to potential investors. As for *ijarah sukuk* the outstanding rental payment may not be enough to the extent that its conversion at the point of non-viability can be a viable option. The only remaining option would be for the *sukuk* holders of *ijarah sukuk* to convert the *ijarah* assets under their ownership into ordinary shares. In other words, the *ijarah sukuk* agreement would contain a binding unilateral *wa'ad* to convert the *ijarah* assets into ordinary shares at the point of non-viability. In other words, this type of convertible *ijarah sukuk* would be similar to the normal type of *ijarah sukuk* with the only major difference being the use of conversion mechanism to convert the value of the *ijarah sukuk* with the only major difference being the use of normal *ijarah sukuk*. At this point, it is important to note that the conversion of the *ijarah* assets would obviously not fall under the issue of selling debt to the debtor, because the assets being converted are owned by the *sukuk* holders and are not debts owed to them by the IBI.

The first issue that we encounter with the use of *ijarah sukuk* is the fact that asset-backed *ijarah sukuk* cannot be used in structuring T2 capital instruments, since such type of *sukuk* can be classified as secured in nature, which in turn will not be in line with Basel III requirements of issuing unsecured capital instruments. Therefore, the only option is to use asset-based *ijarah sukuk*, whereby the legal ownership stays with the IBI and the beneficial ownership is transferred to the *sukuk* holders. However, just like in the case of *murabaha sukuk*, the use of asset-based *ijarah sukuk* has come under strong Shari'ah criticism, which was culminated with the OIC Fiqh Academy prohibiting the current structure of *ijarah sukuk*, as it is a form of *inah*.<sup>8</sup>

Based on the above, it can be concluded that the use of both *murabaha* and *ijarah sukuk* for structuring T2 capital instruments will raise serious Shari'ah concerns, which must be adequately addressed if exchange-based contracts are to be used in structuring T2 capital instruments.

# 5. SHARI'AH-COMPLIANT STRUCTURES MOST SUITABLE FOR MEETING REGULATORY CAPITAL REQUIREMENTS

In the light of the Shari'ah issues associated with both equity-based and exchange-based regulatory capital instruments and given the trend in the market about the kind of regulatory instruments being issued by IBIs, the following question is asked: what are the most suitable Shari'ah-compliant structures that will meet Basel III capital requirements? As discussed, the key Shari'ah concern related to meeting Basel III requirements is about subordinating the instruments so that the ranking of CET1, AT1 and T2 is maintained and accordingly, ensuring that CET1 and AT1 will bear losses under going-concern scenario while T2 instruments bear losses only in the event of non-viability or gone-concern.

The following deliberates on the most appropriate Shari'ah contracts for structuring AT1 and T2 capital instruments:

1. In order to develop perpetual, subordinated, unsecured AT1 instruments, the most appropriate Shari'ah contract would be *musharakah*. However, if AT1 instruments are thus structured, they would rank *pari passu* with CET1 (ordinary shares) in the event of loss given the capital raised through the instruments would be

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The OIC Fiqh Academy in its 20<sup>th</sup> session has declared the impermissibility of selling an asset on a cash basis with the stipulation that the seller leases the asset via a lease ending with ownership, whereby the total rental payments and repurchase price [paid by the sukuk issuer] would be more than the cash price [paid by the sukukholders]. Such stipulation is impermissible regardless of whether it is mentioned explicitly or implicitly, because this would be a form of *Inah* and therefore *sukuk* cannot be issued using such structure.

co-mingled in the general financial business of the IBI. Accordingly, as partners in the IBI's business, losses would have to be borne in proportion to capital contribution and no partner can be ranked junior to another to absorb more losses, unless ordinary shareholders voluntarily agree to bear the loss when it occurs or legal stratagem like *wa'ad bi tanazul* is applied.

Whether or not AT1 *musharakah sukuk* would have to be converted into ordinary shares at the point of non-viability would be a matter of complying with (conventional) legal requirements to change the status of the *musharakah sukuk* into ordinary shares. Conversion of the AT1 instruments into ordinary shares would not affect the Shari'ah ruling applicable to the instruments. Moreover, if the *musharakah sukuk* is similar to non-voting shares or Class B shares of conventional finance, no conversion is required as both equity *sukuk* holders and ordinary shareholders are ranked *pari passu* in terms of loss. However, ordinary shareholders can agree on giving a higher profit rate to the *musharakah sukuk* holders because from the Shari'ah perspective, there is no objection of having a different profit sharing ratio from their capital contributions.

- 2. AT1 capital instruments structured using exchange-based contracts is not in line with the Basel III requirements, which requires that such instruments should be perpetual in nature and no debt instrument can have such characteristic.
- 3. If T2 capital instruments are also structured using *musharakah* contract, then CET1, AT1 and T2 capital instruments will all be ranked *pari passu* with one another in the event of loss. As such, it will not be possible (i) to make a distinction between going-concern and gone-concern capital, (ii) for CET1 to represent the most subordinated instruments, and (iii) to rank T2 senior to AT1 and CET1 as per Basel III requirements. This means that it will not be possible for IBIs to comply technically or in form with Basel III requirements.
- 4. If on the other hand, T2 capital instruments are structured using exchange-based contracts in the form of *murabahah* and *ijarah sukuk*, this will enable exchange-based T2 capital instruments to be ranked above *musharakah* AT1 capital instruments during going-concern scenario without causing any Shari'ah concerns. As for subordinating exchange-based T2 capital instruments vis-à-vis current and saving accounts and general creditors, conversion of the exchange-based T2 capital instruments into ordinary shares at the point of non-viability is a possible option. However, serious Shari'ah concerns are raised in regards to the use of *tawarruq* in the structuring of *murabaha sukuk* and the use of sale-and-leaseback mechanism followed by repurchase of the asset in *ijarah sukuk*. Both of these structures have been prohibited by OIC Fiqh Academy resolutions, which mean that their use in structuring convertible exchange-based T2 capital instruments is not viable unless the Shari'ah issues surrounding them are resolved.

#### 6. CONCLUSION

This research examines the regulatory capital requirements under Basel III and deliberates on the qualifying AT1 and T2 capital instruments that can be issued by IBIs to meet both Shari'ah requirements and Basel III criteria and objectives. In this respect, the subordinated *sukuk* which have been issued under Basel II and Basel III have been examined. Moreover, the Shari'ah issues, especially related to the aspect of subordination, arising in both equity-based and exchange-based contracts when used for structuring AT1 and T2 capital instruments have been examined.

It may be concluded that there are two possible approaches to comply with Basel III and Shari'ah requirements. First, is to avoid the Shari'ah issues related to the issue of subordination altogether and instead recommend *musharakah* instruments for both AT1 and T2 capital whereby CET1, AT1 and T2 will all be ranked *pari passu* with one another. This approach will still be compliant with the philosophy of Basel III which in substance aims to strengthen the resilience of the banking sector via increasing the total equity of the RWA, and thus enable IBIs to absorb losses in the case of financial stress. The second approach is to comply fully with the ranking order as required by Basel III by using exchange-based contracts in the form of *murabaha* and *ijarah sukuk* for structuring

T2 capital instruments along with the use of conversion mechanism to achieve the effect of subordinating T2 capital instruments to current and saving accounts and general creditors. However, the Shari'ah issues surrounding the current structures of exchange-based contracts namely *murabaha* and *ijarah sukuk* need to be resolved first before this approach can become a reality.

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# CONVENTIONAL INSURANCE AND TAKĀFUL: CONCEPTUAL AND OPERATIONAL DIFFERENCES

# Seyed Mohamed Mohamed Mazair<sup>1</sup>

#### **ABSTARCT**

Insurance is an inescapable arrangement for individuals and business organizations in the contemporary world. There are two types of Insurance companies which are mainly dealing with insurance operations through two different concepts. One is conventional insurance companies. Other one is *Takāful*, Islamic alternative model of conventional insurance.

The conventional insurance and Islamic insurance are similar in some elements. Both of them provide protection in the event of unforeseen events and contributions must be made to start the coverage. The insurance company receives payment in the form of premium and will compensate policyholder in the event of covered losses or damages sustained by him/her.

This paper chiefly focuses to study the conventional and *Takāful* insurance comparatively to bring out the differences between them based on conceptual and operational framework. The differences between Islamic and conventional insurance lie in the ownership and financing of the company, in the management and accounting systems, in the entities in which the premiums are invested etc.

**Keywords**: *Takāful*, Islamic insurance, Differences between *Takāful* and conventional insurance

## 1. INTRODUCTION

According to the human history, the insurance appears simultaneously with the appearance of human society. Basically, a form of people helping each other inside their community when catastrophes occurred is called insurance. This type of insurance has survived to the present day in some parts of the world where modern insurance system is not widespread so far.

As Dorfman (1978, p.3) described, that the Insurance is a financial arrangement which redistributes the costs of unexpected losses. Insurance is a risk-sharing arrangement. In this arrangement between two parties, one party (the insurer) agrees to indemnify another party (the insured) against certain losses specified by a contract (the policy). Furthermore, Insurance is an economic device by which individuals and organizations can transfer pure risks (that is, uncertainty about financial losses) to others. Thus, economic units may now choose the risks that they would like to bear and that they are comfortable with. The "unwanted" risks may be transferred to others in exchange for a fee or a premium.

Moreover, the change is natural and unavoidable in every aspects of the life. This is the fact the whole history of mankind points out. In this way, the old order has given place to new and the agrarian society has been transformed into a modern industrial society. The process of industrialization has been so rapid that it may rightly be described, as the revolution. This revolution did not eliminate the chance of loss of life and property. The development in transportation industry, the increased use of machinery, swift expansion of technology, all these are followed by risks like accidents, hazards and injuries.

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To mitigate the seriousness of consequences of these unexpected perils and to cover the chances of loss, insurance is introduced to such an extent that this institution has become an essential of the modern life and it influenced in almost all spheres. And also, some of the important legal and socio-economic institutions, which have developed in the west during the last four hundred years and have left strong impacts on the Muslim society, are their present forms and structures. Islam enunciates the conflict with values and principles. The course of history has forced these institutions and organizations over Muslim society. Muslim scholars and economists are becoming more and more conscious of this conflict and applying themselves to task of wittingly the Muslim society. To achieve this purpose, it is necessary that the objective study of the contemporary institutions and the law of Islam should be made and then attempt to develop the alternate socio-economic system, which can fulfil Muslim need without violating the fundamental principles of Islam. One of the measures adopted in modern times for the institutions of economy and finance is insurance. (Syed Umar Faroog, 2010, pp. 55, 56) The eminent Islamic scholars name it as Takaful. This target had been achieved by examining carefully all theories and practices covered by the established field of conventional economic and finance using Islamic laws and values as enshrined in the Al Qur'ān and the Al Hadīth (report of the sayings or actions or consent of Muhammad). The economic activities, which are permitted by Shari'ah, based mainly on the prohibition of interest (ribā), engaging in permissible (halāl) dealing, and avoiding Prohibitive (harām) dealing, Prohibition of entering into contracts containing uncertainty (gharar) or speculation or Gambling (maisir) and Payment of Zakāh.

As we discussed, the background of  $Tak\bar{a}ful$ , Islamic alternative to insurance, is based on the concept of social solidarity, cooperation and mutual indemnification of losses of members. It is a pact among a group of members who agree to jointly indemnify the loss or damage that may inflict upon any of them out of the funds they donate collectively. As per practice of the Takaful companies, a part of contributions (premiums) under  $Tak\bar{a}ful$  system falls under the category of donation in order to spread liability with the objective of common good. The remaining part of the premium is given on the basis of  $Mud\bar{a}rabah$ . Therefore, structure of  $Tak\bar{a}ful$  that comprises the contracts of  $Mud\bar{a}rabah$ , Tabarru' (to donate for benefit of others) and mutual sharing of losses, is made so as to eliminate the element of absolute uncertainty so far as determination of contributions is concerned.

This paper intends to make a case for  $Tak\bar{a}ful$ , an Islamic instrument of insurance and conventional insurance. This is an exploratory comparative study which provides a base for an understanding of  $Tak\bar{a}ful$  with a comparison to conventional insurance. And also it tries mainly to clear a common doubt among public masses that the conventional insurance and Islamic insurance are same in all aspects and there are no any differences between them.

## 2. LITERATURE REVIEW

Several scholars have written about this subject in their literature. For instance, Essential Guide to  $Tak\bar{a}ful$  (Islamic Insurance) by Engku Rabiah Adawiah and Hassan Scott, Islamic and Modern Insurance – Principles and Practices by Mohd. Ma'sum Billah,  $Tak\bar{a}ful$  and Retakāful – Advanced Principles & Practices by Tobias Frenz and Younes Soualhi, Al Ta'mīn wa aḥkāmuh by Sulaiman bin Ibrahim,  $Tak\bar{a}ful$  (Islamic Insurance): Concept, Challenges, and Opportunities by Safdar Jaffer, Farzana Ismail, Jabran Noor and Lindsay Unwin. But they did not focus their views on the matter itself. Some explained the subject in detail. Meanwhile others briefed it with other subjects. I tried to focus the issue and to differentiate between two types of insurance in the angle of the concept as well as the practice.

#### 3. RESEARCH METHOD

This work is based on secondary data. Secondary data has been collected from several sources. Relevant literature has been gathered from a number of books. Extensive data has been collected through websites, and database articles. To receive objective of the study information work by different authors and organization have been used. We have used secondary data most of which is in English. Comparison between the conventional insurance and Islamic insurance (*Takāful*) has been done based on the collected data.

# 4. CONVENTIONAL INSURANCE AND TAKAFUL: CONCEPTUAL AND OPERATIONAL DIFFERENCES

In detail, the research paper contains the following subheadings:

#### 4.1 What is Insurance?

Insurance as Ali described "Insurance is to act as a risk transfer mechanism, to provide peace of mind and protect against losses. Either can handle risk: assumption, combination, transfer, or loss prevention activities. Insurance schemes utilize the combination method by persuading a large number of individuals to pool their risks into a large group to minimize overall risk" (Ali, 2000).

As Qureshi (2011, pp.279, 280) defines, insurance is a mechanism whereby individual or business enterprises by paying out contribution (termed 'premium' in insurance) transfer some of the uncertainty of risks to the insurer. Insurer in the event of loss from insured peril compensates the victim (insured) out of the contribution so gathered from large numbers of insured. The contribution is usually a very small amount compared to the amount of protection available. The concept of insurance is basically an arrangement to mutually help one another in the event of an unfortunate event causing loss to any of the member(s). In short the mechanism of insurance inter alia brings about peace of mind, social stability and economic growth.

Insurance provides the peace of mind and protection to trade and industry, which ultimately contributes towards human progress. Thus insurance is a force contributing towards economic, social and technological progress of human being. Without insurance cover and industries, economic and social activity of the world will come to a grinding halt, or at least would have slowed substantially. (Syed Umar Farooq, 2010, p.57)

#### 4.2 Conventional insurance

Insurance is a risk transferring mechanism whereby the individual or the business enterprise can shift some of the uncertainties to the shoulder of others. Under this assumption, all the people would desire to live in a healthier, comfortable and peaceful condition. To meet these facilities, different enterprises provide various services. They innovate, insurance product to undertake risk and uncertainty. (Syed Umar Farooq, 2010, p.57)

The conventional insurance is being implemented through state or private owned Insurance companies or corporations. They collect premiums from policyholders and invest them in interest-based activities mostly. Whenever losses occurred for policyholders, they pay them insurance payment indicated in the agreement. If there are no unfortunate incidents defined in the agreement within the specified period any payments will not be paid at all from the insurance company to the participants. This

is the common practice in conventional insurance. In addition to some companies give some bonuses and special offers in the sense of competition and promotion.

## 4.3 Takāful (Islamic Insurance)

According to Al-Omar (1996) the risk sharing is very important with in Islamic finance. The *Shari'ah* manages the risk sharing by insisting on the use of well - defined contracts when financial transactions taken place. The contract is to be clear and well formulated to avoid all kinds of misunderstanding and confusion. In this way the uncertainty is lowered and the desire to minimize the risk is met.

Takāful is derived from the Arabic root-word "Kafala", a verb, which means guarantee, bail, warrant or an act of securing one's need. Therefore, Takāful (in its reciprocal form) means joint guarantee, whereby a group of participants agree to mutually guarantee each other against a defined loss. In the context of Islamic insurance, Takāful refers to an arrangement for a mutual indemnity in providing protection and compensation to the participants who suffered from perils or hazards. (Engku Rabiah Adawiah, 2008, p.03) In his research, Azeem Pirani, Head of Marketing & Alternate Distribution at Pak-Qatar Family Takaful Limited States that this method of risk mitigation has been used for centuries, albeit under different names. Prior to the advent of Takāful, as we know it today, the most common has been 'Mutual Insurance' which, although similar, is not identical. Takāful is based on the principle of solidarity, mutual help, brotherhood and cooperation among members of the community.

The elements which were against the *Shari'ah* in conventional insurance were subject to great deliberation and discussion to ensure that social and mutual protection mechanism like insurance can be used by 1.57 billion Muslim population with great freedom and without the worries of religious constraint for the greater social and economic benefits. As mentioned aspects like interest, uncertainty and gambling were cardinals to exit to make insurance *Shari'ah*-compliant. Beside these elements as per Wikipedia following principles are the essence of *Shari'ah*-compliant insurance:

- Policyholders cooperate among themselves for their common good.
- Every policyholder pays his subscription to help those who need assistance.
- Losses are divided and liabilities spread according to the community pooling system.
- Uncertainty is eliminated with respect to subscription and compensation.
- No advantage can be derived at the cost of others (Wikipedia, 2012)

Mahmood (2008) said, *Shari'ah*-compliant insurance is based on principles of mutual cooperation ( $t\bar{a}$ 'awun) and donation (tabarru'), where the risk is shared collectively and voluntarily by the group of participants. It is derived from an Arabic word meaning 'joint guarantee' or 'guaranteeing each other'. According to Redzuan, Rahman & Aidid (2009), the majority viewpoint by many contemporary Islamic jurists and scholars is that, for an insurance system to be acceptable by Islamic tenets, it must be founded on the principles of (1) mutual cooperation (2) tabarru' (donation). These are the essence of *Shari'ah* insurance, which embraces the elements of mutual guarantee, mutual protection and shared responsibility. Tabarru' means donation, gifts or contribution. Participants in a *Shari'ah* insurance scheme mutually agree to relinquish as donation, a certain proportion of their contributions, into a *Shari'ah* fund, to provide financial assistance to any members of the group suffering from a loss. Under *Shari'ah* insurance, each participant contributes a certain proportion of the full amount of his contribution as tabarru. Obaidullah (2005) said donations from all participants are accumulated into a common fund called 'tabarru'

fund' or 'risk fund', from which compensation or indemnification is paid to participants suffering a defined loss. Jching (2008) said *Shari'ah*-compliant insurance is also built on the principle of mutual cooperation where each participant participates in each other's losses and the *Shari'ah* insurance operator facilitates this cooperation using its expertise. (Qureshi, 2011, pp.281, 282)

The origin of Islamic insurance started before the era of the Holy Prophet Muhammad (S.A.W) which is based on " $\bar{A}qilah$ " mutual co-operation (Klingmuller, 1969). Later such insurance transaction was steadily practiced and was even made mandatory in some cases during the period of the second Caliph, *Saydina* Omar (R. A.A). During the period of 14th to 17th century a *Sufi* Order of the *Kazeeruniyya* was very active especially in port cities in Malabar and in China. This order served as a kind of marine travel insurance company.

In 19th century, a *Hanafi* lawyer Ibn Abidin (1784 -1836) was the first Islamic scholar who came up with the meaning, concept and legal entity of insurance contract. He was also the first person, who repeated the word insurance in the context of a legal constitution, and not in a customary practice (Klingmuller, 1969). In 1906, Muhammad Baqit *Mufti* of Egypt approved the idea of insurance which was explained by Ibn Abidin. In the period of twentieth century, a well-known Islamic jurist, Muhammad Abduh issued two 'fatwas' mentioning that an insurance transaction is like the transaction of 'al-mudarabah' financing technique, while the other was that a transaction which is similar to endowment or life insurance are legal. (Mher Mushtaq Hussain, 2011, p.25)

In the later part of the 20<sup>th</sup> century, Islamic insurance companies have been started in several places of the world as *Shari'ah* compliant insurance. At present, there are more than 200 hundred *takāful* companies provide various Islamic insurance products to not only Muslims but also non-Muslims.

## 4.4 Islamic Insurance (Takaful) and Conventional Insurance – A Comparison

Conventional insurance and Islamic insurance can be evaluated through various viewpoints. In this article, Islamic and conventional insurance are compared on the following bases:

#### 4.4.1 Governance

First of all, the governance viewpoint the Takaful principles have their roots in *Shari'ah*. Sacred orders of Allah in Al- Qura'n, religious, social and commercial practices of The Holy Prophet (SAW),  $Ijm\bar{a}'$  (the agreement of whole Islamic world on an issue) and  $Qiy\bar{a}s$  (comparative arguments), form the basis of *Shari'ah*. *Shari'ah* is the constitution of Islamic world. According to Islam, the basic principles of *Shari'ah* are necessary for an action to be approved religiously. The opinions and interpretations of Al-Qura'n and Al-Sunnah from suitable, prominent Islamic Shari'ah scholars also considered in this regard.

In conventional insurance system rules and regulations are made according to human mind and thinking. Currently, most of the rules implemented in the insurance world are driven from western philosophy which is naturally on the basis of materialism and secularism. Based on this idea, there are regulatory institutions in almost all countries in the world.

#### 4.4.2 Goal

The goal of conventional insurance is to maximize profit in favour of shareholders because they are stock companies and ignore client while in contrast  $Tak\bar{a}ful$  goal is well-being and self-sustaining operation without earning high profit. In another word, the payment of premiums to pool is voluntary for mutual assistance without individual monetary gain.

# 4.4.3 Risk Transfer/Sharing

Conventional Insurance is a mechanism whereby individual or business enterprises by paying out contribution (termed 'premium' in insurance) **transfer** some of the uncertainty of risks to the insurer. Insurer in the event of loss from insured peril compensates the victim (insured) out of the contribution so gathered from large numbers of insured. The contribution is usually a very small amount compared to the amount of protection available. Unlike conventional insurance, which risk is transferred from the insured to the insurer, the  $Tak\bar{a}ful$  Insurance mutual risk is **shared** amongst the participants.  $Tak\bar{a}ful$  operations are based upon the principles of mutuality, whereby each participant makes a donation to a  $Tak\bar{a}ful$  fund. In the event of its loss, the participant will receive the amount of its claim.

# 4.4.4 Ownership

*Takāful* fund is managed by operator but ownership is of participants. They have a complete right of contribution and benefits. In conventional insurance the policyholder purchase policy and there exist seller – purchaser relationship. *Takāful* company performs trustee and operator functions. In conventional insurance there exist one to one relationship between policy holder and company.

## **4.4.5** Monitoring committee

In *Takāful* companies, having a is one of the mandatory committees should be included in the system of *Takāful*. The *Shari'ah* Supervisory Board is to be formed by the operators and their role is to review the operations, supervise its development of *Shari'ah* insurance products, and determine the *Shari'ah* compliance of these products and the investments. The *Shari'ah* Supervisory Board have to carry their own independent audit and certify that nothing relating to any of the operations involve any element that is prohibited by *Shari'ah*. (Qureshi, 2011, p.287) While in conventional insurance there is no such *Shari'ah* supervisory committee to monitor the activities of the company in order to be under the Shari'ah guideline.

#### 4.4.6 Unlawful elements

Different elements like *Ribā* (Interest), *Gharar* (uncertainty) and *Maysir* (Gambling) are involved in conventional insurance. For instance, in non-life policies if a policyholder does not make a claim, his insurance company keeps the whole amount. If he/she cancels the policy contract also loses all premiums which he/she has deposited. Likewise if the insurance company terminates its activities, the policyholders will be refunded proportionally.

The uncertainty is also observable in the conventional insurance. The premium Payment from the policyholder is certain but is uncertain from the shareholders or the company as well as the benefits to be paid depend on the outcome of future events not known at the time of contract. In order to eliminate the element of uncertainty in the *Takāful* contract, the concept of "*tabarru*" (to donate or give away) is

incorporated in it. In relation to this, a participant agrees to relinquish as *tabarru*' certain proportion of his *Takāful* instalments or contributions that he agrees or undertakes to pay thus enabling him to fulfil his obligation of mutual help and joint guarantee, should any of his fellow participants suffer a defined loss. In *Takāful* the element of uncertainty is eliminated as subscription and compensation is concerned.

And also there are some features alike gambling in conventional insurance. The policyholder pays his premium, he/she might get a very big amount if the losses indicated in the policy occurred, if not he/she will lose all the premiums paid. It works by mere chance, speculation and conjecture and not from work, taking responsibility or real sector business.

The nature of the principles of  $Tak\bar{a}ful$  is different from the conventional insurance because all the operation in  $Tak\bar{a}ful$  is in line with the Shari'ah principles. The operation of  $Tak\bar{a}ful$  is based on the principle of Al-  $Mud\bar{a}rabah$  which is profit and loss sharing techniques which is alternative to interest  $(Rib\bar{a})$  in Conventional Insurance.

As a result of these non-permitted elements, the majority of Muslim scholars have generally decided that the practice and operation of conventional insurance as currently practiced do not fulfil the rules and requirements of *Shari'ah*. Therefore, in June 1972 the Malaysian National *Fatwa* Council resoled that the present-day life insurance as provided by the conventional insurance companies was not in line with the principles of *Shari'ah*. Similarly, in comprehensive deliberation, the *Fiqh* council of The Muslim World League in 1978 and the *Fiqh* Academy of the Organization of Islamic Conference (OIC), at gathering in December 1985, resolved that no form of insurance, life or general, confirmed to Islamic principles and therefore it was *ḥarām* (prohibited). (Suraiya Hashim, Asnida Shahideen and Wan Roshidah Fadzim, pp.199, 200)

## 4.4.7 Operation

Takaful system operates in such a way that the participants contribute their money as premium to a company. The company divides the contributions into two parts i.e. donation (*Tabarru'*) for meeting mortality liability or losses of the fellow policyholders and the other part for investment. Accordingly, the clause of *Tabarru'* is incorporated in the contract. Both the accounts are invested in *Shari'ah* compliant investments and returns thereof distributed on *Muḍārabah* principle between the participants and the *Takāful* operators. The profit attributable to the participants is credited into the two accounts respectively.

Conventional insurance operates in such a way that premium is paid by policy holders to insurance company and then this amount is invested by insurance company in interest bearing or non-*Shari'ah* compliant investing areas. Amount of interest and profit is received by insurance companies and then surplus is retained in the company without distributing it among policy holders and only claims are met with this surplus. And also Takaful operates on mutual assistance principle. Conventional insurance operates on business principle.

#### 4.4.8 Contract

Conventional insurance is a buy-sell contract in which the insurance company offers and sells protection and the participants (policyholders) accepts and buys the premium at a certain price. In case of Islamic insurance, the participants give up individual rights to attain collective rights over contribution and benefits along with

the *Takāful* operator as the one who manage the fund. The contract under Islamic insurance is usually involves the concepts of *Tabarru'*, *Muḍārabah* and *Wakālah*. (Jacky Lim, 2010)

#### 4.4.9 Investment

According to Billah (2001) the distinction between the conventional insurance and *Takāful* business is more visible with respect to investment of funds. While insurance companies invest their funds in interest-based avenues and without any regard for the concept of *Ḥalāl-o-Ḥarām*. *Takāful* companies undertake only *Shari'ah* compliant business and the profits are distributed in accordance with the initially agreed ratios in the *Takāful* contract. (Syed Umar Farooq, 2010, p.58) In addition to that the Governments of the countries in which Muslims are in majority have introduced a legal framework which helps in introduction of new *Shari'ah* compliant products. *Muḍārabah* certificates are the instruments which are evolved from such legal framework. While a conventional insurance company invests in interest based instruments like treasury bills, certificates of deposits, interest bearing bonds etc... (Hakim, 2007)

## **4.4.10 Surplus**

Likewise the policyholders of *Takāful* share in any surplus or loss from the pool collectively. *Takāful* system has a built-in mechanism to counter any over-pricing policies of the insurance companies, because whatever premium charged, the surplus would normally go back to the participants in proportion to their contributions. (Syed Umar Farooq, 2010, p.58) While in conventional insurance profit is not shared between members in a specific ratio and in some year bonus is provided and sometime not. Moreover, if unfortunate lose not happened the paid premiums will not be reimbursed.

*Takāful* differs from conventional insurance in the sense that the company manages and employs the funds for investment, business and administration on behalf of the participants. Profits attributed to the participants' funds are shared between the *Takāful* company and the participants according to an agreed formula. In case of insurance, the premium funds become property of the company and any profits or losses go to the company's account.

#### 4.4.11 Forfeiture

In insurance contract there is clause that insurer can forfeit the premium amount that is paid by the policy holders under certain circumstances. *Islam* does not allow the forfeiture of premium, wholly or partly, as the amount of premium is consider as loan by insured to insurer. In *Takāful* there is no forfeiture of contributions and it is distributed among the participants in form of surplus (Mahmood, 1991).

## 4.4.12 Encouragement for goodness

Takaful helps people to accumulate their saving for goodness of whole community. An opportunity is provided by  $Tak\bar{a}ful$  scheme to people to practice Islamic way. The Holy Prophet (PBUH) saying is "whosever removes the hardship from believer, Allah will remove hardship from him one of the hardship of the Day of Judgment" (Ṣaḥīḥ Muslim). Insurance is vice versa.

The following table briefs the differences between *Takāful* and conventional insurance:

ISSUE	CONV. INSURANCE	TAKĀFUL
Governance	No religious consideration,	Al-Qura'n, Al-Hadīth,
	solely profit motivated	<i>Ijmā'</i> , <i>Qiyās</i> , Islamic
		Ethics
Organizational	Profit for shareholders	Mutual for participants
Principle		
Basis	Risk transfer	Cooperative risk sharing
Laws	Secular/Regulations	Shari'ah & prudential
		regulations
Ownership	Shareholders	Participants
Management status	Company management	Operator
Form of contract	Contract of sale	Cooperative, Wakālah or
		Muḍārabah. Waqf with
		Tabarru' (contributions)
Responsibility of	Policy holders pay premium	*Participants make
Policy	to the insurer	contribution to the scheme
holders/Participants		*Participants mutually
		guarantee each other under
		the scheme
Investments	No restriction, mostly	Shari'ah compliant, Ribā-
	Interest based, non-Shari'ah	free
	compliant	
Profit	Belong to shareholders	Shared between
		participants and operator
		based on profit sharing
		principles
Surplus	Shareholders' Account	Participants' Account
Shari'ah Council	Not applicable	Obligatory

# 5. RESULTS

After comparing conventional insurance with  $Tak\bar{a}ful$ , it is indicated that  $Tak\bar{a}ful$  is more suitable than conventional insurance to whole mankind especially to the vast Muslim community of the world.

This article gives a comparative analysis of Islamic and conventional insurance system. In this way it is an addition to the literature on the subject. It has a managerial implication in the shape of guidance to the potential buyer of the insurance. It will give a clear picture to who intend to choose an insurance policy providing essential guidelines through differentiating the insurance companies.

#### 6. CONCLUSION:

The Muslims all around the world wish to go side by side with modern commerce. They are not willing to follow non - Islamic practices. They are looking for Islamic alternatives to prevailing financial instruments and practices. Islamic banking is a great success not only in Muslim majority but also in Muslim minority countries. Major international banks are today offering *Shari'ah* compliant products. In the similar manner *Takāful* presents an Islamic alternative to insurance.

The interpretations made by scholars provide a complete framework governing Islamic Insurance. In this article the suitability of Islamic insurance over conventional one along with its applicability in Muslim world is discussed. Ahmed (2010) reported that the Islamic principles can prohibit the global crisis to occur. Islamic insurance funds are invested in interest-free securities which reduce the chances of the crisis in this industry. Resultantly it provides a solid support for Islamic insurance.

To maintain Islamic behaviours a Muslim may adapt his practices to and comply with *Shari'ah* principles. The models of *Takāful* are helpful in categorizing it. *Tawakkul* concept best deals with *Takāful* because firm belief in Allah is compulsory but taking due care is also necessary. *Takāful* and conventional insurance models are different because of their permissibility in Islam. Conventional mode is based on *Ribā*, *Gharar* and *Mysir* which are prohibited in Islam.

The discussions on whether conventional insurance is in line with the *Shari'ah* have manifold but the widely accepted view is that conventional insurance is contrasting to *Takāful*. The major conceptual and operational paradigms are enough to define such contrasts.

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# SUSTAINABLE DEVELOPMENT THROUGH THE ISLAMIC INSURANCE SYSTEM IN SUDAN

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#### **ABSTRACT**

Several Islamic insurance and solidarity companies have been established since 1979; first in Sudan and later in Saudi Arabia, and then in various other Islamic countries. There are currently about 200 companies of Islamic insurance in all parts of the world, spreading over the Islamic world. This number indicates that the Islamic insurance industry has begun to prove and improve itself that is a strong competitor to traditional insurance industry. This paper evaluates and analyses the challenges on several issues related to Islamic insurance in Sudan for the period 1979-2011. This paper also covers semi-structured interviewed at the preliminary in order to address the research questions, and hypotheses of this research. A planned questionnaire to find out the sustainability and challenges facing Islamic insurance in Sudan has been set. Smart PLS has been used to evaluate and analyze the result of sustainability in Sudan. A brief content analysis of Islamic insurance systems for sustainability was discussed to examine its challenges for research in the future. This research found that the link between Sudanese customers perception and his satisfaction with using Islamic model as in Sudan. This paper concludes with a discussion on the significant light of sustainable development in Islamic insurance industry in Sudan and Muslim countriesneeds to propagate the research and publication in the areas of Islamic economics and Islamic management.

Keywords: Islamic insurance, Sudan, sustainability, Smart PLS

#### 1. INTRODUCTION

Islamic insurance industry to sustain facing many challenges globally and even from region to region, some challenges are: the argumentative issue on the ownership of the Islamic insurance fund that is the *tabarru*' fund and the surplus distribution accumulated from the risk fund are some of the many issues faced by the industry (Tobias, 2010), there is also diversity of the opinions that certain practices are *Shari'ah* compliant, most of the *Shari'ah* experts do not have enough knowledge about the insurance system while many Islamic insurance practitioners themselves are lacking in the knowledge and information about *Shari'ah* principles with respect to Islamic insurance

# 2. LITERATURE REVIEW

For the modern Islamic insurance the practiced started in 1979 with Faisal Islamic Bank in Sudan, for the reason to insure the bank's properties in *halal* insurance, established the Islamic Insurance Company Ltd, as the first cooperative insurance company in the world with pure capital from the bank as base for the company. Sudan adopted a system called '*mudarabah* of Islamic solidarity', the system was composed of

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a combination of *mudarabah* and solidarity where the contribution paid is divided as follows: 87.5% is regarded as capital for *mudaraba* to be invested for the payer in the form of Al *mudarib* according to the *Shari'ah* rules, 12.5% is taken as a donation to the solidarity fund and is subject to the rules of Solidarity, however, this system did not meet acceptance due to the inflation in Sudan and it was abandoned (Aldarir, 2006).

When the participant contributes to the fund, he is indirectly applying the golden principle of 'bear ye one another's burden'. He said, however, not all companies including insurance companies in Sudan itself comply with the recommendation to accept *ta'awun* as a basis for Islamic insurance. The constraint is due to poor fund for the initial capital, as nowadays nobody wants to invest something for free. When they contribute their money, they are actually expecting something in return, which is the financial reward or profit sharing (Billah M. M., 2004).

#### 2.1 Challenges faced development of Islamic insurance

Many challenges faced development of Islamic insurance in Muslim countries. The ownership to the contribution paid by the participant, and the consequence related to this ownership in case of surplus or deficit is one of the most prominent problems in Islamic insurance industry (Shibili, 2009). Another argumentative challenge issue on the ownership of the Islamic insurance fund that is the *tabarru*' fund and the surplus distribution accumulated from the risk fund are some of the many issues faced by the industry(Tobias, 2010). There is also diversity of opinions that certain practices are *Shari'ah* compliant or not (Jacky, 2010). Some services are accepted as *Shari'ah* compliant by some *Shari'ah* scholars in certain regions while it is not by other scholars in other regions based on the report done by Islamic Research & Training Institute Islamic Development Bank, concluded that this can lead to layers of regulatory difficulty(Institute of Islamic Banking and Insurance, 2000). In addition, another problem is that most of the *Shari'ah* experts do not have enough knowledge about the insurance system while many Islamic insurance practitioners themselves are lacking in the knowledge and information about *Shari'ah* principles with respect to Islamic insurance. This causes the variation of opinions among scholars, academicians, professionals and other key players in the industry.

Moreover, there is no evidence to support if any of the existing models can be considered unique and preferred from among the others, because all of these depend on the functions and factors which are suitable to the respective country where they are being practiced(Mohamed, 2007).

Sudan, as the founder of Islamic insurance in the modern economy since 1979, (Khan, 2011) also has Islamic regulatory environments, which naturally accommodates the Islamic insurance markets, at the same time it is the only country with a complete *Shari'ah* finance system (Bekkin, 2007).

# 3. RESEARCH METHOD

The data in Sudan have been collected in an easy approach due to the fact that the author is from the same country so this added to the ease of distributing and collecting the questionnaire but not in full because some companies have been revoked as Red Sea insurance or some companies closed after Sudan became two countries such as Juba insurances. In total, twelve companies were covered to fill the questionnaire, and where some selected for the interview schedule. To study the sustainability of Islamic insurance in Sudan, questions were set up and distributed into four parts: one for operators (insurers) in Islamic insurance, one for participants (customers) in Islamic insurance to check the similarities and differences of Islamic insurance. The reliability of the instrument that was used in the research to collect the data is

important, but in this research and due to the small sample size which affects the normality of the data, it was not possible to apply the reliability check.

The data gathered from the questionnaire will be analyzed using Statistical Package for Social Science (SPSS) Version 20 programmes(Creswell, John W., 2008). SPSS was used to do manipulation checks and to calculate Cronbach's alpha for the constructs. Since the sample size is relatively small (Islamic insurance organizations) and for the interpretation of the research objectives, partial least squares structural equation modeling (PLS-SEM) is used. SmartPLS is a program that conducts a Partial Least Squares analysis which allows to simultaneously examining theory and measures (Hulland 1999).

The research sample size between 56 respondents from customers 50 respondents from operators 13 respondents for *Shari'ah* board members, and 21 respondents expert in the Islamic insurance field observations was increased to 200 re-samples to ensure convergence using this bootstrapping method.

#### 4. RESULTS

The findings of the study revealed that there is a large sector of the Muslim population in Sudan needs to be exposed to Islamic insurance practice, also there is a significant light of sustainable development in Islamic insurance industry in this country.

Table 1 points out all the constructs of customer questionnaires and their indicators. The path coefficient analysis included all indicators consisted of one indicator to each.

Table 1: Measurement items of the constructs - customer's indicator

	Table 1: Measurement items of the constructs – customer's indicator				
Construct	Items	Indicators			
What is your consideration in the choice	Q1a	Factors of selection Islamic insurance			
of Islamic insurance company	Q1b	principles			
	Q1c				
Are information dissemination	Q2	Factors of selection Islamic insurance			
mechanism effective enough to facilitate		principles			
decision making by the customer?					
Are the Islamic insurance products	Q3	Factors of selection Islamic insurance			
subscribed to effectively meet your		principles			
satisfactions?					
Do you have prerequisites about Islamic	Q4	Factors of selection Islamic insurance			
insurance?		principles			
Do you have basic knowledge about	Q7	Factors of selection Islamic insurance			
Islamic insurance?		principles			
Do you aware of Islamic insurance	Q8	Factors of selection Islamic insurance			
principles?		principles			
Does Islamic insurance more punctual in	Q9	Principles of Islamic insurance			
payment of claim than the conventional					
insurance?					
Does your Islamic insurance company	Q5	Principles of Islamic insurance			
disclose appropriate information to you					
on the management of Policyholders					
fund?					
Do you aware of most of Islamic	Q6	Principles of Islamic insurance			
insurance transaction?					
Are Islamic insurance transactions are	Q10	Similarities and Differences of Islamic			
uncertain?		insurance models			
Are Islamic insurance operation	Q11	Similarities and Differences of Islamic			

The path coefficients and significance outcomes of the Smart PLS structural model (or inner model) for Sudan, results are presented in Figure 1. The bootstrap samples are used to estimate the statistical significance of the PLS path model coefficients.

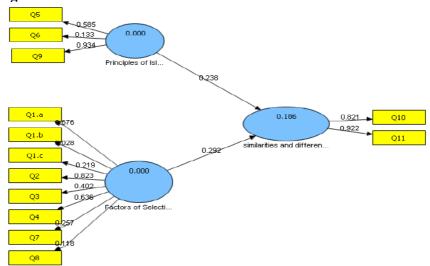


Figure 1: PLS Structural Model of similarities and differences - Sudan

The result of the first hypothesis to show the sustainability in operation of Islamic insurance is shown in Table 2, for Sudan is strongly supported (p<0.01) by the empirical outcome of the structural model. Sudan shows supported result by the question of Principle of Islamic insurance where the t-value is 1.932. The sign of both the coefficients is consistent with the expectation, but the effect is not strong enough (t-value 2.876) to be significant. The expectation was:

## The similarities and the differences in Islamic insurance models affect the operation.

Another sustainable challenging issue on the ownership of the Islamic insurance fund and the surplus distribution accumulated from the risk fund are some of the many issues faced by this questionnaire specially when answering item 5 (Does your Islamic insurance company disclose appropriate information to you on the management of Policyholders fund?), the result showed low t-value (0.3806).

Table 2: First hypothesis testing result- Sudan

Table 2.1 list hypothesis testing result- Sudan				
Hypothesis	Relationship	t-	p-	conclusion
		value	value	
Sudan				
$H_1$	Factors of selection → Islamic insurance principles	3.116	0.292	Supported
$\mathbf{H}_1$	Principles of Islamic insurance Islamic insurance principles	1.932	0.238	Supported

This part is focused on the Protecting one another that governs Islamic insurance between the models in Sudan, while considering the models' operation globally, contract design, policyholder fund, surplus distribution, claim handling, disclosure/ transparency, principle /practice, operators, investment, and Shari'ah board members activities. It shall analyze the Protecting one another in the models that constitute

the *modus operandi* of the insurance and shall compare between the models in various jurisprudence. The questionnaire has been set-up to answer the research question:

Do the similarities and differences in Islamic insurance models affect the operation (contribution-underwriting-claim-surplus) of each model practiced in the selected country?

Table 3 points out all the constructs of Operators' questionnaires and their indicators. The path coefficient analysis included all indicators consisted of one indicator to each.

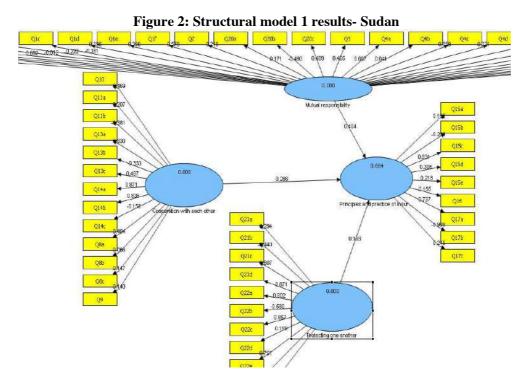
Table 3: Measurement items of the constructs - operator's indicator

Table 5: Measurement items of the constructs – operator's indicator			
Construct	Items	Indicators	
The <i>Qard Hassan</i> is permissible to mitigate against default in the payment of the claims	Q10	Cooperation with each other	
In your organization the way of allocating surplus to whom	Q8	Cooperation with each other	
In the organization does the Islamic insurer share in the underwriting surplus?	Q9	Cooperation with each other	
In case of indemnity the following method is recommended	Q11	Cooperation with each other	
Islamic insurer discloses the following information	Q13	Cooperation with each other	
The organization must comply with supervision provision on disclosure if information via	Q14	Cooperation with each other	
In your organization what is the Islamic features	Q1	Mutual responsibility	
Policyholders knows clearly the amount of charges and expenses deducted from the contribution	Q2	Mutual responsibility	
The Policyholders knows how the operators manage policyholders fund	Q3	Mutual responsibility	
What guides your company in deciding the amount of <i>Tabarru</i> ' paid by policyholders?	Q4	Mutual responsibility	
The contribution from participant is a commitment to donate.	Q5	Mutual responsibility	
In your organization how operator obtain revenue from services rendered to policyholder	Q6	Mutual responsibility	
The policyholder recommend to the board how the surplus from policyholder fund is to be allocated	Q7	Mutual responsibility	
Methods to mitigate against participant default:	Q20	Mutual responsibility	
Conditions for the validity of the contract.	Q15	Principles and practice of insurance with Shari'ah rules	
This model is practice in this organization	Q16	Principles and practice of insurance with Shari'ah rules	
Islamic insurer receive an absolute fixed	Q17	Principles and practice of insurance	

amount of fees		with Shari'ah rules
From Shari'ah perspective which model	Q21	Protecting one another
are Shari'ah compliant		
Do you agree to develop standard	Q22	Protecting one another
processes for		
Shari'ah compliance, audit and review	Q23	Protecting one another
of the Shari'ah rulings		
Do you agree to have Islamic insurance	Q24	Protecting one another
model globally as best practice		

In this specific section, the partial least square (PLS) Path Modeling aims to estimate the relationships among operator's respondents in the questionnaire distributed from Q1 to Q24.

The aim of the model as in Figure 2 was to analyze the influence of the latent variables: operation the business paradigm, fund and surplus distribution, and *Protecting one another* on the dependant variable, Protecting one another. Whereas Protecting one another only consisted of one indicator which was assumed to be able to explain the latent variable completely, operation the business paradigm, fund and surplus distribution, as well as *Protecting one another* which were assumed to reflect variations in the latent variable.



Mutual responsibility, Cooperation with each other, and *Protecting one another*, statistical t-value for Sudan respondents showed significant results varied from 1.4197 to 2.8991

Table 4: PLS Results- the Protecting one another of Islamic insurance models for Sudan

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (IO/STERRI)
Sudan				
Cooperation with each other - >Protecting one another	0.2861	0.2785	0.116	2.4669
Mutual responsibility ->Protecting one another	0.4037	0.4412	0.1392	2.8991
Protecting one another ->Protecting one another	0.1934	0.1842	0.1362	1.4197

Therefore the second objective of the research which is: To examine the principles of insurance and *Shari'ah* rules that governs Islamic insurance has been achieved, which implies why the Islamic insurance is sustained in Sudan.

The third challenge of sustainability is shown in the PLS result in Table 5 points out, that the model explained (92.1 percent) of the variance in the frequency to select rationale model with respect to selected latent variables. Contract Design and Principles and Practice of insurance were found to be statistically significant at the p<0.01 level and Surplus Distribution statistically significant at the p<0.05 level. Investment Distribution and Policyholder's fund Distribution were not found to be statistically significant in the model. As Contract Design and Principles and Practice of insurance were found to be statistically significant in the model and furthermore had the highest path coefficient there is sufficient evidence to support the third hypothesis, that Contract Design and Principles and Practice of insurance are the most important reason for *Shari'ah* board members to select the rationale model. Accordingly hypothesis 3 is supported.

Table 5: PLS Results - Rationale selected model

Item	Path Coefficient	t-value
Rationale Model Selection- Sudan		
Investment Distribution	***0.340	1.902
Policyholder's fund Distribution	***0.710	7.633
Contract Design	-0.811	0.997
Surplus Distribution	**0.141	1.014
Principles and Practice of insurance	-0.092	2.315
$R^2 = 0.921$		

The path analysis using Smart PLS demonstrates the effects of different constructs (Contract Design, Principles and Practice of insurance, Distribution, and Claim & Transparency) according to the interdependencies stated in the assumption (The Rationale Model) and along with their corresponding levels of significance (t-values). Bootstrapping resampling served to test the level of significance of the path coefficients (pc) as in Table 6.

6: PLS Results - Rationale selected model

Item	Path Coefficient	t-value
Model Harmonization with legal busines	s operation - Sudan	
Contract Design	**0.186	1.2741
Fund distribution	***0.677	6.1022
Claim & Transparency	***0.543	4.6104
Principles and Practice of insurance	***0.874	5.9500
$R^2 = 0.869$		

<sup>\*\*</sup>Significant at the p<0.05 level; \*\*\*Significant at the p<0.01 level

# 5. CONCLUSION

Since the Sudan government determined to apply the *shari'ah* rules in the country to all sectors and economy insurance as one of the sector affected by that rules, this result match exactly why Sudanese customers select Islamic insurance, where there is no conventional insurance for the customers to compare or select based on any other factor. Insurance whether it is Islamic or conventional is recognized on a number of specific basic principles and upon which its fundamental legal and technical applications are based, these principles work for the general insurance. Those principles resolve the way to calculate the compensation for the insured in case of maturity protect the insurer from moral hazard from the insured and all these minimize expenses for the organization to maximize profit.

This research also has implications for sustainable practice. The important Islamic insurance factors affected participants s in models usein Sudan means that attempting to recognize it and measure it may be a good management practice in order to ensure use continuance. At the same time, providing a supportive environment from the organizations, media and government also improves the customers' attraction.

The sustainable practice of the principles and practice of Islamic insurance with *Shari'ah* rules in this study would assist operators in two ways. First, the author has provided a range of scales in nine sections as: Contribution/Contract design, Policyholder Fund, Surplus Distribution, Claim/ Handling, Disclosure/ transparency, Principle/ practice, Operators views, Investment views, and *Shari'ah* Board members' suggestions. These scales can be fruitfully used by insurers to measure various factors of Islamic insurance system models after its implementation. Second, the model which has established relationships between these latent variables holds great secure as a diagnostic tool for identifying and isolating the principles and practice of insurance with *Shari'ah* rules problems.

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# SHARIAH ISSUES RELATED TO OWNERSHIP OF TAKAFUL BENEFIT AND HIBAH IN FAMILY TAKAFUL IN MALAYSIA

Nan Noorhidayu Bt Megat Laksana<sup>1</sup> Nurdianawati Irwani Abdullah<sup>2</sup> Akhtarzaite Abd Aziz<sup>3</sup>

#### **ABSTRACT**

This preliminary paper will explore and identify the issues on ownership of  $tak\bar{a}ful$  benefit to determine the ownership in Participant Special Account (PSA) or  $tabarru\tilde{N}$  fund since the ownership issue is much related to hibah issues. Besides, the researcher will identify the problem facing in hibah issue especially the validity of making hibah and the conditional time of executing hibah to the participant in Participant Personal Account (PA). This research adopts qualitative and quantitative methods and the instrument of these methods is semi-structured interviews. In order to achieve the objectives, primary data will be collected to solicit the views, opinions and experiences of  $Shar\tilde{E}\tilde{N}ah$  advisors,  $Shar\tilde{E}\tilde{N}ah$  officers and  $tak\bar{a}ful$  experts. Through this study, it will provide crucial insights to the literature by revealing whether the nomination process which practice among all  $tak\bar{a}ful$  operators in Malaysia is standardised and follows the Islamic Law of inheritance ( $far\tilde{E}id$ ) or by the practice of hibah in the distribution of  $tak\bar{a}ful$  benefits.

**Keywords**: Ownership, takaful benefit, *hibah*, family takaful.

#### 1. INTRODUCTION

In family *takāful*, there are two different accounts namely, Participant Personal Account (PA) and Participant Special Account (PSA). According to Nasser (2011), Participant Personal Account refers to the investment which is done by the *takāful* operator on behalf of policyholder and the profit will be shared between policyholder and the *takāful* operator according to a pre-agreed ratio. Meanwhile, Participant Special Account (PSA) refers to the policyholder's contribution in the form of *tabarruÑ* which will be placed in this fund and will be used to fulfil the obligation of mutual help if any misfortune arising from death or permanent disability.

Meanwhile, nomination refers to authorizing a person in a *takāful* policy to receive and administer the *takāful* benefits upon the death of the insured (Younes, 2010). The *takāful* operator needs to take the responsibility to distribute the *takāful* benefits to the nominee. In nomination process, the distribution of *takāful* benefit is different to the Muslim participant and non-Muslim participant. For Muslim participant, a nominee is considered as an executor while for non-Muslim participant, a nominee will considered as an absolute beneficiary. It was clearly provided by the provision under Section 167(1) and Section 167(2) of the Insurance Act 1996 that the nominee (Muslim) acts as an executor and not as an absolute beneficiary. Thus, an executor must distribute the monies to the beneficiaries who are determined according to Islamic law of inheritance (*farÉ il*).

Currently in practice, some *takāful* operators in Malaysia provide an option of giving *hibah* in nominations process to the participants in a family *takāful* plan (nurdianawati, 2010). Besides, according to Mohd Shahrulnizam (2010), the only *takāful* operator in Malaysia that has already

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applying *hibah* is *takāful* Ikhlas, while other *takāful* operators still using *farÉ'iì* method for the distribution process. In this situation, the nominee will be considered as a sole beneficiary through *hibah*. It is different in nomination process without *hibah*, where the nominee is merely considered as an executor. Furthermore, according to the *Sharī'ah* Advisory Council of Bank Negara of Malaysia on 21<sup>st</sup> April 2003, participants can give the *takāful* benefits as *hibah* since it is a right of the participant itself.

Recently, the Section 2 of IFSA 2012 limits the beneficiaries of takāful benefits reads as follows: proper claimant means a person who claims to be entitled to the whole or part of the takaful benefits under a takaful certificate as executor of the deceased takaful participant, parent or guardian of an incompetent nominee or an assignee or who claims to be otherwise entitled to the takaful benefits under the relevant law

Based on the clause above, it is clearly mentioned about the limitation of beneficiaries which include spouse, children, employee and dependent. In nomination process,  $tak\bar{a}ful$  benefits can be given to the beneficiaries only under Permissible  $Tak\bar{a}ful$  Interest (PTI) or Insurable Interest. Besides, these four categories of the beneficiaries may receive  $tak\bar{a}ful$  benefits as simply as can according to the nomination form which is appointed by the policyholder if he died.

With regards to the clause above, the categories of the beneficiaries of  $tak\bar{a}ful$  benefits is limited to four categories only. However, the issue that might be appears here, if the policyholder wants to give  $tak\bar{a}ful$  benefits other than four categories that mentioned earlier. Therefore, according to IFSA 2012, the policyholder may give  $tak\bar{a}ful$  benefits other than four categories through hibah. The purpose of giving  $tak\bar{a}ful$  benefits through hibah is to address the limitation in nomination. When hibah form is signed by the policyholder to give the beneficiaries  $tak\bar{a}ful$  benefits, he may appoint anybody that he likes to receive the  $tak\bar{a}ful$  benefits.

In addition, some scholars argue that, the takaful policies are meant to secure or protect the rights of the close beneficiaries, especially the immediate family who their lives depend on him. Thus, distributing the sum covered as  $far \acute{E}'i \grave{l}$  might hinder the objective of the takaful contribution. Maybe the deceased has an adopted son who still dependent on him, but not eligible as an heir through  $far \acute{E}'i \grave{l}$ . He is the real beneficiary compared to those who not dependent on the deceased like his uncles and aunties (Mohd Shahrulnizam, 2010). Rasulullah s.a.w once said that, as reported in Sahih Muslim (had $\acute{E}$ th number 3991) as follow:

"...to leave your heirs rich is better than to leave them poor, begging from people; that you would never incur an expense seeking therewith the pleasure of Allah, but you would be rewarded therefor, even for a morsel of food that you put in the mouth of your wife."

Therefore, it is better to make the sum covered as *Hibah*, so that it will benefit those who really in need and achieve the real intention or objective of *takaful* contribution.

Thus, this study will explore and examine the issues on ownership of  $tak\bar{a}ful$  benefit to determine the ownership in Participant Special Account (PSA) or  $tabarru\tilde{N}$  fund since the ownership issue is much related to hibah issues. Besides, the researcher will identify the problem facing in hibah issue especially the validity of making hibah and the conditional time of giving hibah to the participant in Participant Personal Account (PA). Finally, this study also will provide an empirical study related to the issues in this research in order to examine the theoretical aspects is relevant to the practice of  $tak\bar{a}ful$  industry.

#### 2. LITERATURE REVIEWS

#### 2.1 Definition of Property

According to Zuhaylê (1989), the Arabic word  $m \dot{E}l$  includes all things that can be possessed and owned by individuals. Furthermore, Saleem (2012) added that things which are cannot possess such as free air, birds in the sky, fish in the river, and undiscovered minerals inside the earth or the heat from the sun are not considered as private property ( $m \dot{E}l$ ). Thus, a thing could only be considered as property if it is beneficial use in accordance with the commonly accepted customs.

Muslim Jurists of *fiqh* have different opinions on the definition of property. According to Ibn al-'AthÊr (1991), property (*mÉl*) means everything that one can own. Besides, Ibn ManĐËr (1990), stated that *mÉl* as things that can be possess and can be owned. Thus, according to Azman (2008), these definitions originally used by the Arabs to refer only to gold and silver, however, its application was further extended to include things owned physically, as well as camels.

Moreover,  $Hanaf\hat{E}$  defines property  $(m\acute{E}l)$  as a thing that can be possessed and used by the people (Zuhayl $\hat{E}$ , 1989). Ibn  $\tilde{N}$ óbid $\hat{E}$ n (1998), also added that  $m\acute{E}l$  as a thing that is desired by human nature and also is capable of being stored when it is needed. The  $Hanaf\hat{E}s$  limits the meaning of property to valuable things that individual can own or possess and store for the time of necessity (Saleem, 2012). Hence, according to  $Hanaf\hat{E}s$  also, right and usufruct are not  $m\acute{E}l$  because they are not capable of being stored.

The definition of property  $(m \dot{E}l)$  from other Schools of fiqh such as  $Syafi\tilde{N}Es$ , MElikEs and  $\times anbalE$ , includes all valuable things which have financial value and in the case of destruction, the destroyer is liable to pay compensation (ZuhaylE, 1989). Besides, according to them, the financial value of a certain thing determines whether it is considered as property or not.

Furthermore, they do not accept the opinion that stated if a certain thing, usufruct or a right has financial value, it is considered a property. They also added that assets are owned not necessarily for their own sake but for the sake of usufruct and rights cannot be accepted. On the other hand, usufruct has monetary value can be considered as property (Saleem, 2012). Therefore, it can be said that in the modern application,  $tak\bar{a}ful$  benefit is also treated as property ( $m\dot{E}l$ ).

The statement that mentioned  $tak\bar{a}ful$  benefit is also treated as property  $(m\dot{E}l)$  has been stated and enacted by the Islamic Financial Services Act (IFSA) 2012 as follows;<sup>4</sup>

Property means any movable or immovable property, whether tangible or intangible and includes;

- (a) any right, interest, title, claim, chose in action, power or privilege, whether present or future, or whether vested or contingent, in relation to any property, or which is otherwise of value;
- (b) any conveyance executed for conveying, assigning, appointing, surrendering, or otherwise transferring or disposing of immovable property of which the person executing the conveyance is the proprietor or has possession or in which he is entitled to a contingent right, either for the whole interest or for any less interest;
- (c) any security, including any stock, share, and fund;
- (d) any negotiable instrument, including any bank note, bearer note, Treasury bill, dividend warrant, bill of exchange, cheque and negotiable certificate of deposit; or
- (e) any mortgage or charge, whether legal or equitable, guarantee,

<sup>&</sup>lt;sup>4</sup> Clause 2, Islamic Financial Services Act (IFSA) 2012.

lien or pledge, whether actual or constructive, letter of hypothecation, trust receipt, indemnity, undertaking or other means of securing payment or discharge of a debt or liability, whether present or future, or whether vested or contingent;

To sum up, it can be stated that, from the clause it is clearly mentioned about  $tak\bar{a}ful$  benefit is also treated as property  $(m\dot{E}l)$  as any right, interest, title, claim, chose in action, power or privilege or whether present or future and others. Therefore, the issue whether  $tak\bar{a}ful$  benefit can be treated as property  $(m\dot{E}l)$  cannot be denied or questioned anymore as this issue has been recently gazette in the provision of Islamic Financial Services Act (IFSA) 2012.

# 2.2 Definition of Ownership

Ownership signifies the rights to exploit and utilize the wealth and resources provided by Allah s.w.t. and such right is transferable through legitimate methods. Moreover, the owner deserves the right of ownership as long as he utilizes the gift endowed to him properly. The object of ownership, for example  $m\dot{E}l$  must be "something of value, permissible and capable of being possessed" (Qalri, 1973). It also can be tangible or intangible like intellectual property.

There are many definitions of ownership in *Islém*. Al-Korafi (2001), states that the ownership is a legal statement, on something or on its utility that gives right to whom it is granted to use the owned thing and to get compensation for it. Besides, Ibn Ashat (n.d), added that ownership is the ability of acquiring the legal right to use something or its utility by someone or his representative by proxy. Ibn Taymiyyah (1978), states that the ownership is 'the legal ability to use something", while Khafif (1990), defines ownership as the legal ability that allows someone to exclusively use and benefit from something.

According to Al-ZuhaylÊ (2003), ownership (*al-milkiyyah*) is an Islamic legal term which signifies the relationship between a human being and property which renders the property specifically attached to him, thus, giving the owner the right to deal in that property unless there is a legal impediment preventing him from such dealing. Besides, Yunus (n.d), added that the Hanafis consider usufruct and legal right as owned item and not as property hence rendering ownership a more general concept than property.

With regards to the definition of ownership, jurists have defined ownership in similar way, perhaps the most appropriate definition is "an exclusive association of the owned item with its owner, which gives the owner the right to deal in what he owns in any way that is not legally forbidden" (Ibn Al-Humam, n.d). If refer to this definition, the acquisition of a property by an individual entitles him to exclusive association with that property in legal way, thus, using or dealing with it as long as there is no legal impediment to such dealing.

Moreover, the exclusiveness of the ownership prevents others from using the property or dealing in it without legal authorization such as guardianship, agency and others. However, it is crucial to state that, ownership is not limited and focus on social and legal aspects, but it also gains political significance as it relates to a number of claims, liberties, powers and immunities in relation to the things or property a person owns. According to Yusuf (1977), he added that the right of ownership remains as the exclusive domain of owner as long as he uses it properly and does not harm to others.

In *IslÉm*, the right of man over things is limited and qualified. This is due to the fact that everything being subservient to Allah s.w.t. law and will and the human being as the vicegerent of Allah. Therefore, it will lead human to deliver and fulfill his trust with utmost care and in a manner that is in accordance with the *SharīÑah* principles.

From western jurist, Holland (1900) defines ownership as the essence of such rights lays not so much in the enjoyment of the thing, as in the legal power of excluding others from interfering with the enjoyment of it. It can be summarized the above definitions by saying that the ownership is a legally defined relation between a person and a thing and its utility that one can use only in *halÉl* ways and prevent others from using it unless by proxy and the owner of the thing can get compensations for it.

#### 2.3 Division of Private Ownership

According to Saleem (2012), private ownership can be classified into two broad divisions which are complete ownership and incomplete ownership.

#### 1. Complete Ownership

This type of ownership combines both legal and beneficial ownership in a person which entitles him to all right over all property. In other words, it can be said that, the owner has complete authority to use, exploit or acquired his property according to a lawful way. An example of this type of ownership is he may sell his property, give it as a gift, or create a waqf or give it to others through making a will (waliyyah). Besides, this form of ownership is continued to exist as long as the owner does not transfer the property to the others through valid contract.

## 2. Incomplete Ownership

Under incomplete ownership, it's separated into three types which are ownership over right, ownership over a property only and ownership under usufruct only (Saleem, 2012).

# a. Ownership over Rights (×uqËq al-IrtifÉq)

This type of right is refer to the right included in a land such as the right of irrigation, the right of water, the right of drainage, the right of passage, the right of upper or lower floor neighbours and others. These rights are included to the land and cannot be independently traded. Therefore, anyone who owns the land owns these rights.

# b. Ownership over a Property only (Milk al-Nayn)

This ownership refers to a situation where a property is owned by one person and its usufruct by another. For instance, in a leased house the legal ownership is belongs to the lessor while the usufruct is owned by the lessee. In addition, the lessee has the right to take possession of the house and use it for the period of the lease. Therefore, during the leasing period the owner's right over his own property is not complete as he cannot lease the same house to others or cannot sell it without the lessee's permission (Saleem, 2012).

## c. Ownership over Usufruct (Milk al-ManfaÑah)

Usufruct refers to an owner legally owns the asset another person enjoys the benefits of the asset. Thus, ownership over usufruct can be gained through borrowing  $(i\tilde{N}\acute{E}rah)$  and lease  $(ij\acute{E}rah)$ , for instance a person borrows a book or leases a house. Besides, benefical ownership could also be obtained through waqf, where a person transfers of a certain property to the ownership of Allah for the purpose of charitable as recognised by the Islamic law.

#### 2.4 Takāful Benefits as a Mal (Property)

The question that will be raise here regarding the property is, whether  $tak\bar{a}ful$  benefit can be treated as a property  $(m\dot{E}l)$ ? Basically, we will give a real and tangible asset as a gift to another person. For example, during our son's  $20^{th}$  birthday, we may give him a car as a gift. Its normal and no issues related to that practice. On the other hand,  $tak\bar{a}ful$  benefits are intangible as at the time you make it as Hibah, it is still an intangible benefit and not been cash yet (Mohd Shahrulnizam, 2010). Thus, is it qualified to be made a gift? Should gift is a real and tangible assets only? In order to answer this kind of question, an analysis based on the literature review may help to answer this question. Therefore, as mentioned earlier in the literature review it can be concluded that property can be included as tangible or intangible property.

The word  $m\acute{E}l$  are mentioned 83 times in the  $Qur'\bar{a}n$  and  $a\acute{l}\acute{E}d\^{E}th$ . It is also categorized among the five essential values under the protection of  $Shar\bar{\imath}\~Nah$ . However, the  $Qur'\bar{a}n$  and the Sunnah do not mentioned specifically the meaning of  $m\acute{E}l$ . There was a disagreement among Schools of fiqh as to what amounts to property. For examples, they did not agree on whether usufruct, debt and certain rights could be considered as properties or not.

However, in modern times, intellectual properties, patents, copyrights, franchises, confidential information and trade secrets are recognized as new forms of property. For  $tak\bar{a}ful$  benefit, it can be considered as property and no doubt to categorize it in one of the characteristic of property. Besides,  $tak\bar{a}ful$  benefit can be includes under intangible property. This is because intangible property refers to a property which does not have its own physical or material existence. The examples of intangible properties are services, financial rights and intellectual properties.

Furthermore, according to Islamic Financial Services Act (IFSA) 2012,  $tak\bar{a}ful$  benefit can also treated as  $m\acute{E}l$  (property) because from the clause, it is clearly mentioned about  $tak\bar{a}ful$  benefit as any right, interest, title, claim, chose in action, power or privilege or whether present or future and others. Therefore, the issue whether  $tak\bar{a}ful$  benefit can be treated as property ( $m\acute{E}l$ ) cannot be denied or questioned anymore as this issue has been recently gazette in the provision of Islamic Financial Services Act (IFSA) 2012.

Clause 2, IFSA also mentioned *takāful* benefit includes any benefit, pecuniary or not which is secured by a *takāful* certificate and 'pay' and other expressions, where used in relation to *takāful* benefit, shall be construed accordingly (Azman, 2008). Besides, *takāful* certificate "includes a *takāful* cover note or any contract of *takāful* for family *takāful* business or general *takāful* business whether or not embodied in or evidenced by a document in the form of a *takāful* certificate". <sup>5</sup>

# 2.5 Ownership of Takāful Benefits

After stating that  $tak\bar{a}ful$  benefit can also treated as  $m\dot{E}l$  (property), the question that will be raise in this statement is who own the  $tak\bar{a}ful$  benefit. This issue related to the ownership of the  $tak\bar{a}ful$  benefit. In fact, any property should have an owner. Therefore,  $tak\bar{a}ful$  benefit is owned by the participant in two ways; firstly, from the Participant Account (PA) and secondly from the Participant Special Account (PSA).

According to Clause 2, Islamic Financial Services Act (IFSA) 2012 participant means "any person who is permitted by the rules governing a payment system to send payment instructions or settlement instructions to the payment system and who is bound by the rules governing the payment system". Therefore, in family *takāful*, there are two different accounts namely, Participant Personal Account (PA) and Participant Special Account (PSA).

As mentioned earlier in the literature review, Participant Personal Account (PA) refers to the investment which is done by the  $tak\bar{a}ful$  operator on behalf of policyholder. Meanwhile, Participant Special Account (PSA) refers to the policyholder's contribution in the form of  $tabarru\tilde{N}$  which will be placed in this fund and will be used to fulfill the obligation of mutual help if any misfortune arising from death or permanent disability.

The issue that rises regarding ownership is who owns the Participant Account and Participant Special Account. Basically PA is owned by the participant, while in PSA is owned collectively by the group of participant. At one stage, *takāful* benefits belong to the participant in Participant Account maybe it can be considered as private ownership and complete ownership. The reason of being participant to have private ownership is because the owner entitles to a bundle of rights over a certain property to the exclusion of others and this allows him to exploit it and to appropriate or dispose of it in a lawful way. Thus, this type of ownership suitable to apply as a participant can become an owner of a property through valid contracts. For examples, contracts of sale, gift, donation and will. Furthermore,

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<sup>&</sup>lt;sup>5</sup> Islamic Financial Services Act 2012.

for PA it is suitable to include under complete ownership as this type of ownership combines both legal and beneficial ownership in one person and entitles him to all rights over that property or *takāful* benefits.

At another stage,  $tak\bar{a}ful$  benefits belong collectively by the group of participant under PSA that may consider also as private ownership. However, under this type of ownership, it can be classified into incomplete ownership and ownership over usufruct only ( $milk\ al-ManfaNah$ ). The reason of why PSA includes under incomplete ownership and ownership under usufruct because while an owner legally owns the asset another person enjoys the benefits of the asset as he owns its usufruct and this also could be referred as beneficial ownership. Even though, this type of ownership is not exactly same with the function of PSA, however it can be apply as ownership over usufruct because it entitles the participant to make a will (waliyyah) where after his death his property or its usufruct should belong to another.

In addition, ownership over usufruct could also be granted through permission where a person permits another to use, for instance his car or computer. Therefore, in PSA, the contact of  $tabarru\tilde{N}$  is used to mutually agreed and help the other participant in the event of lost or death. Furthermore, the participants mutually agree to transfer  $tak\bar{a}ful$  benefits to the nominee in the event of death of the policyholder.

Both PA and PSA can be classified into private ownership. However, under private ownership it can be classified into two types of ownership which are complete ownership and incomplete ownership. The comparison between complete ownership in PA and incomplete ownership in PSA is, in PA the participant entitles him to all rights over that property or  $tak\bar{a}ful$  benefits. Meanwhile, according to fiqh schools usufruct is a type of property and could be inherited. Thus, a beneficial ownership entitles a person to possess the property and to treat the property as a trust and take all necessary measures to protect it.

# 2.6 Family Takāful

A family *takāful* plan is a long term saving and investment instrument which provide a financial benefits in the event of tragedy to the customer or participant (Zuriah and Hendon, 2009). Similar to conventional insurance, family *takāful* plan can be purchased by an individual or by a group such as employees of an organization. According to Nasser and Jamil (2011), family *takāful* plan will be eligible for personal tax relief same with life insurance. Besides, the amount of relief for an ordinary family *takāful* plan is RM6,000 per year less any contributions paid to approved retirement benefit schemes.

In family *takāful* plan, a participant will pay the contribution and will credited into separate accounts which are Participant's Account (PA) and Participant's Special Account (PSA) under *mulÉrabah* contract or Participant's Risk Account (PRA) under *wakÉlah* contract (Zuriah and Hendon, 2009). Moreover, according to Engku Rabiah and Odierno (2008), the *takāful* benefits consist of the balance from the PA prior to the death of the participant and the unpaid amount of *takāful* contribution from the date of the participant's death until the date of maturity of the *takāful* certificate from the PSA.

The family  $tak\bar{a}ful$  plan is a financial programme that pools efforts to help the needy in times of need due to death or other hazard resulting in personal injury and disablement. However, scholars and  $tak\bar{a}ful$  practitioners viewed that money from PA is considered as inheritance whereby the nominee is responsible to distribute it according to the Islamic law of inheritance since this money is the right of the participant during his lifetime. On the other hand, money from the PSA ( $tabarru\tilde{N}$  account) which is considered as  $tak\bar{a}ful$  benefit is not part of the inheritance since it is not the right of the participant during his life.

The argument among the scholars is on PSA ( $tabarru\tilde{N}$  account). The issue will involve is on the ownership of the  $tak\bar{a}ful$  benefit. The validity of a nominee to be considered as a sole beneficiary is still questionable.

#### 2.7 Hibah in Family Takāful

Currently in practice, the concept of *hibah* is widely practised in the family *takāful* products which are offered by some *takāful* operators. *Takāful* Ikhlas is the first *takāful* operator which provided a proposed *hibah* form in family *takāful*. In the event of the death of policyholder, the policyholder can give away the *takāful* benefits as a form of *hibah*.

In addition, some scholars argue that, the takaful policies are meant to secure or protect the rights of the close beneficiaries, especially the immediate family who their lives depend on him. Thus, distributing the sum covered as  $far \acute{E}'i \acute{l}$  might hinder the objective of the takaful contribution. Maybe the deceased has an adopted son who still dependent on him, but not eligible as an heir through  $far \acute{E}'i \acute{l}$ . He is the real beneficiary compared to those who not dependent on the deceased like his uncles and aunties (Mohd Shahrulnizam, 2010). Rasulullah s.a.w once said that, as reported in Sahih Muslim (had $\acute{E}$ th number 3991) as follow:

"...to leave your heirs rich is better than to leave them poor, begging from people; that you would never incur an expense seeking therewith the pleasure of Allah, but you would be rewarded therefor, even for a morsel of food that you put in the mouth of your wife."

Therefore, it is better to make the sum covered as *Hibah*, so that it will benefit those who really in need and achieve the real intention or objective of *takaful* contribution.

#### 2.8 Definition of *Hibah*

According to Haqqi (2009), in Islamic law literature, the terms *hibah*, *hadiyyah*, *ruqba*, *'umra* and *minhah* applied to a transaction in which the ownership of property is transferred from the first party to the second party. Literally, *hibah* means signifies the donation of a thing from which the donee may derive a benefit. Meanwhile, in legal terminology *hibah* is "to give the ownership of property to another without compensation" (Al-Shirbini, 977H).

Besides, hibah is a contract by which a person during his lifetime transfers his property with immediate effect and without consideration to another person who accepts it. In other words, Haqqi (2009) also added that hibah is a transfer of the right of property in the substance or tamlik al-Nain by one person to another without consideration or Niwal, but the absence of consideration is a condition in it. Thus, the person who offers the property to others binds himself unilaterally and it should be given without anything in return.

Hibah differs from *ladaqah* whereby the latter is a gratuitous transfer of property made with the intention of obtaining recompense in the hereafter. Meanwhile, according to Al-Shirbini (977H), *ladaqah* is "property given for a thing which is pleasing to God". However, *hibah* differs from *hadiyyah* due to *hadiyyah* is property brought or sent as a gift to someone.

On the other hand, according to Saleem (n.d), *hibah* includes *hadiyyah* and *ladaqah*. If the intention is to gain closeness to AllÉh s.w.t by helping the poor it is called *ladaqah*. Meanwhile, if it is taken to the person out of respect to whom it is given, it called *hadiyyah*. Therefore, it can be concluded that, every *ladaqah* and present are *hibah* but not the reverse. Besides, every *hibah* is not necessary *ladaqah* or present. Thus, a contract of *hibah* takes effect by transfer of ownership and by cancellation of discharge for example the gift of a debt to the debtor (Saleem, n.d).

In addition, *hibah* should be given during the lifetime of the donor otherwise it will consider as *waliyyah*. The giving of *hibah* whether great or small is praised. Besides, giving or exchanging gifts

may create brotherly feelings among people. Thus, it can be seen in the example where, if a man has three sons, one of whom dies in the lifetime of his father leaving children, these children are excluded from the inheritance of their grandfather by their uncles. However, the grandfather may provide for them by way of *hibah*. Therefore, he may in his health also make a gift to one of his children whom he thinks deserve to have a greater position of his wealth and this act should not harm his other children (Saleem, n.d).

#### 2.8 Conditions of Hibah

According to *Hanafis*, *hibah* has two conditions, which are offer and acceptance. Some of the *Hanafi* scholar's added pillar of *hibah* is receipt or possession (*qabI*). Therefore, it can be concluded that, whether it is by offer and acceptance, it will complete when it is possessed or received by the donee. However, according to the majority of *Fiqh* schools, *hibah* has four conditions, which are donor (*al-wÉhib*), donee (*al-mauhËb lahu*), gift (*al-mauhub*) and expression (Saleem, n.d). Besides, according to Al-ÑÓqil (1978), the conditions of *hibah* are *ÊjÉb and qabĒl* (give and accept), donor and done and expression (*Îighah*). Thus, the discussion conditions of *hibah* will be explained as follows.

#### i. Gift (Al-Mauhub)

The details of gift (*al-mauhub*) as the condition of *hibah* are as follows (Saleem, n.d);

- 1. The property should be in existence. This means that anything over which dominion or the right of property may be exercised or anything which can be reduced into possession or exists as a specific entity or as an enforceable right or anything that comes within the meaning of  $m \dot{E} l$ , may form the subject of gift. Furthermore, the property should be capable of delivery. This includes the gift of all valuable properties, usufruct, negotiable instruments, proprietary rights and landlord's right are valid.
- 2. The gift (*al-mauhub*) should be owned by the donor, it cannot be *mubÉh* (common property). This means that the property is rented or pledged cannot be given as a gift to others as the ownership is not complete and the donor has no possession.
- 3. The thing given must be known, familiar and precisely determined. For example, it is not valid if a person says that: he has given one of these two houses as a gift.
- 4. The existence of things should have its separate and independent. If it is divisible, it must be divided and distinguished from, not joined to or occupied with anything else that is not given. Therefore, it cannot consider as *hibah* when the gift of a crop without the land on which they stand or a tree without a land.
- 5. The gift should come into the possession of the donee (qabì al-mauhëb). The ownership of the donee is not established unless he receives and possesses the gift. Besides, hibah is not permissible without possession. According to Hanafis and ShafieÑs, they argued that qabì is a condition that binds the contract of hibah. The gift is void whether the donor or the donee dies before the receipt. However, if the giver dies before it is collected, then it becomes part of inheritance, unless that gift was maid during his final illness. According to Mélikis, a donee becomes the owner of the gift by the contract of gift, the other schools, however argue that a donee becomes the owner only when he obtains possession of the property.
- 6. According to the majority of the schools, they stipulate that possession of the gift should come with the permission of the donor. Hence, the gift does not become the property of the donee unless it is possessed by the donee with the permission of the donor. On the other hand, *MÉlikis* say that possession (*qabi*) is valid even without permission from the owner.
- 7. Finally, possession could be taken directly or through representatives. For example when a child is given gift, he may receive it through his  $w\acute{E}l\acute{E}$  or when the property is in the hands of the donee as  $wad\acute{E}\~Nah$ , since here is already an existing possession, the give is complete. Therefore, this is the case of the donee in possession.

#### ii. Expressions

The most obvious form through which consent could be express is through spoken words or verbal communication. It is also the most frequently used, as it is easier and clearer. Islamic law does not stipulate the use of specific phrases for expressing consent. However, the words used should show a definite and present intention to form a particular contract.

An offer for the gift can be made expressly. For example, a donor may use the following phrases to constitute a gift contract: I made a gift of this thing to you, I made you the owner of it, I made it for you, this is for you and I bestowed on you or give you this. Furthermore, give can also be made by implication or metaphorically. For example, by sending, receiving or when a husband buys a pair of earring to his wife. Jurists are also said that consent may be expressed through conduct, gestures, writings and any other method that is customarily regarded as indicative of consent.

# iii. ÔjÉb and QabËl

The argument has been made by the  $Hanaf\hat{E}$  which stated that  $\hat{E}j\hat{E}b$  and  $qab\hat{E}l$  is not part of the conditions of hibah. The reason is  $\hat{E}j\hat{E}b$  itself can be considered as pillar of hibah. On the other hand,  $qab\hat{E}l$  is not part of the pillar of hibah because it's considered as a condition ( $shur\hat{E}t$ ) of hibah.

However, according to  $han \acute{E}bilah$ ,  $shafi\~Ne$  and  $m \acute{E}lik\~E$   $\^Ej\'Eb$  and  $qab\~El$  is part of the condition of hibah. The reason is hibah can be considered as a contract and to make a contract, should have  $\^Ej\'Eb$  and  $qab\~El$ .

# iv. Donor (Al-WÉhib) and Donee (Al-MauhËb Lahu)

Transactions could only take place through mutual consent. The issue that who is capable of giving a valid consent is therefore a fundamental issue in Islamic transactions. The consent given by a child or a lunatic to a certain transaction is not valid. They do not have the capacity to manage their wealth or to trade with it. In order to conclude a contract, a person should have the requisite legal capacity (*ahliyyah*). Ahliyyah refers to the legal capacity which enables a person to acquire rights or to undertake obligations.

A donor or a done must be classified or intentionally into  $tabarru\tilde{N}$  because contract of hibah is considered as contract of  $tabarru\tilde{N}$ . Besides, a donor and a done must be matured enough to make hibah, not crazy and can receive the right and obligation. Thus, a donor and a done cannot be considered as insanity, mad or crazy otherwise the contract is void. Insanity refers to an abnormal state where a person's maental capability is affected. All contracts performed by an insane person are invalid (Al- $\tilde{N}$ Óqil, 1978).

## 3. CONCLUSION

This conceptual paper attempts to disclose the  $Shar\bar{\iota}$  ah issues related to ownership of  $tak\bar{a}ful$  benefit and hibah in family  $tak\bar{a}ful$  in Malaysia. The focus of this study is the ownership issue of  $tak\bar{a}ful$  benefit in family  $tak\bar{a}ful$ . In terms of ownership, the study has examined the view of property from  $Shar\bar{\iota}$  ah and non- $Shar\bar{\iota}$  ah framework, devolution and management of property and relation of ownership in  $tak\bar{a}ful$  benefit. Although the  $tak\bar{a}ful$  business in Malaysia consists of both family and general, the study only focuses on the ownership in family  $tak\bar{a}ful$  business. This approach is taken as the family  $tak\bar{a}ful$  business because this type of  $tak\bar{a}ful$  singularly related to death.

Moreover, this study also will provide an empirical study related to the issues in this research in order to examine the theoretical aspects is relevant to the practice of  $tak\bar{a}ful$  industry. Therefore, this study proposes for future development to overcome those  $Shar\hat{E}\tilde{N}ah$  issues in family  $tak\bar{a}ful$ , which is issue on ownership of  $tak\bar{a}ful$  benefit must clearly stated by  $Shar\hat{E}\tilde{N}ah$  Advisory Council of Bank Negara Malaysia in order to avoid any conflict among the legal heir and as a matter of ensuring justice and fair contribution.

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# SELECTION FACTORS OF THE ACCEPTANCE AL-IJARAH THUMMA AL BAY (AITAB) IN SHAH ALAM

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#### **ABSTRACT**

One of the latest innovative products of Islamic banks is the Islamic hire-purchase facility or *Al-Ijarah Thumma Al-Bay* (AITAB), which designed to meet the current demand of customers that focusing in motor vehicles. Therefore, this research was conducted to study the factors that influenced customers to choose *Al-Ijarah Thumma Al-Bay* (AITAB) in Shah Alam, Selangor. A total of 150 customers in Shah Alam, were selected as respondents through and analyzed using 'SPSS for Window' version 17.0. The comparative result is from using *Principal Component Analysis* (PCA) in Factor Analysis and the result will delineated into three cluster namely religious obligation, level awareness, and social influence. The main objectives of this study are to determine the relationship between religious obligation, level awareness, and social influences of AITAB among peoples in Shah Alam. Overall, the finding revealed that customers have generally positive views of selection factor. One of the most important factor was religious obligation that shown as important criteria in choosing AITAB facility.

**Keywords:** AITAB, Shah Alam, Islamic Banking, Factor Influences

#### 1. INTRODUCTION

Islamic banking system has emerged as competitive and a viable substitute for the conventional banking system during the last three decades. Islamic banking refers to a system of banking that complies with Islamic law and also known as Shariah law. The core principles that govern Islamic banking are mutual risk and profit sharing between parties, the guarantee of fairness based on an underlying business activity or asset. Activities that involve interest (riba), gambling (maisir) and speculative trading (gharar) are prohibited.

Conventional banking is essentially based on the debtor-creditor relationship between the depositors and the bank on one hand, and between the borrowers and the bank on the other. Interest is considered to be the price of credit, reflecting the opportunity cost of money. Islamic law considers a loan to be given or taken, free of charge, to meet any contingency. Thus in Islamic banking, the creditor should not take advantage of the borrower. When money is lent out based on interest, more often that it leads to some kind of injustice.

The first Islamic bank in Malaysia was established in 1983. In Malaysia, the roots of Islamic banking go back to 1963 when the government established Tabung Haji or Pilgrims Management and Fund Board. Currently, Malaysia has a significant number of full-fledged Islamic banks

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including several conventional institutions who have established Islamic subsidiaries. It is because the response from the consumers towards Islamic products has given an impact to the conventional banking services. In fact, the Islamic banking products are well accepted by the non-muslims too.

The growth of Islamic banking system in Malaysia has enhanced to an introduction of Islamic financial innovations. There was various Islamic finance products produced in Islamic bank such as Al-Ijarah (leasing), Al-Mudharabah (profit sharing), Al-Musharakah (partnership), financial institutions that have a great deal of flexibility, creativity and choice in the creation of Islamic finance products. In this research, researcher only limited to study Al-Ijarah and focusing at Al-Ijarah Thumma Al-Bay (AITAB) facility.

Bank Islam initiated the earliest operation of AITAB in Malaysia. AITAB is one of the latest innovative products of Al-Ijarah in Islamic banks, which designed to meet the current demand and avoid certain risks in the financing of consumer durables and motor vehicles. Since its first inception more than 10 years ago, AITAB has increasingly grown in popularity and continuously expanded partly due to the heightened demand by customers (N. Irwani & Asyraf, 2006). AITAB is considered as one of the Islamic banking products, which adds the Islamic banking financial menus to serve bank customers better. AITAB facility is of value to practitioners in order to increase the sales of Islamic financing products in addition to their efforts to elevate the customer base.

#### 2. BACKGROUND OF STUDY

Islamic leasing (Al-Ijarah) growing fast today and many bank used Al-Ijarah as one of their product for its customers. Prior studies on Al-Ijarah widely investigated in term of economics, legal and financial aspects, accounting, customers' perception and comparison or similarities Al-Ijarah with conventional leasing. However, no study has been carried out to investigate the factor that influenced customer to choose Al-Ijarah in Shah Alam, Selangor. This paper essentially analyzed the factor considered by customer in choosing Al-Ijarah. Al-Ijarah was popularly recognized as Al-Ijarah Thumma Al-Bay (AITAB). In this time, the researcher focuses on AITAB and the sample on customers, which had experienced to used Al-Ijarah or Islamic car financing.

#### 3. PROBLEM STATEMENT

Al-Ijarah in Malaysia has been grown rapidly especially in AITAB transaction. Since its growing faster nowadays, it showed that the Islamic products had a big potential than conventional products. Therefore, this study attempted to investigate the factor that contributes to the fast growing of AITAB from customers in Shah Alam, Selangor. There was increased customer who had buy motor vehicles by using AITAB transaction, but we do not know what factor influencing them to choose AITAB. From this research, we want to determined factor of religious obligation, level of awareness, social influence towards choosing of AITAB.

## 4. OBJECTIVES OF THE STUDY

In general these research objectives are to determine the relationship between the acceptances of AITAB among customers with the religious obligation, the level of awareness, and the social influence.

The research focuses are:-

- I. To determine the relationship between the acceptances of AITAB among customers with the religious obligation.
- II. To determine the relationship between the acceptances of AITAB among customers with the level of awareness.
- III. To determine the relationship between the acceptances of AITAB among customers with the social influence.

## 5. SIGNIFICANT OF STUDY

Al-Ijarah is one of important Islamic products especially for Islamic banking sector that can contribute into Malaysian economic growth. Therefore, researcher hope from this finding of this research it can improve the development in Islamic banking system not only in fully-fledged Islamic banking institution but also in conventional financial institution with Islamic windows.

#### 6. HYPOTHESIS

A hypothesis can be defined as a tentative, yet testable, statement, which predicts what you expect to find in your empirical data. Along this line, hypothesis can be defined as a logically conjectured relationship between two or more variables expressed in the form of testable statement (Sekaran & Bougie, 2003). A null hypothesis ( $H_0$ ) is a hypothesis set up to be rejected in order to support an alternate hypothesis. Alternate hypothesis ( $H_a$ ) is the opposite of null hypothesis (Sekaran & Bougie, 2010). In this research, it is important to test whether Islamic leasing/Al-Ijarah have significant relationship with religion obligation, level awareness and social influence. Therefore, this study attempts to test the following hypotheses:

- I. H<sub>O</sub>: There is no significant relationship between the acceptances of AITAB among customers with the religious obligation.
  - $H_a$ : There is significant relationship between the acceptances of AITAB among customers with the religious obligation.
- II. H<sub>o</sub>: There is no significant relationship between the acceptances of AITAB among customers with the level awareness.
  - H<sub>a</sub>: There is significant relationship between the acceptances of AITAB among customers with the level awareness.
- III. H<sub>0</sub>: There is no significant relationship between the acceptances of AITAB among customers with the social influence.

H<sub>a</sub>: There is significant relationship between the acceptances of AITAB among customers with the social influence.

#### 7. LIMITATIONS

The researcher faced difficulty to search information to do the analysis in order to obtain data collection and information because questionnaire distributed only to customers who had experienced to used AITAB facility or Islamic car facilities offering in Shah Alam, Selangor. It is because we want to look how customers in Shah Alam perception compares with previous studied. Besides, this research is only concentrate in area of Shah Alam. Thus, the information gathered will be slightly different if the researcher does the same research in the other places. People have different background of knowledge and educational level, so their pattern of gathering the information about AITAB would be different from one and the other.

When some of the respondents reluctant to give collaboration to the researcher, it contribute to limitation of cooperation. The progress of the research become slowly and difficulty when some of respondents refuse to give collaboration to answer the questionnaire that given to respondents. Thus, because of that situation the researcher required more time in order to get respond from the respondents chosen.

#### 8. LITERATURE REVIEW

#### 8.1 Overview of Al-Ijarah (IATAB)

Al-Ijarah Thumma Al-Bay (AITAB) is a type of lease contract, in which the legal title of the leased asset will be passed to the hirer at the end or at the end of the rental period when hirer purchase the asset. The asset comprises of machinery, equipment, software and hardware or motor vehicles which are non-hire purchase act goods. Islamic hire purchase had many activities involved such as trade, commerce, industry, agriculture and fish cries, housing and personal advances. In fact, it had been known as a popular technique of financing among some Islamic banks, such as the Islamic Development Bank, Bank Islam Malaysia Berhad, Tabung Haji, and commercial banks in Pakistan (Ahmad, 1995). Besides, Al-Ijarah expand in the world of Islamic banking and finance, though its full potential for financing long-term business assets that be supposed to be look into (Vogel & Hayes, 1998).

According to Seif. I and N. Irwani, (2007), Al-Ijarah contract became one of the most popular financing modes in Malaysia because the fact that only few people can afford to buy house, land or vehicle on cash basis. In Malaysia, Islamic financial institution had introduced vehicle financing as one of the main popular properties based on Al-Ijarah Thumma al-Bay (AITAB) concept due to customer's demand. Almost all banks provide AITAB for vehicles as one of their product financing except Bank Pembangunan and HSBC that provide AITAB for financing of machinery and industrial goods (N. Irwani & Ashraf, 2006).

# 8.2 Religious Obligation

In definition, religious obligation refers to the role of religion in affecting one's choices and activities (Hanudin et al, 2011). There was few studies which initiated the idea that religious obligation were the most factor influences customer chooses Islamic products or services such as AITAB. For instance, according to Sulaiman (2003), the Islamic differences worldview based on

Shariah can influences Islamic society. An Islamic principles, values and goals have to be obeyed by Islamic bank when offering Islamic personal financing. This can help bank to make decision to find Islamic personal financing and influences individual to use Islamic personal financing. Besides, Hanudin (2010) found that adherence to Syariah were found to be a key factor to explain why bank customers choose AITAB facility.

Based on Metwally (1996), religion was the most important factor in figuring attitudes of Muslims towards Islamic banks followed by convenience and traditional services. Further, in 1998, a study was conducted by Metawa and Almossawi on the Bahrain customer's perception and they found the most religion was significance factor to influence customer to use of Islamic bank services than followed by profitability.

A study by Haron, S., Ahmad, N. and Planisek, S., on Bank Patronage Factors of Muslim and Non-Muslim Customers (1994), in a small town at Kedah and Perlis with a Muslim dominant population discovered that, only about 63 percent of the Muslims can understand the distinguish of Islamic bank and conventional banks, while only 39 percent of the Muslims respondents believe that religion is the only reason why people supported the Islamic bank. A parallel circumstances occurred in Singapore, where only 22.6 percent of Muslims deposit money in Islamic banks solely because of religion (Gerrard, Cunningham & J. Barton, 1997).

However, there was studied that stated religious obligation factor not influence customer for using Islamic personal financing. For example, Hanudin et al, (2011) had investigated of customers of two fully fledged Islamic banks in Malaysia: Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad and stated that attitude, social influence and pricing of Islamic personal financing was the most important factor in influencing the intention to use Islamic personal financing than religious obligation. This generally consistent with findings elsewhere in the literature stated that religious factor is an insignificant effect in selecting Islamic banks' services in Jordan. In fact there are some other factors which are influencing the decision criteria of the customers that is the level of profitability (Erol & El-Bdour, 1989).

#### 8.3 Level Awareness

Self-awareness means a capacity to perceive the self in relatively objective terms whilst maintaining a sense of subjectivity (Prigatano & Schacter, 1991). Clearly, it is an ability of someone to understand the nature of impairment and appreciate its implications. Malaysian Muslims' awareness of the Islamic banking products and services were high compared to non-Muslim customers (Muslim & Zaidi, 2008). This particular study was found that most of Islamic banking customers were satisfied with overall service quality perceived by their bank. As Islamic products and services enter in the markets, attitudes, perceptions and knowledge is important consideration in other to introduce new method (Gait & Worthington, 2008).

From studied of N. Irwani and Ashraf in (2006) on a critical appraisal of AITAB operation: issues and prospects, stated that AITAB had potential for promising future prospect due to increase of Islamic awareness among Malaysian public towards AITAB which offers competitive services with and attractive features. Besides, both bankers and customers had confidence to engage with AITAB since it had legal protection provided by the Hire Purchases Act 1967. They attempt to address some challenges and prospects of implementing AITAB in Malaysia and viewed in future prospect in four aspects which are strong public acceptance, competitiveness, legal protection and proposed Shariah law of AITAB. They stated that customer who accept and understands operation AITAB will come to institution because they know the benefits that being offer, for example full margin of financing and lower penalty for late payment. Therefore, researcher

concluded that Bank Negara Malaysia (central bank) and banking industries have to make strategy to enhanced AITAB facility by increasing public understanding and awareness in the product.

Similar researcher by N. Irwani and Ashraf in (2006) but difference in topic study, that was regarding of customers' perception of Islamic hire purchase facility in Malaysia found out that 61 percent customer knowledge and aware about AITAB from various sources such as advertisements, banks' prospectus, conferences and seminars. Surprisingly, they discovered that customer's unaware that actually the used AITAB through car financing schemes provided by Islamic banking scheme.

In UK, Omer (1992) tested 300 Muslim on their patronage factors and awareness of Islamic financing methods and found that there was a high level of ignorance of Islamic finance principle among Muslims in the UK. Although UK muslims not aware about Islamic financing methods, but religious motivation comprised the most significant factor in their strong preference for Islamic banking services.

One of the contributing factors to this absence of awareness among Muslims is the lack of understanding of Islamic banking. A study conducted in Pakistan showed that customer's awareness level towards Islamic banking products is good in some of the general products such as current accounts, time deposit account. But most of the customers are unaware of the different Islamic financial products such as Murabahah, Ijarah. They concluded that Islamic banking industry have to give consideration to providing awareness to their customers (Khattak & Rehman, 2010).

A study was conducted by Muslim and Zaidi, (2008) showed that a good understanding of the terms in term of product and services offered by Islamic bank. The result shows that 84 percent know the meaning of Riba and 75 percent know the meaning of Mudharabah, 61 percent know the meaning Murabahah and Ijarah was 64 percent are generally understood. Meanwhile, Naser, Jamal and Al-Katib, (1999) reported that Jordan's customer more aware of Islamic terminology such as Murabahah, Mudharabah, Musharakah and Ijarah but unfortunately most of customers not using it at Islamic banking. This study also showed that only 47 percent of customer unaware of Ijarah. In general, most of the customers were aware about fundamental products of Islamic banks but have no knowledge about the complex Islamic financial system (Metawa & Almossawi, 1998).

N.irwani and Ashraf, (2006) that conducted a study on a critical appraisal of Al- Ijarah Thumma al- Bay (AITAB) operation on issues and prospect determined customers had lack awareness because of lack understanding or knowledge among the dealers. For example, customer's choice between conventional and Islamic financing facility depends mostly on the dealer's explanation and recommendation. However, not all dealers able to educate customer and in reality, dealer even tend to suggest customer using conventional facility either they lack knowledge of AITAB or truly not want their customers expose with Islamic financing facility.

#### 8.4 Social Influence

Many of previous studies referred social influence as subjective norms. Subjective norm refers to the individual's view regarding probability of the potential referent group or individuals to engage or not in a behavior. Almost every day of one's individual will influence by opinions, deeds and advices of other peoples (Fishbein & Ajzen, 1975). Md. Taib, Ramayah and Razak, (2008) found that postgraduate students was influential by subjective norm in behavioral intention

to engage on Islamic home financing. Similarly, Hanudin and Rosita (2011) concluded that subjective norm had relationship with determinants of individual's intention to use ar-Rahnu. The researcher stated that friends, family members and teachers could be the agents to impacting individual's reaction pertaining to Islamic pawnshop use.

While, Zarehan, and Nahariah, (2011) found that there is a relationship between management and external computing support on IT usage. Management support able to influence Malaysia bankers to ensure sufficient allocation of resource and extent of IT usage. Hanudin et al, (2011) also found that social influence was a key determinant of the intention to use Islamic personal financing after attitude. Besides, previous study conducted by Hanudin in 2010, which the topic is about AITAB facility in Labuan market indicate that financial counseling available and car dealer relationship were found to be significant relationship in choosing AITAB. Social information processing theory (Salancik & Pfeffer, 1978) addressed mechanism by which peers influence individuals' behavior and attitudes to behave. It point out that social environment plays a role in shaping an individual's behavior by focusing his or her attention on certain circumstances.

In contrast, some of the previous studies have reported insignificant social influence or subjective norm toward behavior intention however it depend on the scope of study. For example, Lewis, Agarwal and Sambamurthy, (2003) found that subjective norm had no a direct impact on intention to use information technology. Furthermore another point of critique regarding social influence was found in 2009 by Eckhardt and Andreas. They studied of subjective norm in information system top journal over two decades and found that subjective norm was significant negative impact.

# 8.5 Summary of Literature Review

As showed in **Table 1.1**, the patronage studies largely focus on religious obligation, level awareness and social influence. Therefore, this study will contribute further knowledge about factor that influence customer to choose AITAB by select those variables stated above that had being used by other researcher.

Table 1.1: The Patronage Studies on Factor Influenced Customers to Choose Al-Ijarah

Factor that influenced to Choose AITAB				
Literature	A	В	C	D
Ahmad (1995)	n/a	n/a	n/a	+
Vogel & Hayes (1998)	n/a	n/a	n/a	+
Seif. I & N. Irwani (2007)	n/a	n/a	n/a	+
N.Irwani & Ashraf (2006)'	n/a	+/-	n/a	+
Hanudin et al. (2011)	-	n/a	+	n/a
Hanudin (2010)	+	n/a	+	+
Sulaiman (2003)	+	n/a	n/a	n/a
Metwally (1996)	+	n/a	n/a	n/a
Metawwa & Almossawi (1998)	+	+/-	n/a	n/a
Haron et al. (1994)	+	n/a	n/a	n/a
Gerrard & Cunningham (1997)	+	n/a	n/a	n/a
Erol & El-bdour (1989)	-	n/a	n/a	n/a

Prigatano & Schacter (1991)	n/a	+	n/a	n/a
Muslim & Zaidi (2008)	+	+	n/a	n/a
Gait & Worthington (2008)	n/a	+	n/a	n/a
N.Irwani & Ashraf (2006) <sup>2</sup>	n/a	+/-	n/a	+
Omer (1992)	+	-	n/a	n/a
Khattak & Rehman (2010)	n/a	+/-	n/a	n/a
Naser et al. (1999)	n/a	+	n/a	n/a
Fishbein & Ajzen (1975)	n/a	n/a	+	n/a
Md Taib et al. (2008)	n/a	n/a	+	n/a
Hanudin & Rosita (2011)	n/a	n/a	+	n/a
Zaheran & Nahariah (2011)	n/a	n/a	+	n/a
Salancik & Pfeffer (1978)	n/a	n/a	+	n/a
Lewis, et al. (2003)	n/a	n/a	-	n/a
Eckhardt and Andreas (2009)	n/a	n/a	-	n/a

Noted: + indicate positive and important results, +/- indicate equivocal results, - indicates negative and no significant result, and n/a indicates variables was not investigated/examined in the study.

A: Religious Obligation

B: Level Awareness

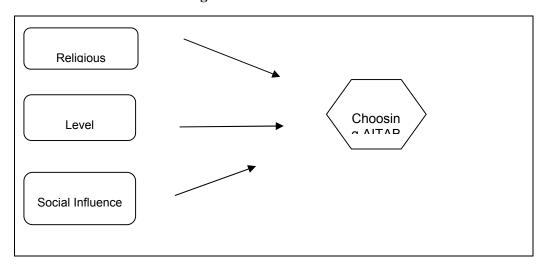
C: Social Influence

D: Al-Ijarah (AITAB)

## **8.6** Theoretical Framework

Figure 3.1 above is a theoretical framework based on two types of variables which are Independent Variables and Dependent Variable. The Independent Variables consist of level of awareness, religious obligation and social influence. The Dependent Variable consists influences of consumer in choosing AITAB.

Figure 1.1: Theoretical Framework



### 9. DATA COLLECTION METHOD

In this research, the researcher used the set of questionnaire, which distribute to all customers who had experience of using the AITAB facility. A total of 150 questionnaires were distributed to individuals having experienced of the AITAB facility in area of Shah Alam, Selangor. Certain potential groups of people were identified based on their experience of using the AITAB facility. The identified groups consisted of people in selected banks, people in street or residential area, Selangor's government staff, university lecturers and driving schools. The respondents in each of the identified groups were selected based on convenient sampling.

In conducted the survey, the potential respondents were politely approached, and were asked whether they have ever signed up for an Islamic car financing. A brief explanation was given with respect to the objectives of the survey and the contribution they would make by participating in the survey. Once they had agreed to participate, the researcher then handed over the designated questionnaire to the participating respondent alone to answer the questionnaire and did not interfere in any way, to avoid potential bias such as the respondents feeling panicky, threatened or being influenced by the researcher. Once completed, the respondent then returned the questionnaire to the researcher. This approach is similar with studies of customers' perception of Islamic Hire purchase facility in Malaysia conducted by N. Irwani and Ashraf (2006).

The questionnaires will distributed in one month period which is on November 2012, during various working hours and various days of week except in Friday as respected "Jumaat" prayer time. The process of data collection continued for one month. The questionnaire was dividing into three sections. The first section consists of demographic data, which focuses on the respondent background while second section consists of the measurement of three independent variables that were religious obligation, level awareness and social influence and last section consists the questions of dependent variables. The questionnaire was written in both the Malay and English languages. To measure the respondents' perceptions, the study used the five-point likert type ranking scales from "1"- strongly disagree to "5"- strongly agree. From a total of 150 questionnaires distributed, 140 were returned. This response was considered large enough and sufficient for statistical reliability and generalization. **Table 1.2** depicts the response rate of different groups of respondents.

Table: 1.2 Respondent, Distribution of Questionnaires

No.	Desmondants	Number of	Number of
	Respondents	Issued	Returned
	People in selected banks		
	(Automobile Islamic Maybank,		
1	Maybank Islamic)	50	43
	People in street or residential		
2	(Shopping complex, town street)	30	30
	Selangor's government staff		
3	(Lembaga Zakat Selangor)	50	47
	University lecturers		
	(Universiti Teknologi Mara, Shah		
4	Alam)	10	10

	Driving schools				
	(Institute Mandu	Cekap	Hi-Tech		
5	Sdn Bhd)			10	10
Total				150	140

From the **Table 1.2**, it is observed that people in selected bank and Selangor's government staff have the highest response of 50 peoples for each group to the questionnaires. Both of the bank that selected, mostly had customers who had bought a car by using Islamic personal financing. Most of them were either waiting for their turn at the counter, or were simply accompanying their friends or relatives to the bank. Besides, the staffs who work at the bank also being ask whether they had used, AITAB scheme or not. However, total seven questionnaires not returned from them because there were some respondents not give participation and went back without return back the questionnaires and there were also some staff who missing the questionnaires. Besides, Selangor's government staff in Lembaga Zakat Selangor had been choosen to fill questionnaires because the obvious reason was that they were entitled to special government schemes of owning a private car, which was jointly provided by government and one of the Islamic banks. At there, three questionnaires were not return back by staff.

Apart from the above respondents, questionnaires were also distributed in the street or residential area such as shopping complexes and town streets. Response rate was relatively low (30 respondents) which not surprising due the fact that most of the peoples on the street were in a hurry and less likely to cooperate to the survey. Finally, only ten respondents response was obtained from university lecturer and driving school. Most of the lecturers were busy to their work and rushing to go to the class. In driving school, from researcher's observation, their tiring work environment in which they are constantly exposed to hot and wet weather and having to deal with various attitudes of driving students made them less cooperative.

# 9.1 Method Analysis

In analyzing the collected data, statistical Package for Social Science (SPSS), version 17 will be used to make the evaluation more accurate and appropriate. For this study, the researcher will use Reliability analysis to study the properties measurement scales and the items that compose the scales. It calculates a number of commonly used measures of scale reliability and also provides information about relationship between individual items in the scale. "Cronbach's Alpha" will be use in this study to find out internally consistency reliability of the study by measuring all variables into the data. Other than that, the Factor Analysis will be tested. Factor analysis is a statistical method used to describe variability among observed variables in terms of fewer unobserved variables called factors. (Nor'Azurah, Nurul Haida & Wan Asma, 2006). This statistical tool stated the method, which can assist the researcher to reduce large number of items to some smaller number by showing which variables belong mutually and which seem to show the same thing. The analysis is also important in confirming the construct validity of the scales using the principal component analysis (Emory & Cooper, 1991). Kaiser-Meyer-Olkin (KMO) in factor analysis will explained adequacy test whether the partial correlations among variables are small. Bartlett's test of sphericity tests whether the correlation matrix is an identity matrix, which would indicate that the factor model is inappropriate. Factor Analysis conducted to find the most variables or most factor that influenced customers to choose AITAB. Next after that the analysis will used Kruskall Wallis Test. It is a non-parametric method for oneway analysis of variance used to determine if three or more samples originate from the same distribution. The Kruskal-Wallis test essentially a standard one-way analysis of variance, with ranks assigned to the data points replacing the data points themselves. It conducted in the hypothesis test to assess any significant relationship between independent and dependent variables by the different groups involved in this survey. These non-parametric tests are appropriate when measurements of the variables under investigation are in ordinal scale. Using this method, we can determine the relationship strength between the independent and dependent variables. Significance values that lower than 0.05 (p < 0.05) means, that null hypothesis is rejected and alternative hypothesis accepted.

#### 10. FINDING AND ANALYSIS

## 10.1 Reliability

The reliability of a measure is established by testing for both consistency and stability. Cronbach's alpha is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. Cronbach's alpha is computed in terms of the average intercorrelations among the items measuring the concept. The findings of reliability test shows as follow by **Table 1.3.** This table show Cronbach's Alpha for the overall scale question is equal to 0.957. It means that 95.7% from 35 questions developed regarding factor influenced customers to choose AITAB are acceptable. Thus, the internal consistency reliability of the measure used in this study can be considered to be excellent. SPSS also found out Cronbach's Alpha based on standardized items that is equal to 0.959. Thus, it means that, 95.9% from questions had internally consistent reliable variance. Basically, the different between both are the first Cronbach's Alpha employ covariances among the items and not based on standardized items whereas second Cronbach's alpha based on standardized items employs the correlation among items and it based on assumption that all the items have equal variances which often false in practice.

**Table 1.3: Reliability Analysis** 

Cronbach's Alpha	Cronbach's Alpha Standardized Items	Based	on	N of Items
0.957	0.959			35

# 10.2 Frequencies Distribution

A set of data organized by summarizing the number of times a particular value of variable occurs. It will measure information of the respondents answer from the questionnaire. Frequencies distribution is useful to summarizes respondent's background on some basic statistics consist of eight questions of personal information, which is the question that asked about the gender, age, race, religion, education, employment, and monthly income of respondents.

**Table 1.4: Distribution of Respondents** 

			Per cent
		Frequency	%
Gender	Male	73	52.1
	Female	67	47.9
Marital			
Status	Single	59	42.1
	Married	78	55.7
	Divorced	3	2.1

1	30 years and		
Age	below	63	45
	31-40 years	38	27.1
	41-50 years	22	15.7
	51 years and		
	above	17	12.1
Race	Malay	129	92.1
	Chinese	4	2.9
	Indian	7	5
Religion	eligion Muslim		92.1
	Christian	4	2.9
	Buddhist	5	3.6
	Others	2	1.4
	Secondary or		
Education	lower	40	28.6
	Diploma or STPM	42	30
	Bachelor	48	34.3
	Master or PHD	10	7.1
Employment	Government	37	26.4
	Private Company	69	49.3
	Self-Employment	20	14.3
	Others	14	10
Monthly			
Income	Below RM 2000	51	36.4
	RM2001-RM3000	33	23.6
	RM3001-RM4000	29	20.7
	RM4000 above	25	17.9
	Missing (no		
	response)	2	1.4

As can be seen in **Table 1.4**, the sampled respondents comprised 52.1% male and 47.9% females, and at the time of survey, 78% of the respondents were married. The majority respondents' age were 30 years below (45.0%), followed by the range between 31-40 years (27.1%), 41-50 years (15.7%), and above 51 years (12.1%). In terms of races, most of the respondents were Malay and Muslims (Islam). There were also non-Muslim who had using Islamic loan, which were Indian (5%) and followed by Chinese (2.9%) which profess Buddhist, Christian, and others religion. The majority of the respondents had Bachelor level in their education level (34.3%) followed by Diploma or STPM (30.0%), secondary or lower (28.6%) and the lowest was Master or PHD (7.1%). Most of respondents who had bought a car by using Islamic loan in Shah Alam were private company employees (49.3%) while the rest were government, self-employment and others. Lastly, the results reported in **Table 1.4** also indicated that most of the respondents were in the below RM2000 (36.4%) monthly income group. Meanwhile, 23.6% of the survey respondents earned RM2001-RM3000, followed by RM3001-RM4000 (20.7%) and above RM4000 was 17.9%.

# 10.3 Ranking (mean)

In this study, the researcher use "mean" to identify the major factor influenced customers to choose AITAB among respondents. The "mean" useful to measure central tendency that offers a general picture of the data without unnecessarily inundating one with each of the observation in a data set.

**Table 1.5: Statistics for Religious Obligation** 

The The Television of Telegraphic	N			
Variables	Valid	Missing	Mean	Ranking
Aitab is in line with an Islamic Philosophy	140	0	3.75	4
of doing banking business				
Aitab is based on Islamic principle business implementation	140	0	3.85	2
An introduction of aitab is based on al- Quran and Hadith	140	0	3.66	7
AITAB is free from riba/interest	140	0	3.57	9
AITAB is free from fraud	134	6	3.6	8
I choose AITAB because of my religious understanding	140	0	3.74	5
I choose AITAB because of my religious belief	140	0	3.86	1
I choose AITAB because it is according to Shariah guidelines	140	0	3.74	5
I choose AITAB because my adherence toward religious	140	0	3.8	2
I choose AITAB as financing method for the last resort	140	0	3.01	10

**Table 1.5** shows the rank of the variables by the mean factor. The highest mean is 3.86 for question seven, in which respondents viewed that they choose AITAB because of their religious belief. The lowest mean is 3.01 for question ten, indicates there were lowest respondents to choose AITAB as financing method for the last resort. The result for question ten is consistent with the result of N. Irwani & Ashraf. W (2006) that indicated small minority and the lowest mean who agree with the statement.

**Table 1.6: Statistics for Level Awareness** 

	N			
Variables	Valid	Missing	Mean	Ranking
Before this, I was aware about AITAB	130	10	3.12	8
scheme Previously, I already know and understand	140	0	3.06	10
about AITAB scheme	110		2.00	10
AITAB is a good alternative to acquire asset	140	0	3.54	5
AITAB offering good pricing quality	140	0	3.54	5
AITAB is different from conventional hire	139	1	3.73	3
purchase				

AITAB is one of the best Islamic banking products	140	0	3.76	1
I always saw AITAB promotion in mass media	140	0	3.11	9
I choose AITAB because of the charged	140	0	3.46	7
impose are lower that conventional hire purchase				
I choose AITAB because it more safety	140	0	3.64	4
Overall, AITAB had very good promising	140	0	3.76	1
future prospect				

**Table 1.6** shows the rank of the variables by the mean factor. There were two questions had the highest mean which is 3.76 for question six and ten, in which respondents viewed that AITAB is one of the best Islamic banking products and overall, AITAB had very good promising future prospect. The lowest mean is 3.06 for question two, indicates there were lowest respondents in previously, already know and understand about AITAB scheme.

**Table 1.7: Statistics for Social Influence** 

	N			
Variables	Valid	Missing	Mean	Ranking
Most people who are close to me think that I have to choose AITAB	140	0	3.3	5
It is expected by others that I should choose Islamic personal financing	140	0	3.52	1
Most people who are important to me think that AITAB is useful	140	0	3.39	4
Most people who are important to me think that AITAB is beneficial	140	0	3.45	2
Most people are assume me familiar with the need of Shariah	140	0	3.45	2
I choose AITAB because of influenced by car dealer	140	0	3.09	7
I choose AITAB because the bank choose it	140	0	3.06	8
I choose AITAB because of influenced by my family	140	0	2.79	9
I choose AITAB because of influenced by my friends	140	0	2.79	9
I choose AITAB because of influenced by my company decision to take only Islamic loan scheme	140	0	3.21	6

**Table 1.7** shows the rank of the variables by the mean factor. The highest mean is 3.52 for question two, in which respondents viewed that it was expected by others that they should choose Islamic personal finanacing. There were two questions had the lowest mean which is 2.79 for question eight and nine, indicates that only minority of the respondents were influenced by their family and friends to choose AITAB.

**Table 1.8: Statistics for Choosing AITAB** 

Variables	N		Maan	Daulsin a
Variables	Valid	Missing	Mean	Ranking
I am interested to use Islamic hire purchase (AITAB)	140	0	3.69	1
I am interested to use Islamic hire purchase (AITAB) in the future	140	0	3.09	4
I will use Islamic hire purchase (AITAB) someday	140	0	3.12	3
I like to use Islamic personal financing	140	0	3.50	2
I will definitely recommend Islamic hire purchase (AITAB) to others	140	0	3.06	5

**Table 1.8** shows the rank of the variables by the mean factor. The highest mean is 3.69 for question one, in which respondents viewed that they were interested to use Islamic hire purchase (AITAB). The lowest mean is 3.06 for question five, indicates they were lowest respondents agree to definitely recommend Islamic hire purchase (AITAB) to others.

# 10.4 Factor Analysis

Table 1.9: Rotated Component Matrix<sup>a</sup> on Factor Selection AITAB

Factor				
Variable	1 Religious Obligation	2 Level Awareness	3 Social Influence	Communality of Each Variable
S7			.843	.712
R1	.830			.787
R3	.828			.774
<b>R7</b>	.825			.781
R2	.822			.781
R6	.817			.730
R9	.807			.741
S9			.803	.717
S3	.801			.731
R8	.798			.777
S8			.795	.713
S6			.769	.601
S4	.754			.732
L4		.748		.623

R4	.744			.692
R5	.727			.580
L7		.706		.604
S2	.704			.598
L3		.693		.698
S10			.691	.541
S5	.680			.660
L2		.679		.569
L1		.678		.548
S1	.676			.617
L6	.541	.667		.738
L10		.660		.626
L9		.657		.653
L5		.638		.625
L8		.593		.576
R10				.166
Eigenvalue	14.213	3.365	2.111	
% of Variance	47.376	11.218	7.037	
Cumulative%				
	47.376	58.594	65.631	

Extraction method: Principal Component Analysis, Rotate Method: Varimax with Kaiser Normalization

Table 1.10: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy901				
Bartlett's	Test	of Approx. Chi-Square	3679.991	
Sphericity		df	435	
		Sig.	.000	

## Variables:

- **R1** AITAB is in line with an Islamic philosophy of doing banking business
- **R2** AITAB is based on Islamic principle business implementation
- R3 An introduction of AITAB is based on al-Quran and Hadith
- **R4** AITAB is free from riba/interest
- **R5** AITAB is free from fraud
- **R6** I choose AITAB because of my religious understanding
- R7 I choose AITAB because of my religious belief
- **R8** I choose AITAB because it is according to Shariah guidelines

- **R9** I choose AITAB because my adherence toward religious
- **R10** I choose AITAB as financing method for the last resort
- L1 Before this, I was aware about AITAB scheme
- L2 Previously, I already know and understand about AITAB scheme
- L3 AITAB is a good alternative to acquire asset
- L4 AITAB offering good pricing quality
- L5 AITAB is different from conventional hire purchase
- L6 AITAB is one of the best Islamic banking products
- L7 I always saw AITAB promotion in mass media
- L8 I choose AITAB because the charged impose are lower compared to conventional hire purchase
- L9 I choose AITAB because it more safety
- L10 Overall, AITAB had very good promising future prospect
- Most people who are close to me think that I have to choose AITAB
- S2 It is expected by others that I should choose Islamic personal financing
- Most people who are important to me think that AITAB is useful
- Most of people who are important to me think that AITAB is beneficial
- Most people are assume me familiar with the need of Shariah
- S6 I choose AITAB because of influenced by car dealer
- S7 I choose AITAB because the banks choose it
- S8 I choose AITAB because of influenced by my family
- S9 I choose AITAB because of influenced by my friends
- S10 I choose AITAB because of influenced by my company decision to take only Islamic loan scheme

**Table 1.9** shows the results for the factor analysis by used items in the questionnaire. The results reveal the presence of three factors with thirty (30) items of choosing AITAB facility. The eigenvalue for the three factors are 14.213, 3.365, and 2.111 respectively. These three factors explain a total of 65.63% of the variances. Specially, Factor 1 has fourteen (15) significant loadings, Factor 2 nine (10) significant loadings and Factor 3 has five (5) significant loading respectively. Factor analysis found three dimension which explains 65.63% variance, whereas maximum variance explained by Religious Obligation (R = 47.38%) followed by Level Awareness (L = 11.22%) and Social Influence (S = 7.04%).

The first factor (*Religious Obligation*) delineates a cluster of relationship attributes are 'AITAB is in line with an Islamic philosophy of doing banking business' (R1), 'An introduction of AITAB is based on al-Quran and Hadith' (R3), 'I choose AITAB because of my religious belief' (R7), 'AITAB is based on Islamic principle business implementation' (R2), 'I choose AITAB because of my religious understanding' (R6), 'I choose AITAB because my adherence toward religious' (R9), 'Most of people who are important to me think that AITAB is useful' (S3), 'I choose AITAB because it is according to Shariah guidelines' (R8), 'Most of people who are important to me think that AITAB is beneficial' (S4), 'AITAB is free from riba/interest' (R4), 'AITAB is free from fraud' (R5), 'It is expected by others that I should choose Islamic personal financing' (S2), 'Most people are assume me familiar with the need of Shariah' (S5), 'Most people who are close to me think that I have to choose AITAB' (S1), and 'AITAB is one of the best Islamic banking products' (L6). The nature of the highly loaded variable on this factor suggests that it can be named "Religious Obligation" contributes 47.38% of the factor that influenced customers to choose AITAB. Since Factor 1 has the highest eigenvalue and variance (eigenvalue = 14.213, variance = 47.376%), it necessary the most important factor that has influenced customers to choose AITAB.

Turning to an interpretation of independent dimensions based on the varimax rotated matrix as given in **Table 1.9**, one can see that the first factor (Level Awareness) delineates a cluster of relationship amongst the following attributes are 'AITAB is offering good pricing quality' (L4), 'I always saw AITAB promotion in mass media' (L7), 'AITAB is a good alternative to acquire asset' (L3), 'Previously, I already know and understand about AITAB scheme' (L2), 'Before this, I was aware about AITAB scheme' (L1), 'AITAB is one of the best Islamic banking products' (L6), 'Overall, AITAB had very good promising future prospect' (L10), 'I choose AITAB because it more safety' (L9), 'AITAB is different from conventional hire purchase' (L5), and 'I choose AITAB because the charged impose are lower compared to conventional hire purchase' (L8). The nature of the second higher loaded variable on this factor suggest that it can be named "Level Awareness" contributes 11.22% of the factor influenced customers to choose AITAB and has the second higher eigenvalue and variance, (eigenvalues = 3.365, variance = 11.218%).

The third factor (Social Influence) delineates a cluster of relationship attributes are 'I choose AITAB because the bank choose it' (S7), 'I choose AITAB because of influenced by my friends' (S9), 'I choose AITAB because of influenced by my family' (S8), 'I choose AITAB because of influenced by car dealer' (S6), and 'I choose AITAB because of influenced by my company decision to take only Islamic loan scheme' (S10). The nature of the third loaded variable and contributes the most less of factor influenced customer to choose AITAB which around 7.04%. Since Factor 3 has the third eigenvalue and variance, (eigenvalue = 2.111%, variance = 7.037%).

In testing whether factor analysis was appropriate for the factor selection AITAB, KMO and Bartlett's Test of Sphericity were conducted. The KMO measures the sampling adequacy which should be greater than 0.5 for a satisfactory factor analysis to proceed. Looking at the **Table 1.10**, the KMO measure is 0.901 which is above the acceptable level 0.5. From the same table, we can see that the Bartlett's test of sphericity is significant. That is, its associated probability is less than 0.05. The Bartlett Test of sphericity at 0.000, it means it is below the alpha value of 0.05, thus significant. Therefore, the validity of this study is considered to be **acceptable**. Based on this favourable results, factor analysis was conducted using Principal Component Analysis (PCA) and Varimax Rotation with Kaiser Normalization. The result of varimax rotated factors given in **Table 1.9** along with communality values of each variables, eigenvalues, percentage of explained variance.

### 10.5 Hypothesis Tests

## **Hypotheses 1:**

H<sub>0</sub>: There is no significant relationship between the acceptances of AITAB among customers with the religious obligation.

H<sub>a</sub>: There is significant relationship between the acceptances of AITAB among customers with the religious obligation.

Table 1.11: K-W Test Result Comparing the Mean Ranks of Relationship between Religious Obligation with Choosing AITAB

Degree of Influence	Value	Total (%)	N	Mean Rank	Chi- Square X <sup>2</sup>	Asymp. Sig. (p)
<b>Strongly Agree</b>	5	32.14	45	91.68	$X^2 =$	.000
Agree	4	35.00	49	66.90	23.287	.000

Disagree	2	7.14	10	63.90	
Strongly Disagree	1	2.86	4	49.88	
Neutral	3	22.86	32	50.88	
Total		100	140		
df	4				

The first hypothesis was used *Kruskall-Wallis Test*. **Table 1.11** shows that while there is significant relationship between the acceptances of AITAB among customers with the religious obligation ( $H_a$ ). The chi-square,  $X^2$  values for the variables is 23.287 at 0.05 confidence interval; 4 degree of freedom. The significance level (p = 0.000) for the 'Relationship between Religious Obligation with Choosing AITAB' is lower than 0.05 level, indicating the existence of variations between the variables. Hence, the alternative hypotheses should be accepted. That mean we reject the null hypothesis ( $H_0$ ) which there is no significant relationship between the acceptances of AITAB among customers with the religious obligation. From frequency results, the result show that majority customers have opted for religious obligation as a factor to choose AITAB. Hence, the alternate hypothesis is accepted, thus **null hypothesis is rejected.** 

# **Hypotheses 2:**

 $H_{\rm O}$ : There is no significant relationship between the acceptances of AITAB among customers with the level awareness.

H<sub>a</sub>: There is significant relationship between the acceptances of AITAB among customers with the level awareness.

Table 1.12: K-W Test Result Comparing the Mean Ranks of Relationship between Level Awareness with Choosing AITAB

Degree of Influence	Value	Total (%)	N	Mean Rank	Chi- Square X <sup>2</sup>	Asymp. Sig. (p)
<b>Strongly Agree</b>	5	13.08	17	95.44		
Agree	4	30.00	39	72.78		.000
Disagree	2	16.15	21	44.67		
Strongly Disagree	1	13.85	18	55.33	$X^2 =$ 22.383	
Neutral	3	26.92	35	60.57		
Total		100	130			
df	4					

**Table 1.12** shows that while there is significant relationship between the acceptances of AITAB among customers with the level awareness ( $H_a$ ). The chi-square,  $X^2$  values for the variables is 22.383 at 0.05 confidence interval; 4 degree of freedom. The significance level (p = 0.001) for the 'Relationship between Level Awareness with Choosing AITAB' is lower than 0.05 level,

indicating the existence of variations between the variables. Hence, the alternative hypotheses should be accepted. That mean we reject the null hypotheses  $(H_O)$  which there is no significant relationship between the acceptances of AITAB among customers with the level awareness. From frequency results, the result show that customers have opted for level awareness as a factor to choose AITAB after religious obligation.

Hence, the alternate hypothesis is accepted, thus **null hypothesis is rejected.** 

## **Hypotheses 3:**

H<sub>O</sub>: There is no significant relationship between the acceptances of AITAB among customers with the social influence.

H<sub>a</sub>: There is significant relationship between the acceptances of AITAB among customers with the social influence.

Table 4.12: K-W Test Result Comparing the Mean Ranks of Relationship between Social Influence with Choosing AITAB

Degree of Influence	Value	Total (%)	N	Mean Rank	Chi- Square X <sup>2</sup>	Asymp. Sig. (p)
Strongly Agree	5	17.14	24	87.58		
Agree	4	25.71	36	84.89		
Disagree	2	14.29	20	63.90		
Strongly Disagree	1	7.86	11	62.32	$X^2 = 17.318$	.002
Neutral	3	35.00	49	56.09		
Total		100	140			
Significant	0.001					

The third hypothesis was shows that while there is significant relationship between the acceptances of AITAB among customers with the social influence ( $H_a$ ). The chi-square,  $X^2$  values for the variables is 17.318 at 0.05 confidence interval; 4 degree of freedom. The significance level (p=0.002) for the 'Relationship between Social Influence with Choosing AITAB' is lower than 0.05 level, indicating the existence of variations between the variables. Hence, the alternative hypotheses should be accepted. That mean we reject the null hypothesis ( $H_0$ ) which there is no significant relationship between the acceptances of AITAB among customers with the social influence. From frequency results, the result show that customers have also opted for social influence as a factor to choose AITAB after religious obligation and level awareness.

Hence, the alternate hypothesis is accepted, thus **null hypothesis is rejected.** 

### 11. CONCLUSION

There is a general acceptance AITAB throughout the Islamic banking system in Shah Alam, and all the factors influenced customers have positive relationship with choosing AITAB. As the data are nonparametric so *Kruskall Wallis* test is calculated between independent variables and dependent variable and results shows that there is positive relationship between independent variables such as "*Religious Obligation*", "*Level Awareness*", and "*Social Influence*". From *Factor Analysis*, the results show that the religious obligation was the most important and most influential variables in choosing AITAB.

The result of the survey conducted among 150 AITAB customers reveal that a large majority of them are choose "Religious Obligation" as factor influenced to choose AITAB in Shah Alam. Shah Alam is a modern city with a unique identity of "Malay City" and most of the their residents were muslim. In line with this identity, Shah Alam was declared the first city in the world with no entertainment outlets to avoid any vice activities. Therefore, it shows that Shah Alam area had strong knowledge about religious views. Besides, the result also shows that 92.1% of the respondents fill the questionnaire were muslim. However, the findings are not consistent with previous studies (Hanudin et al, 2011) because the researcher found that religious obligation is not significant determinant of the intention to use Islamic personal financing. The reason because, the sample for the study were customers in the city of Labuan, East Malaysia that we know that area comprised many population of non-muslim.

The customers had choose religious obligation as reasons, but there are some other factors that motivate the customers for choosing AITAB such as "Level Awareness". This result proof that most of the respondents are highly educated because 36.3% of the respondents was from bachelor level education and 30.0% of the respondents from diploma and STPM level education that indicated the highest percentage among the others.

The results from in this study also indicated "Social Influence" had significant relationship with choosing AITAB facility. The findings are consistent with previous study (Taib et al., 2008 and Hanudin et al., 2011), for instance, the clients' attitudes and social influence are both found to be significant of the intention to use Islamic personal financing. From the questionnaire, many respondents agreed that most of the people that important for them think that AITAB is beneficial. Besides, most of them agreed that they choose Islamic personal financing because of influenced by company decision to take only Islamic scheme in other to get dividend.

As conclusion, there is a strong relationship between religious obligation, level awareness, and social influence in choosing AITAB. Hence, this show AITAB is declare as the best product of Islamic Banking. Furthermore, this will bring a better promising future in Islamic Banking.

## 12. RECOMMENDATION

From the conclusions of the study, the following recommendations can be reasonably forwarded for Islamic banks in Shah Alam. First, among the age categories, 30 years below was the most categories fill the questionnaires. Therefore, Islamic banks should target its marketing mix toward this category. Such a technique will ensure attraction of job market entering people towards Islamic bank products/service and also retention of the people who are likely to remain long-term loyal customers.

Second, religious principles remain at the heart of people's preference for choosing Islamic products. This indicates that the banks should remain highly dedicated to Islamic principles. Any

attempts to introduce any products/service (particularly the ones that have a fixed amount of profit upfront instead of a ratio of profit sharing) that may have substantial similarity with the traditional banking products/services should be thoroughly explained on the basis on Islamic principles and should be checked for customers' acceptance.

Third, Islamic banks should try to find out some ways to better familiarize its customers with the Islamic products. Even though, there was significant relationship level awareness with choosing AITAB, however, 34.3% and 33.6% choose "Neutral" that AITAB if free from riba/interest and free from fraud. The percentages indicated the highest percentage from five ranges of scale. It means, customers still confused about some information in Islamic products. Therefore, its better for Islamic banking advertise more information regarding Islamic products so that customers more aware.

Based on results and personal observations it is recommended that the Islamic banks in Shah Alam should increase its attentions towards social influence through car dealer, agent, staff and so forth. In this early period of Islamic banking, there is a need for experienced and shariah knowledgeable staff for developing products and in the banking operation region. There is a need to encourage Islamic banks to have their own Islamic banking training forum, which will enhance the staff quality.

Like other previous studies, this study also has its own limitations, which fall three categories. Firstly, this study only surveyed customers who had bought car by using Islamic personal financing and limited to (N=150) and therefore the sample size was 140, after made the screening work to the questionnaires. This would lead to further investigation by conducting similar studies with a large sample size to verify and extend the results of this research. Secondly, the study only conducted in area Shah Alam. The results may differ if the same study is conducted in other cities or town in the state or the country. Future research should work to compare the extent of AITAB financing facility in different or any other cities elsewhere in Malaysia. Lastly, the study examined only three factors which is religious obligation, level awareness and social influence and found that all factor had significant relationship for choosing AITAB. Future study should consider other potential factor such as "reward", "Islamic banks performance", "substitution effect between Islamic and non-Islamic financing products", and the "experience of Islamic personal financing bank customers.

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# ISSUES ON PERSONAL FINANCE: A STUDY ON FOREIGN MUSLIM STUDENTS OF THE INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA (IIUM)

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#### **ABSTRACT**

**Purpose** – The aim of this paper is to assess the issues related to personal finance encountered by foreign Muslim students studying at the International Islamic University Malaysia (IIUM). In general, this research seeks to identify the issues on personal finance faced by the foreign students of the IIUM related to particularly how they are facing and dealing with the consequences as well as the way to overcome such challenges.

**Design/methodology/approach** – This study uses a qualitative approach of case study research similar to that employed by previous researches. Open-ended interviews were carried out on eight international postgraduate Muslim students pursuing their bachelor's degree programs in the IIUM.

**Findings** – The result indicates that as far as personal finance is concerned, the majority of the international postgraduate Muslim students do engage in personal financial planning and they survive with a limited level of income and planned expenditure. While they struggle to manage their personal finances, some students seek to have financial support from the university or other possible alternatives.

**Research limitations/implications** – The study contains a number of limitations such as time constraint as well as narrow sampling area and scope.

**Practical implications** – The results are primarily beneficial for academicians and researchers to understand the related issues pertaining to how the foreign Muslim students deal with their personal finances during their study, especially in learning institutions overseas.

**Originality/value** –This research explores the issues on personal finance especially that faced by foreign Muslim students, while revealing the problems and challenges that the students encounter during their studies. This study also designates ways to overcome those challenges.

**Keywords:** Financing, Personal financing, Foreign students, Case study, International Islamic University Malaysia

Paper type Research paper

## 1. INTRODUCTION

Personal finance in the general term refers to a measurement or an estimation of a person's expenses to a certain issue (Murphy and Yetmar, 2010). Students who study in universities, especially those located overseas, usually spend and disburse a huge amount of money for their studies. Specifically, when a student studies overseas, he or she commonly intends to spend more money than while studying in his or her own country. To provide a sophisticated and sufficient amount of personal finances for the term of

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studying in foreign universities, financial planning is very important for a student to contribute to a continual fund for the study. In general, if a student prepares a budget and keeps a certain amount of money for some specific purposes with proper managing, it can be reckoned as financial planning for that specific student. Hilgerth et al. (2003) found and elaborated a strong relation between financial knowledge and financial behavior. Usually, knowledge on personal finance is very important and it basically derives a person (student)'s financial behavior (Chen and Volpe, 1998). Specifically, if a student has good knowledge with regard to how expenses are incurred and he or she has high concern on personal finance matters, such knowledge may provide and draw some important solutions for the student. Basically, solutions are usually sought after when some problems already exist. As for students, they usually face difficulty with the source of fund for their studies and that is the main problem they face. As aforementioned, studying overseas requires a big allocation of money, especially for living expenses and tuition fees. Sometimes the exchange rate becomes the main culprit to deal with. The volatility of the Foreign Exchange (FOREX) market does not give assurance that an international student can stay overseas with a stable position in terms of spending. On the other hand, another significant reason that students perhaps fail to plan for their personal finances is because they lack real financial knowledge. However, as for the international students, those who are studying abroad by spending a big amount of money their financial planning are much more important. It is due to these situations that this particular study aims to examine the issues on personal finances faced by international students, particularly those studying in the International Islamic University Malaysia (IIUM). Furthermore, the study will enhance the knowledge on personal finance among the international students' during their study in the university. In addition, this qualitative study briefly aims to put forth the critical issues related to personal finance faced by the international students during their studies, such as, how do they finance their studies, what are the sources of their funds, how do they manage their finances, and the problems or challenges that entails, as well as the ways to overcome them. Nevertheless, the precise objective is to draw a clear distinction regarding the issues on personal finance among foreign students. Moreover, this research does have some specific objectives as well:

- i. To identify issues on personal finance among international Muslim students studying at the IIUM.
- ii. To investigate the problems faced by foreign Muslim students in managing their finances.
- iii. To explore the main challenges in managing the students' personal finances and the way to overcome the challenges.
- iv. To understand the international Muslim students' standard of living in terms of financial means during their study in the IIUM.

#### 2. LITERATURE REVIEW

The evaluation of personal finance education has shown that the financial competency like behavior, attitude, and knowledge of adult students is positively impacted (Langrehr, 1979; Tennyson and Nguyen, 2001) with the issues of personal finance. However, people's lack of literacy and understanding on personal finance can be considered as a major problem in making financial sophistication (Mandell, 2004). For instance, past studies have investigated this specific issue on personal finance, such as the accuracy of knowledge (Bernheim, 1988), or the adequacy of households (Auerbach and Kotlikoff 1991), and so on. In addition, an institutional survey was conducted to investigate the respondents' personal finance condition during the same time (Bernheim, 1988), and the research revealed that personal financial issues are quite fundamental for everyone. Nevertheless, people generally do have limited financial knowledge and it is often that their lifestyles do not equate with the personal finance issues that they encounter. Therefore, it is important to frequently create the consensus especially among those who are faced with personal finance problems now and then. In general, students face personal financial problems as some of their lifestyles are like hand to mouth. For instance, as the behavior of a person varies to another, different attitudes of the students may draw various issues related to personal finances.

At times, their level of income or their family's income also affects their financial behaviors. Some students take support from their families, yet, whether their family supports them or whether their support is sufficient, appear as common questions as well. In addition, in the international academic arena or universities overseas, it is more often observed that students do have different family backgrounds, educational backgrounds or cultural backgrounds. As stated by Ballard and Clanchy (1991, p. 10), students usually come to the universities with different types of behavior and unique individual personalities. With this different personalities and cultural backgrounds, they also tend to behave differently. For example in the IIUM, there are many students, with different behaviors, who have come from Asia, Africa, and Middle East or the West. The different attitudes and behaviors in terms of different cultures are also reflected in the various personal financial issues.

# 2.1 Attitude towards Personal Financing of the Students

As aforementioned in the Introduction section, the way of identifying student's personal finance condition often depends on the student's financial planning and their source of funds. Students from various backgrounds and family cultures create some similarities and dissimilarities in terms of attitudes (Kingston and Forland, 2008; Wong, 2004). In most cases, attitudes on financial planning depend on the individuals. Hogarth and Hilgerth (2002) and Moore (2003) reported that most people do not understand the concepts of financial issues and assume that they do not think of their savings in terms of specific purposes. It is found that some students think that it is quite difficult to manage their educational and other expenses while studying abroad. They usually have to borrow a good amount of money to settle the cost of tuition fees and other attendant living expenses. However, borrowing is not a permanent solution for a student. In fact, it might at best temporarily mitigate their burden. Thus, some students remain in a state of anxiety that sometimes affects their studies as well; making it a stressful journey for them. On the other hand, there are some students who consider study as an interesting element. Especially those who have no tension concerning money matters and their families stay with them during their studies. Their attitude towards study and issues on personal finances is positive (Bernheim et al. 2001). It is because their sources of funds allocated for personal finances are quite obvious and much sophisticated. However, being a foreigner or an international student, it is not always easy to sustain quite comfortably in universities abroad, but students' attitudes regarding personal finances sometimes draw some different directions at which and how they can maintain the challenges of financing issues.

## 2.2 Income and Managing of Personal Finance

Income or the means of financial support is an important issue on personal finance for a student. In addition, often it is observed that students from low income families usually do not take risk to take on a brave step to study in universities abroad unless they can obtain scholarship. If they come and join the overseas universities with their low level family income, they tend to seek part-time jobs to support their studies (Murphy and Yetmar, 2010). The present research however targets students who usually do not get involved with part-time jobs outside the campus, but those who support their studies by doing various academic related jobs such as being a research assistant. In the postgraduate level, it is also difficult for the students if they work outside and at the same time study full-time. Especially those who work in the companies and corporate level, it is seen that they are usually part-time students. Besides, some of the students can manage study loans or scholarships during their studies. On the other hand, students from high income families are not concerned much about the spending during their study period. However, the gradual increase in study and living expenses with volatile foreign exchange rate insists for international students to consider their personal finances during study period. The importance of well-planned personal financial planning has been discussed in past research (Lim, 2003). Lim (2003) basically focused on

financial planning and allowed readers to understand how planning can be defined in terms of personal finances.

## 2.3 Students' Background, Behavioral Differences and Financing Issues

Different cultures and family issues are also crucial elements that play a key role in crafting the personal finances for students. Fundamentally, students' financial behavior seems to be different in terms of gender differences (Hayhoe et al., 2000) and culturally it defers from nation to nation due to different geographical locations. Kingston and Forland (2008) discovered that personal pressures are created from the expectations of students from some particular culture. This pressure may arise due to financial tension which later on creates some psychological burden as well. In explaining and defining an idea based on family differences, it is observed that in Asian countries people prefer to have a large number of family members. For example in Malaysia, people usually do have big families consisting of large number of family members and they can generally maintain that well. On the other hand, people from the West and some part of China tend to keep the family small. However, according to Kennickell et al. (1996), the members of a large family size are more concerned about their financial issues rather than of a small family. Now if this family parameter is considered, it is observed that people of different family structures do have different financial perception and planning on personal finance matters. In fact, some students do perceive education as an investment and therefore, they consider all their spending as an investment like the similar activity in business (Grattan, 2005). This educational investment concept also grows from different cultural backgrounds. On the other hand, there are some students who consider educational expense as an inferior issue, yet still they are willing to pay big amount of money because of the goodwill of the family and to secure a stable future. In fact, as it is discussed based on perceptional differences is all about the students' background in term of family and cultures. Therefore, issues are viewed in many perspectives for many related reasons wherein early exposure to financial concepts has positive effects on money management skills (Huddleston et al., 1999). Moreover, because of these diversified reasons, students with different background faces different kinds of problems and challenges regarding personal financing. Hence, the solution for those challenges related to personal finance for foreign students can be defined based on individuals and their diverse perceptions, while the solutions depend on how they view the problems.

### 3. RESEARCH METHOD

The present research is a qualitative research and therefore the method adopted in this particular research is of a qualitative research approach. Among the various kinds of approaches, this research employs the case study approach. Creswell (1998) stated that this case study approach is a circumscribed system or an issue discovered by one or more cases. As Boyer (1990) mentioned, this type of research is relevant as it brings new insight on the original research. Furthermore, in a case study research, researchers usually explore one specific issue or several related issues over time. This study attempts to explore the issues in personal financing faced by the Muslim international students during their study at the IIUM. Basically, different types of students are observed in terms of the degree they are pursuing with different age variation and financial condition to have an overall and aggregated idea. However, this study seeks to identify the issues on personal finances from various tones of international students.

# 3.1 Sampling

The percentage of Muslim students in International Islamic University Malaysia (IIUM) is approximately 95% whereby eight international Muslim students were taken as sample from the faculty of Economics

and Management Sciences. This qualitative research uses the purposive sampling technique. Purposive sampling technique is usually used in a study on a certain group of people. For instance, in this particular research, the international students who study in the IIUM are the main target respondents. A total number of eight respondents are taken for the interview based on their availability of time and research objectives. Six male and two female students with different levels of study and demographic profiles were selected for the interview. The sampling also considered that all the demographic options will be covered by those eight respondents and the academic qualifications must be of at least the Masters or PhD degrees. Moreover, the interview was recorded and transcribed accordingly.

### 3.2 Data Collection

The data was collected from the conduct of face to face interview among the target respondents. However, before the interview was conducted, the sample questions were distributed among them to present to them an idea of the interview content. This was relevant as it allowed for them a mental preparation for the interview that was to be recorded, and this allowed them to embellish the answers which they answered against the questions. However, a brief verbal consent was attained from the respondents before agreeing to the interview and after they get prepared, the interview was conducted. The maximum time required for the interview session was 11 minutes and 26 seconds; the minimum was 5 minutes and 22 seconds. During the interview session, the description and the purpose of this research were clearly explained to the interviewees, i.e. the students. In fact, it was clearly mentioned to them that the interview was conducted for a Doctoral Mini Research under the subject of Qualitative Research. Additionally, the researcher is interested to know about their personal finances encounter during their study at the university. Hence, the participation seems crucial to the success of this particular research. It was also stated that they just need to spare a few minutes only to give their opinions against enclosed questions through the interview. The interviewees were given the right to stop and even depart at any time during the interview session should they intend to. Besides, it was secured that the participation in this research is voluntary and highly appreciated, while the response and all shared information are kept confidential. In fact, none of the interview session was declined, withdrawn or postponed by the students. All of the interviews were conducted at various places near the Kulliyyah of Economics and Management Sciences (KENMS) and the Library surrounded area of the IIUM campus. However, during the interview sessions, few questions were asked regarding the issues on personal finance, such include the financial support to study at the university, the source of fund, the issues in managing the finances, etc. Besides, there were questions that are related to the respondents' personal opinions as well. In fact, they also explained the problems that they face in managing the source of capital and its main challenges in providing the finance during the study period. They also gave their opinions and drew suggestions to overcome those problems and challenges regarding personal finance. While taking the response on six demographic questions, it was told to the students that personal information will be kept highly confidential as it is mentioned earlier. Demographic questions were enclosed in Part-A of the questionnaire comprising some basic questions like gender, age interval, marital status, geographic area or region, level of study and personal expenses per month. Even though some additional and external topics came about during the interviews, those unrelated issues were skipped while reporting the research. Moreover, the interviews were recorded through a mobile device (Nokia 5800) voice recorder and the responses were transcribed into written document.

## 4. DATA ANALYSIS

Several studies stated that usually case study research and its data analysis process provides more general to more specific observations (Creswell, 1998; Palys, 1997; Silverman, 2000). By discussing and conducting interviews among the international Muslim students of the university, some observations that

were pointed out may derive significant findings on the personal financing for an international Muslim student. Before evaluating and justifying their opinions, respondents' personal and demographic information will be evaluated accordingly in the next section.

# 4.1 Respondents' Demographic Information

In the general term, demographic information involves respondents' personal information. As it is mentioned, in this particular research, the target respondents are the students, more specifically the international students. This demographic information is very important for the research because it states respondents' personal background, allows the research to know about them, and thereafter can effectively relate their experiences based on their unique demographic characteristics. However, their unique experiences create a significant impact on the issues pertaining personal finance. Personal experiences and philosophical stance formulate the research direction (Crotty, 1998, p. 2; Guba and Lincoln, 1990, as cited in Patton, 2002, p. 98). For this particular research, there were few specific questions raised to identify the respondents' demographic characteristics. The questions were semi-structured based on the elements that are related to explore the issues on personal finance. For the demographic part of structured questions, there are some common questions that were asked pertaining to the respondents, such as their gender, age range, marital status, geographical location or region, the latest degree qualification that they have obtained and their monthly expenditures etc. Their prompt responses against those questions during the interviews are provided in Table 1 below:

**Table 1: Respondents' Demographic Information** 

Interviewees	Gender	Age Range	Marital Status	Geographical Location/ Region	Last Degree Obtained	Monthly Expenditure Range
Interviewee-	Male	31 and Above	Married	Asian	Masters	RM500 to RM1,000
Interviewee- 2	Female	20 to 25	Single	Others	Bachelor	RM500 to RM1,000
Interviewee-3	Male	26 to 30	Single	Asian	Bachelor	RM500 to RM1,000
Interviewee- 4	Male	31 and Above	Married	African	Masters	Less than RM500
Interviewee- 5	Male	26 to 30	Single	Asian	Masters	RM500 to RM1,000
Interviewee-	Male	31 and Above	Married	Asian	Masters	RM500 to RM1,000
Interviewee-	Female	26 to 30	Single	Asian	Masters	RM500 to RM1,000
Interviewee-8	Male	31 and Above	Single	Asian	Masters	RM1,000 and Above

Based on the information in Table 1, it is observed that the total number of respondents or interviewees is eight, which indicates that the findings will be explained based on the eight students' opinion. As aforementioned, the eight respondents are international postgraduate students consisting six male students and two female students. Among them, three students are married and the other four students are single. The interviewees, i.e. students are from various geographical locations including six from Asia, one from Africa and another one from another part of the world. Among them are six PhD students and two

Masters students of various age ranges. Most of the cases it is observed that, their average expenditure range between RM500 to RM1,000.

During the interview sessions, some specifications were set pertaining the equipment used, time duration for each interview and the locations for the interviews. Table 2 provides a brief illustration on the interview.

**Table 2: Interview Synopsis** 

Table 2: Interview Synopsis							
Interview/Transcription	Equipment Used for Interview	Time Duration for Interview	Venue for Interview Conducted				
Interview and Transcription No: 1	Samsung Galaxy S3 mini Mobile Device	8 Minutes 17 Seconds	OSR (Operating System and Research) Lab, KENMS				
Interview and Transcription No: 2	Nokia 5800 Mobile Device	9 Minutes 38 Seconds	Economics Canteen				
Interview and Transcription No: 3	Nokia 5800 Mobile Device	6 Minutes 9 Seconds	Beside the Undergraduates Computer Lab, KENMS				
Interview and Transcription No: 4	Samsung Galaxy S3 mini Mobile Device	7 Minutes 43 Seconds	OSR (Operating System and Research) Lab, KENMS				
Interview and Transcription No: 5	Samsung Galaxy S3 mini Mobile Device	5 Minutes 54 Seconds	Level-2, KENMS				
Interview and Transcription No: 6	Samsung Galaxy S3 mini Mobile Device	6 Minutes 31 Seconds	Outside of the Library				
Interview and Transcription No: 7	Nokia 5800 Mobile Device	5 Minutes 22 Seconds	Car Parking Area, KENMS				
Interview and Transcription No: 8	Samsung Galaxy S3 mini Mobile Device	11 Minutes 26 Seconds	OSR (Operating System and Research) Lab, KENMS				

Based on Table 2, it is observed that the equipment used was a mobile device for voice recording during the interviews. There were two major reasons for using the mobile device. Firstly, it is portable and

always available and could be used whenever seemed necessary or suitable for the interviews. Secondly, the device is convenient for the transfer and storage of the recorded data since it allows data storage via Bluetooth or using cable to the laptop or personal computer. In addition, the time duration for each interview sessions can easily be tracked, where the long interview was about 11 minutes and 26 seconds and the short one was 5 minutes and 22 seconds. The interviews were conducted mainly at the KENMS area and nearby the campus library. Moreover, the participation from the respondents of the interview was very satisfactory in terms of students' willingness.

#### 5. RESULTS

A number of total eight international students were selected based on various factors, including gender variation, different types of age range and their marital status, diverse geographical location or region, and their academic qualifications as well. As for the academic qualification, students were selected among those with at least a Masters or PhD degree. This is because in the undergraduate level, students are not that much aware regarding their personal finances or financial management. However, those eight students had at least a few years of experience in the university and they are able to justify their issues in personal financing. Additionally, information on their monthly expenditure also clarified the students' habit and behavior in terms of personal financial issues.

## 5.1 Personal Financing at the University

Among the eight students under study, every student stated his or her own opinion regarding issues on personal finance. As expectedly, many common issues were expressed For instance, when asked iftheir finances at the university was self-sponsored or financed, they replied quite clear-cut like "I'm a self financed student" or "I take money from my father... I'm self finance student" and "..basically, I am self-financed or self-sponsored student" etc. Besides, there were a couple of students who stated that they somehow are able to manage the assistantship from the university.

"I'm financing at IIUM from different sources... from my own savings... from my father..and some part of the fees I provided from my Research Assistantship income."

"..through money from little job that I get involved here in this university."

For those self-financed students, some of them did have plans for studying overseas and therefore, they saved money for this purpose.

"Before coming here I used to work for an institution about 6 years and I could able to save money for this purpose... I'm now spending my own saved money so you can say I'm self finance student."

Conversely, there are some students who have partial of full scholarships during their study in this university;

"..half of my tuition is sponsored by IIUM endowment fund... rest of the half and plus living expenses are covered by my family..."

"Alhamdulillah, I am having a scholarship which covers all kinds of tuition fees and provides monthly allowance to meet the basic needs."

Therefore, it can be said that, the students' personal finances at the IIUM does vary, and the students are getting different kinds of opportunities while some of them have financial benefits that are of either full or partial basis, whereas some of them are totally self-financed during their studies at the university.

### 5.2 The Sources of Fund

In the present research, the source of funds basically refers to how the students obtain funding or financial support during their study in the university. As for the self-financed students, it was reported that their funding sources are from their family or their personal savings. For instance, among the responses to the question pertaining to what is their source of fund: "from my family, my father gives me money for all of my expenses and so on" and "..my savings and my family... they are my sources of fund." While, the students who are on partial or full scholarships, pointed out the issue as:

"IIUM endowment fund and my father do provide me the finance."

"I get some certain allowance each and every month..in fact they (scholarship board) also do provide my tuition fees and hostel fees as well."

In addition, some students do get financial benefit from the university through some temporary basis jobs such as research assistantship and so on.

"Funds are from research work and research assistantship."

"..deposit from my previous job and doing RA (Research Assistantship) at the university right now.."

As aforementioned, some students have planned in advance, even financially, for the degree that they are currently pursuing. Therefore they already have savings for the purpose to further their study. Additionally, they also somehow have managed the financial assistantships from the university.

"..from my previous job salary which was saved for the study... recently I'm working as a Research Assistant and that's my only source of fund."

"..before I started my PhD studies, I was working back home. Here, I used to teach one course at the undergraduate level for a few semesters... my source of income comprise the combination of my own income from my job at home, the remuneration I used to receive for teaching part-time and also the financial support I get from my family."

# **5.3 Managing the Finance**

After identifying the financial situation and fund sources of the students, the the respondents were asked on how they can manage their personal finances. Most of the cases it is observed that they are quite apprehensive regarding the management of their personal finances. Therefore, some of them plan their personal financing reasonably and attempts to manage in that direction.

"To be honest, it's bit difficult to manage. Can say living hand to mouth..."

"Finance is managed by making sure that unnecessary things are not considered in my expenses. I totally focus on academic and food stuffs.."

"I plan with my limited amount of income. Whenever I need extra money.. I borrowed from my father and paid him back. I usually try to settle off my tuition fees on installment basis which release me from some pressure."

"I spend mostly to buy foods and other stuffs at least 60 percent of it.. and then to buy study materials about 20 percent.. and lastly I do best to save about 20 percent of my ready funds roughly.."

"..I've to think about all my personal expenses, including settling my academic expenses... like my tuition fees as well as hostel and whatever money that I spend..."

Moreover, based on the discussion, it is also found that besides their monthly expenditures, students are more or less worried about paying off the tuition fees and hostel fees. However, these are the things which are required in every new semester.

"..from my personal savings I allocate the expenditure in a way that it could cover all. Like I allocate the money to pay for tuition fees, Mahallah (hostel) fees, food and other expenses..."

"Well.. I've to think first about paying for my tuition and Mahallah (hostel) fees..there are other recurrent living expenses like food, transport, mobile (phone) and so on. Also, I no longer teach here as a part-timer. So..whatever money that I spend is what I can bring or source from my home."

In addition to that, surprisingly it is also observed that some students do not make any plans for their personal financing at all.

"There is no financial management even though I'm a finance and management student... the whole amount is just spent according to the necessary cause."

# 5.4 The Problems Raised to Manage the Fund

When the questions were raised regarding problems that they usually face to manage the source of capital, the respondents explained many important things in various perspectives.

"...sometimes I need extra money as I am using personal vehicle... it requires some maintenance. In this regard I fail several times throughout the financial crises. Sometimes the deposit of my monthly salary that I am getting as an RA is d is delayed into my account, which botheeeeers me a lot"

"The amount for RA is very minimal as most of the PhD students havefamilies, wife, kids..it's been really tough to manage.. you know?"

"..the sources of capital is not always steady... it has been off and on. At times there will be work to perform and at many other times there may not be work to do that will earn one income..... work done are paid after one month of carrying the task.."

While discussing the problems, some students clarified that, the main problem is managing the financing and source of capital continuously.

"Managing money and all sorts of expenses is not that easy as I can tell you. You know what, there are always some uncontrollable expenditures you must be experiencing..tiding up the money with a certain level each and every month is not easy.. so it's really quite hard to manage you know."

In addition, one of PhD students explained clearly about the consequences that he had to go through. "It's indeed a bit hard to manage my educational and other expenses while studying in a PhD program. At one stage, I had to borrow a good amount of money to defray the cost of tuition fees and other attendant living expenses... but borrowing doesn't solve my problem..it might at best temporarily mitigate my burden.. so.. basically.. I remain in a state of perennial anxiety that affects my concentration in my studies.."

Finally, there were some students who do not think that they have any problems regarding managing of personal finance.

"Not much problem though father is loaning to finance my study..you know studying abroad is always expensive!"

"I am spending my own saved money but alternatively I think that if I need money... my father will backup me..."

In fact, it is observed that they do have sophisticated family backup for their own financial shortage.

## 5.5 The Challenges and the Way to Overcome

Focusing on the challenges of personal finance and its solutions, the students' perception seemed to revolve around a mixture of overall financial issues. One of them has stated that when the student's account gets blocked because of payment due to the university, it causes mental pressure and big headache for the study life. As his statement is quoted:

"The main challenges are collecting the money in definite time. If I pay on installment basis, the institution will block my student account which gives a major pain. I cannot get any benefit from the institution. The best way is if there is permanent system of scholarship or research assistantship provided by the institution."

Several students mentioned that since they are international students and if they are faced with some emergencies and desperately need money, for instance, it becomes also a challenge for them. However, fluctuations in exchange rate also plays a vital role here.

"The main challenge is money sending time... seems like I'm having some urgency but can't get money right now on hand..my father maybe cannot send instantly because of international transfer.."

"The challenge is mostly the increasing rate of exchange as per time goes on and I don't think there is any solution that an individual can come up with."

Alternatively, as for students whom are attached with inter university jobs and so on, their money receiving time also turns out to be a major challenge for them.

"..the challengeis the inability to get little to do in order to effectively finance one's study at the university.. at times the little job done is paid towards the end of the next month or even higher than that period if claim form is submitted later than 3rd day of the next month... often than not, money would have been borrowed before receiving money for the little job done... I think payment for job done as research assistant or otherwise is paid latest by 3rd day of the following month as against the present arrangement."

When asked about the solutions for the challenges, most of the students think they should be able to handle the challenges as international students. At the same time, they also seek the equal participation and contribution from the university.

"...I believe IIUM should provide students with at least partial tuition waiver for all the admitted PhD students. Ok, you may think why I'm saying so.. from my explanation for PhD students... since they have to commit for at least around four years to continued study and research in their PhD program, a partial waiver of tuition fees would go a long way to offset their financial hardship. With the ever-increasing semester fees, the students more often than not remain anxious as to how to manage their financial burden. Besides, coping with the rigors of a PhD study I believe that before starting their program..students also should be certain of the availability of funding.."

Moreover, it is also observed that students evolved with the research assistantship are somehow frustrated as well and this frustration also becomes a challenge for them.

"University should increase the RA amount and pay every month. However, the present scenario is quite awful as during the short semester, there is no RA payment..does it mean we will not eat and spend during this whole 3 months? Then how? ..frankly speaking.. as a foreign student.. we don't get loan like that of the locals and I think the university should take this into consideration."

The solution for such issues of personal finance among foreign students can be viewed from individual's understanding. An optimistic student clarified his personal opinion as follows:

"Ummatic scholarship... such kind of scholarship should continue for at least two years provided the students can maintain good standing in their academic studies. Besides, offering scholarship or assistantship from my understanding, would also help IIUM significantly as it can then attract many outstanding students to its various PhD programs from different parts of the world."

# 6. CONCLUSION

This research addresses the issues on personal finance, especially among foreign Muslim students, particularly those who are studying at the International Islamic University Malaysia. However, this study has a significant role to identify the elements that play major role in managing personal finance. Basically, the study also emphasizes and strengthens the direction of those subsequent consequences. However, most of the respondents of this study derived the same point that personal financing and its proper planning for a student is very important during the study life especially studying in overseas universities. This statement is also found in previous researches (Bernheim, 1988; Chen and Volpe, 1998) which basically derives a person's financial behavior. Besides, the respondents frankly stated their personal opinions regarding issues underlying personal finances. There were many common issues that arose while explaining the facts and effects. The self-sponsored students view thing regarding personal finances that those who have partial of full financial supports from other alternatives like funds, scholarships or assistantships. However, for some of those self-financed students who are currently pursuing their study in the IIUM have had early plans for studying overseas and therefore, they have saved money for this purpose. Conversely, there are some students who simply did not set any plans for studying in foreign universities, or lacked on current personal financial planning. Basically, financial knowledge draws a person's financial behavior (Hilgerth et al., 2003) and personal finance sometimes very much depends on financial planning of a student. Additionally, it is also observed that in this university, students do have different types of sources of funds and the students are getting the opportunities from the institution itself, which does not equal for those who are self-financed students. In addition, during the interview sessions, in most of the cases it is observed that students are quite anxious in managing their personal finances. Therefore, some of them plan their personal finances reasonably and try to manage well in that direction. While focusing on the challenges in managing personal finances, it can be said that when the students are faced with financial constraints, it creates mental pressure for their study life. Moreover, students whom are attached with inter university jobs and so on; their money receiving time also turns out to be a major challenge for them. Therefore, students evolved with the research assistantship are somehow frustrated with related procedures in terms of unsteady income as well and this frustration also becomes a challenge for them. On the other hand, most of the students think they should be able to handle with the challenges as international students. Therefore, while struggling with their personal finances, some students seek to have financial support from the university or other possible alternatives. Hence, they also seek the equal participation and contribution from the university. However, by analyzing the consequences of this research and related issues, it may be resolved that the results obtained from this research will be valuable for academics and researchers to understand the related issues faced by the foreign students while they deal with their personal finances during their study in

universities abroad. Moreover, further research is required since this particular study contains a number of limitations, including time constraint as well as narrow sampling area and scope.

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# REPLICATING SERVQUAL IN MALAYSIAN CREDIT CARD INDUSTRY. A MULTIGROUP ANALYSIS.<sup>1</sup>

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#### **ABSTRACT**

The aims of this paper are to investigate using confirmatory factor analysis whether the existing functional service quality model can be used in the context of Malaysia and compares the functional service quality model provided for credit card consumers specifically to see if there are any differences between the three different groups of credit card users in Malaysia. This study used online survey for the purpose of data collection. A comparison between different types of credit card users using the measurement model (CFA) was conducted. The findings from the CFA for the FSO model revealed that the replication of the Servperf model without any modification in the context of Malaysia possessed the discriminant validity concerns for Responsiveness, Reliability, Assurance, Empathy and Staff Conduct dimensions. Secondly, the multigroup comparison of the credit card holders revealed that there are differences between the groups as indicated in the findings. The findings from this study can be used by the banking industry in identifying the differences between diverse religious and cultural values for different groups to facilitate different marketing strategies. Furthermore, the findings revealed that different types of credit card users behave differently in their post-purchase behavioral. A distinction contribution of this study is that it is the first contextual study conducted in the Islamic credit-card industry.

**Keywords:** Islamic banking, Islamic credit cards, Servqual, Servperf, Functional service quality

## 1. INTRODUCTION

This is a ground breaking study exploring the post purchase behavioural of banking users' satisfaction in the context of credit card industry. The major contributions of this paper can be attributed to the new knowledge of the existing customer satisfaction theory and the first contextual comparison study affecting different groups of Malaysian credit card users' satisfaction. It builds from service quality and customer satisfaction theory but with a specific context of Malaysian banking system. The uniqueness of Malaysian banking system which runs on a parallel banking system, allows the Islamic banking (designed to meet the needs of the Muslims) and conventional banking (assimilating the western banking) to compete and operate side by side. Theoretically, customers' satisfactions are positively affected by banking service quality. Logically, the theory can be accepted if the products and services offered by the Islamic banks are of the same functions as the conventional banking. However, many

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studies have shown that the selection (pre-purchase), usage (consumption) and customer's satisfaction (post-purchase) of Islamic banking users are religiously motivated. However, there are also studies that argue that the Islamic banking users are profit motivated merely the same as the conventional banking users. Building from previous theory, this paper aims to investigate whether the existing Servqual model can be applied to different categories of Malaysian banking users. Specifically, this study compares different categories of credit card users. Findings from the study revealed that the Servqual model can be applied in the Islamic banking with modifications and functional service quality factors affecting credit card users' satisfaction vary between three different categories of credit card users. The three different types are credit card users who use Islamic credit card, conventional credit card and those who use Islamic and conventional credit cards concurrently. The findings give powerful marketing implications for the banking industry in strategizing their marketing efforts towards the different groups of credit card users. This paper is organised into six sections with the objective to highlight the differences between different groups of credit card users' service quality perceptions affecting satisfaction. The next section will discuss Islamic banking, the existing literature, different groups of credit card users in Malaysia and the research hypotheses. The following section explains how the data is collected and analysed in order to answer the research questions. The findings are discussed in section four followed by a discussion and conclusion in the last sections.

#### 2. LITERATURE REVIEW

Islamic Banking. Before the establishment of the first Islamic bank in 1983, banking industry is monopolised by conventional banks. With the uprising of Islamic banking and finance, approximately a decade after the introduction of the first Islamic bank, the Malaysian government take the initiatives to allow conventional banks to offer Islamic banking products. Ever since, the Islamic banking industry has been flourishing and growing at an enormous rate. This is due to the fact that the Islamic banking industry is strongly supported by Malaysian government, as well as, the consumers' high level of acceptance. Therefore, Malaysia has a very unique financial system, where two different ideological systems can operate in harmony.

Even though the Islamic banking and conventional banking operate in the same system, the philosophy of Islamic banking is dissimilar with the philosophy of the conventional banking. This is because the aim of conventional banking is profit maximization while the aim of Islamic banking is *falah* maximization which means acquiring profit according to *Shari'ah* (Islamic laws) as well as fulfilling social welfare duties. An Islamic banking organisation must serve or satisfy God in which differentiates it from non-Islamic bodies (Hassan & Lewis, 2007). The system is religiously and politically motivated. Ideally, it will have to consider the benefit of the whole society, as well as other priorities in the Islamic states (Awwal Sarker, 1999; Dusuki, 2007; Dusuki & Abdullah, 2007). The co-existence of the Islamic banking and conventional banking in Malaysia has a strong root from the Malaysian government willingness to provide legal and financial infrastructural support and enablers for both systems to compete within the same market.

Even though, one can argue that the functions of Islamic banks are similar to that of conventional banks, the Islamic banking has distinctive approaches (Ahmad, 2000; Chapra, 2000; Dusuki, 2007; Hassan & Lewis, 2007; Iqbal & Mirakhor, 2007; Khan, 2010; Warde, 2000; Zainol, Shaari, & Muhammad Ali, 2008) that can be identified from three dominant principles.

The three dominant principles of Islamic banking, differentiate Islamic banking from its conventional counterparts. Firstly, Islamic banking strives for a just, fair and balanced society as envisaged by Islamic economics (Chapra, 2000; Dusuki, 2007; Dusuki & Abdullah, 2007;

Warde, 2000). The prohibitions of interest, excessive risks (speculation), gambling and uncertainty are to provide an equal playing field to protect the interests and benefits for all parties involved in Islamic banking and to promote social harmony (Ahmad, 2000; Chapra, 2000; Dusuki, 2007; Dusuki & Abdullah, 2007). Ideally, social harmony can be achieved between the rich and the poor, if wealth is distributed equally as in the socialist economics, however it limits the freedom to accumulate wealth. In contrast, wealth in the capitalist economy is distributed according to the free market, resulting in broadening gap between the rich and the poor. Unlike the capitalist and socialist economy, the Islamic economics allows an individual to accumulate wealth and at the same time the poor is taken care of through obligatory wealth transfer mechanism (*zakah*).

Secondly, Islamic banking is structured around the principle of brotherhood and cooperation, which stands for a system of equity sharing, risk sharing and stake taking (Ahmad, 2000; Dusuki, 2007; Dusuki & Abdullah, 2007; Obaidullah, 2005). Ideally, loans are not entitled to any addition or excess of its original principal according to the *Shari'ah*. Instead of loans, risk sharing through partnership is encouraged. On the other hand, risk-sharing contracts will be irrational for the capitalist since it involves higher risk. However, if the parties involve are equally risk-averse, two ethical distribution properties seem to be associated with profit sharing contracts (*mudharabah* contracts). They are fair risk-sharing and fair income ratios, indicating that these types of contracts are better than loan contracts (Tag El-Din, 2008). The loan contracts are one sided favouring the lenders only.

Thirdly, as a system grounded on the ethical and moral framework of the Islamic law of *Shari'ah*, Islamic banking is also characterised by ethical norms and social commitments (Ahmad, 2000; Chapra, 2000; Dusuki, 2007; Dusuki & Abdullah, 2007; Khan, 2010; Obaidullah, 2005; Warde, 2000). It is morally filtered by the *Shari'ah* rules, on permissibility (*halal*) and prohibitions (*haram*), to promote a social harmony and practical legal framework (Ahmad, 2000; Dusuki, 2007; Dusuki & Abdullah, 2007) restricting the Islamic banks from financing any project, which conflicts with the moral value system of Islam. For example, the Islamic banks cannot finance companies producing alcoholic beverages, companies involved in gambling activities and conventional insurance companies. What is noteworthy from the three major principles of Islamic banking is how the Islamic banks crucially compromise the profit motives, satisfying customer needs (Evans, Jamal, & Foxall, 2009, p. 5) and in the same time meeting religious, moral and social obligations as explained above? Can the Islamic banks apply the same strategies (One size fits all) used by the conventional banks? In answering the research questions, the literature is examined and is discussed in the following.

A Critical Review: Customer Satisfaction in Islamic Banking. Only banks that are best able to apply effective consumer-oriented marketing management capabilities within an Islamic environment will survive (Shook & Hassan, 1988). Theories in service quality and customer satisfaction revealed that there are significant relationships between these two concepts. Nevertheless, these two concepts are not straightforward to measure. One of the most frequently used measurement scales is Servqual developed by Parasuraman (1988). There are also many modified versions of Servqual to measure banking service quality (Arasli, Katircioglu, & Mehtap-Smadi, 2005; Han & Baek, 2004; Kanning & Bergmann, 2009; Kumar, Kee, & Manshor, 2009; Ladhari, 2009; Muslim & Zaidi, 2008; Newman & Cowling, 1996; Osman, et al., 2009; Othman & Owen, 2001; Sadek, et al., 2010; Wong, Rexha, & Phau, 2008). The Servqual model compares the customers' perception on the bank's performance (P) against the customers were satisfied but if the € is greater than P, (the) customers will be dissatisfied because their expectation of the bank's performance is higher than what the bank actually performed.

Servqual is also referred as gap model or functional service quality (FSQ) or in which FSQ is defined as the process, or how the service is provided (Lassar et al. 2000). Therefore the idea

on how severely different types of credit card users perceived the process of the services provided can affect customer satisfaction model will provide some contribution in theoretical and marketing implications on how consumers behave when they are religiously motivated. Specifically, as mentioned earlier, this paper aims to investigate if the one size fits all strategy can be applied for different groups of credit card users.

Undoubtedly, studies in customer satisfaction are in abundance in the literature since this concept is universally accepted in business. Unsurprisingly, the number of academic papers is still relatively large in the banking industry. However, if we define our scope to only customer satisfaction in the Islamic banking industry, interestingly the number is too small. For example, this study has conducted a systematic database search and managed to identify thirty seven articles dated from 1988 until 2010 with the keyword search employing customer satisfaction and banking. The thirty-seven passed through a filtration process separating them from the mass studies in customer satisfaction. Eighty-two percent of the studies focused on conventional banking. Only eight studies in the context of Islamic banking were found from the search (Haque, 2010; Khattak & Rehman, 2010; Masood, Chichti, Mansour, & Iqbal, 2009; Muslim & Zaidi, 2008; Naser, Jamal, & Al-Khatib, 1999; Osman, Ali, Zainuddin, Wan Rashid, & Jusoff, 2009; Othman & Owen, 2001; Sadek et al., 2010).

From the literature found from the systematic database search mentioned above, a critical review were conducted, three constructive discussions were laid out for this study. One criticism of the literature on Servqual has some methodological flaws in the operationalization of the (P) minus (E) (Abdullah, et al., 2004; Angur, et al., 1999; Cronin & Taylor, 1992; Osman, et al., 2009; Othman & Owen, 2001). This led to the creation of an alternative model named Servperf and is claimed to be superior to Servqual in term of its consistency in its results (Abdullah et al., 2004; Angur, Nataraajan, & Jr, 1999; Cronin & Taylor, 1992). Not limited to Servperf, other models have also been created such as Banksery (Aykiran, 1994) and other models (Aldlaigan & Buttle, 2002; Bahia & Nantes, 2000; Cui, Lewis, & Park, 2003; Guo, Duff, & Hair, 2008; Johnston, 1997; Lassar, Manolis, & Windsor, 2000; Levesque & McDougall, 1996; Malhotra, Ulgado, Agarwal, & Wu, 2005; Mukherjee & Nath, 2005; Petridou, Spathis, Glaveli, & Liassides, 2007; Stafford, 1996). Out of all the models created, Servperf is the most similar with the original Servqual model. The only difference is that Serverf advocates insist that the performance of the service quality is measured instead using the disconfirmation theory (Abdullah, et al., 2004; Angur, et al., 1999; Cronin & Taylor, 1992; Osman, et al., 2009; Othman & Owen, 2001).

During the past 30 years, the majority of customer satisfaction literature is in the context of conventional banking, however, in recent years, there has been an increasing amount of literature in the context of Islamic banking industry. The literature can be further diagnosed into topics of research. The researchers have divided the research into two major domains, which are customer satisfaction research in conventional banks and Islamic banks. The articles were grouped according to the similarity of the topics being discussed by the authors. There are nine topics, which were discussed in the context of conventional banks. The topics identified are; market segmentation, determinants of service quality and customer satisfaction, critics on Servqual, disconfirmation theory, comparative study, the importance of service quality dimensions, technological based service quality, culture and loyalty. As for the Islamic banking and finance (Islamic Banking and Finance), the review revealed that there were five topics being discussed, and they were the impact of bank's reputation towards customer satisfaction, compliance to Shari'ah as an additional Servqual dimension, the different impacts of culture to service quality perceptions and customer satisfaction, and the different demographic segmentation of the banking customers affecting customers' satisfaction. The review is synthesised and we found that future studies can contribute in further detail by comparing and providing the demarcations between the Islamic and conventional banking users' satisfaction.

In addition to the five dimensions of service quality developed by Parasuraman (1988), there are several authors who came out with a new dimension named as staff conducts (Aldlaigan &Buttle, 2002; Avkiran, 1994; Johnston, 1997; Levesque & McDougall, 1996). Therefore, this study will employ six dimensions affecting FSO. The dimensions are 1) reliability, 2) assurance, 3) tangible, 4) empathy, 5) responsiveness and 6) staff conducts.

Islamic Credit Card in Malaysian Banking Industry. The conventional credit-card nature of business is usury, interest and fee based, and it allows any kind of transactions as long as the business transaction is legal. This is in contradiction with the Islamic law where interest is prohibited for the lenders (taker) or borrowers (giver). This prevents group of Muslims from using the conventional credit card, alternatively they subscribed to Islamic credit card. One more group of credit card users continue to use the conventional credit cards with necessary actions taken to avoid the interest charges. For example the cardholders benefit from the interest free period and pay the whole amount spent or charged to their conventional credit card as to avoid any interest charges as act to obey to the rules on the prohibition of interest. This method of paying the whole sum charged to the conventional credit cards is allowed by several Islamic scholars especially for Muslims who reside in countries where the Islamic banking industry is small or not available.

Another type of Muslims group that use conventional credit cards, use the card without any remorse of any religious repercussions. They perceived that the Islamic credit card and the conventional credit cards are no less different from each other. The third group of credit card users use both types of credit cards, i.e. the Islamic and conventional credit card. This group of people are quite difficult to predict because they are not in any of the ends in which they can shift to either side if they wish to do.

However, the majority of the Islamic scholars disallowed the usage of the conventional credit cards. A comparison between the Islamic and conventional credit-cards apart from the conceptual differences (such as the interest elements), raise questions such as which "offers more value of money; charges low penalty rate; gives free bonus points; looks fancier; and gives annual fee waiver" (Mohd Dali & Abdul Hamid, 2007). Controversially unaccepted for the Middle Eastern scholars, the Malaysian bankers and Shari'ah scholars use bay' al 'inah<sup>6</sup> principles in two separate contracts namely bay' al-mutlak<sup>7</sup> and bay' bithaman ajil<sup>8</sup> (Bakhshi, 2006; Kahf, 2003). For example, Bank Islam (M) Bhd incorporates the qardhul hassan principle in its credit-card along with the bay' al 'inah despite the controversy of bay' al 'inah as the back door of interest. However, The Malaysian Shari'ah Council has passed a resolution approving the usage of Bay al 'inah contract in credit-card in 2001(Bank Negara Malaysia, 2010). Bay' al 'inah is permitted by the Malaysian Shari'ah scholars to satisfy the needs of Muslims as well as to sustain the progress of Islamic banks (Shaharuddin, 2009). Examples of the Islamic credit-cards offered by Malaysian banks using the Bay' al-Inah contracts are Maybank Islamic and AmIslamic Bank (M) Bhd. In addition, the holders of the card are only permitted carry out halal transactions, which exclude transactions that do not meet Shari'ah requirements. Examples of the prohibited transactions are transactions in bars, discos, night clubs, purchase of alcohols, escort and massage services and gambling (Ferdian, Dewi, & Rahman, 2008). This is supported by an examination of the terms and conditions of the Islamic credit-cards offered by eight banks in Malaysia revealing that there is a clause in the terms and conditions stating that the credit-cards cannot be used for purchasing the prohibited transactions as mentioned above. However, there are some problems in implementing and monitoring the above restrictions because the banks do not have the capacity to check the cardholders' purchases and transactions conducted in approved

<sup>&</sup>lt;sup>6</sup> Instantaneous sales and buy back agreement

<sup>&</sup>lt;sup>7</sup>Cash sales

<sup>&</sup>lt;sup>8</sup>Deferred sales

<sup>&</sup>lt;sup>9</sup>Halal refers to permissible or not prohibited according to Islamic law

merchants and purchases made overseas. For the non-Muslims, the above-prohibited transactions will restrict them to purchase liquor or any prohibited transactions, which might create dissatisfaction for them. However, if they want to control themselves or their supplementary cardholders' from dealing with such transactions, Islamic credit-cards can serve the purposes. The credit card users in Malaysia can be divided into three types of groups (Mohd Dali, Abdul Hamid, Shahimi, & Wahid, 2008). The first group prefers to use the conventional credit card (CCC) since the conventional credit card cards have been established for more than three decades. The second group of credit card users prefers the Islamic credit card (ICC) only as a religious conformity. The third group of credit card users prefers to own both CCC and ICC. It is also the aim of this study to see if there are any differences between the three groups. Therefore the following hypotheses are developed:

H1: The six Functional Service Quality dimensions confirm the CFA test

H2: There are no differences between three types of credit card users such as the CCC, ICC and credit card users who use both types.

### 3. RESEARCH METHODOLOGY

This section will explain the data collection and data analysis used for this study. This study used an online survey created using Google since it could reach a bigger target audience, and is faster and cost effective. The researcher made a cover page using a unique domain name (phdsurvey.nuradli.com/survey.htm) in order to avoid the long Google URL address. The final data collection process was conducted over a period of four (4) weeks, commencing from 7<sup>th</sup> of November 2011 until 8<sup>th</sup> of December 2011. The overall response to this survey was very positive with a total of 666 respondents participating in the survey. Eighty three respondents do not own any credit-cards, therefore, were screened out. In addition, 10 respondents were deleted because they are working overseas and are using international banks. The total useable respondents were 560 respondents. Approximately, 186 (33.2%) respondents were conventional credit-card users, 219 (39.1%) were Islamic credit-card users and the remaining 155 (27.7%) were having both credit-cards. Please refer to table 1 for the respondents' demographic profiles.

**Table 1: Demographic Profiles of the Respondents** 

NO		PROFILES	C	CC	I	CC	В	oth
			N	%	N	%	N	%
1	Type Of Credit	t-card Owned	186	33.2	219	39.1	155	27.7
		Male	86	46.2	109	50.0	75	48.4
2	Gender	Female	100	53.8	109	50.0	80	51.6
		Total	186	100.0	218	100.0	155	100.0
		Below 20	1	.5	0	0	0	0
		21-30 years	43	23.1	47	21.5	35	22.6
		31-40 years	95	51.1	122	55.7	89	57.4
3	Age	41-50 years	33	17.7	43	19.6	22	14.2
		51-60 years	10	5.4	6	2.7	9	5.8
		Above 61 years	4	2.2	1	.5	0	0
		Total	186	100.0	219	100.0	155	100.0

This study employed the confirmatory factor analysis (CFA) in order to measure the validity of the FSQ model. Firstly, the FSQ model was evaluated using the CFA and the overall goodness of fits (GOF) of the model is assessed through the examination of  $\chi^2$ /DF, CFI, TLI, NFI, AGFI, GFI, RMSEA, PCLOSE.

Table 2: Characteristics of Different Fit Indices Demonstrating Goodness of Fit across
Different Model Situations

	N > 250
No of vars (m)	m≥30
$\chi^2$	Significant p-values can be expected
$\chi^2/DF$	< 3
CFI or TLI	≥ 0.90
RNI	> 0.90
SRMR	$\leq 0.08$
	CFI ≥ 0.92
RMSEA	< 0.07
	CFI ≥ 0.90

Source adopted from Hair et al. (2006, p. 753).

In the current study, the number of samples is 560 and m is greater than 30. A great discussion of the respective index can be referred to Hair et al. (2006, p. 753). Some argue that values above 0.9 are acceptable cut offs (Bentler and Bonnett 1980; Hoyle and Panter 1995). This rule is often disputed and disregarded (Bollen 1989; Hoyle and Panter 1995). Cohen (1988), for example, has a lower cut-off, of 0.8 (Wong and Jeffery 2002). Bollen (1989) suggested that a significant criterion "may be simply to compare the fit of one's model to the fit of other, prior models of the same phenomenon" (Wong and Jeffery 2002). For example, quoted from Moss (2009), a CFI of .85 may represent progress in the context of a study where the best prior model had a fit of .70 (Bollen 1989). Therefore, since this is an initial study in the context of ICCs, any results obtained presently can then become the cut off for future In addition, the model's reliability, convergent and discriminant validity were also assessed through the examination of Composite Reliability (CR), Average Variance Extracted (AVE), Maximum Shared Squared Variance (MSV), and Average Shared Squared Variance (ASV). Reliability can be measured by the Composite reliability and the threshold is 0.7. Convergent validity can be identified with two indicators. The composite reliability must be greater than AVE and AVE must be above than 0.5. The discriminant validity problems can be identified with two indicators. MSV must be lower than AVE and ASV must be lower than AVE. Convergent validity problem means that the variables do not correlate well with each other within their parent factor; i.e., the latent factor is not well explained by its observed variables. Discriminant validity problem means that the variables correlate more highly with variables outside their latent variable than with the variables within their latent factor (J.F. Hair, et al., 2006, p. 776).

If there are problems identified after the evaluation of the model's GOF, reliability, convergent and discriminant validity, the model measures have to be refined and design a new study (J.F. Hair, et al., 2006, p. 776). One contributing factor to the problem might come from the different nature of the respondents. For instance, in this study, there are three different groups which are CCC, ICC and BOTHCC. This multigroup comparison is conducted using AMOS in order to see if there are any differences between the groups. Therefore, this study changed its mode from confirmatory to exploratory mode. In the exploratory mode, problematic items that have low factor loading (below 0.7) and squared multiple correlation (below 0.5) will be deleted, then convergent and discriminant validity were assessed and lastly the model are re-specified after factor analysis are conducted, if necessary (Byrne, 2010; Joseph F. Hair, Black, Babin, Anderson, & Tatham, 2006). The three models comprising different credit card users such as conventional credit card users (CCC), Islamic

credit card users (ICC), respondents who have both Islamic and conventional credit cards (BOTHCC) will be compared in the next section.

### 4. FINDINGS

This section, will discuss the CFA for all the credit cards users, followed by a multigroup analysis of the three different groups. Then the models for the three different groups are respecified to overcome the validity problems noted in CFA and multigroup comparison.

# 4.1 CFA for Functional Service Quality (FSQ)

This subsection aims to examine the first-order CFA model designed to test the multidimensionality of a theoretical construct of FSQ. Specifically, the functional service quality (FSQ) is a multidimensional construct composed of six factors - reliability (R), Assurance (AS), tangible (Tan), empathy (Emp), responsiveness (Res) and staff conduct (St). The theoretical underpinning of this hypothesis derives from the Servqual model proposed by Parasuraman et al. (1988) and the additional dimension named as "staff conduct" found by several authors (Aldlaigan & Buttle, 2002; Avkiran, 1994; Guo, et al., 2008; Johnston, 1997; Levesque & McDougall, 1996; Stafford, 1996; Sureshchandar, Rajendran, & Anantharaman, 2002). This study followed from earlier work in which the five-factor structure of Servqual (22 items) is used but with an additional staff conduct factor (4 items). The functional service quality dimensions are reliability (r1-r5), assurance (as1-as4), tangible (tan1-tan4), empathy (emp1-emp5), responsiveness (res1-res4) and staff conducts (st1-st4). There are 26 items explaining the functional service quality constructs. CFA was conducted to confirm the factor structure. All the indices are within the acceptable range CFA indicate a good fit to the observed data ( $\chi^2$ /df=2.44; CFI=0.96; GFI=0.92, RMSEA=0.05; TLI=0.96). Figure 1shows the results for the FSQ model.

**(**4) Reliability €39 €3) 0 as4 tan1 tan2 tan3 Tangible tan4 emp1 80 €33 **1** Empath: .89 **€13** 81 13 70 **2 €**2) .86 €20 res3 ponsiveness **€3** 68 €25 **2**5 aff Conduct **€2**}

Figure 1: CFA for FSQ

Interestingly to take note is that all the factor loadings are above 0.7, except for two items, which are r5 (0.53; the item is deleted since the R<sup>2</sup> is too low) and res4 (0.68). In addition, all covariance connecting between the latent constructs are strongly positive (above 0.5). Furthermore, the convergent and discriminant validity tests for FSQ model were conducted and shown in Table 3.

Table 3: Convergent and Discriminant Validity for FSQ

					Conve Vali	ergent dity	Discri t Val	minan lidity					x with the Diagon	
Constructs	Items	Standardised Regression	Critical Ratio	R^2	Composite Reliability	AVE	ASM	ASA	Responsiveness	Reliability	Assurance	Tangible	Empathy	Staff Conduct
Responsiveness	res1 res2 res3	0.833 0.806 0.862	24.219**  * 23.035**	0.74 8 0.70 9 0.79 2	0.876	0.64	0.65	0.53	0.80					
Res	res4	0.677	17.881**	0.52 6										
lity	r1	0.784	21.869** 21.329**	0.70 6 0.68		0.62		0.56	0.70	0.70				
Reliability	r3	0.767	23.047**	5 0.66 1 0.84	0.873	0.63	0.75	0.56 6	0.70	0.79 6				
	r4 as1	0.865 0.777	20.24***	6 0.69 7										
Assurance	as2	0.734	18.802** * 22.886**	0.63 9 0.79	0.871	0.62	0.79	0.66 7	0.74 1	0.86 6	0.79			
Ass	as3	0.852	*	9 0.77			0	,	1	U	3			
	tan1	0.732	16.061**	0.59										
Tangible	tan2	0.766	17.605**	0.64 0.61	0.854	0.59	0.50	0.42	0.56 9	0.58 6	0.70 8	0.77		
Tal	tan3	0.748	17.22***	0.68		3	1	1	9	O	0	1		
	emp	0.809	21.718**	9 0.72 7										
thy	emp 2	0.702	18.014**	0.57 8		0.63	0.76	0.64	0.00	0.70	0.06	0.67	0.70	
Empathy	emp 3 emp	0.789	20.973** 29.199**	0.69 8 0.76	0.896	0.63	0.76	0.64 4	0.80 6	0.78	0.86	0.67	0.79	
	emp 5	0.814	*	0.73 3										

					0.75 2 0.67									
Constructs	Items	Standardised Regression	Critical Ratio	R^2	Composite Reliability	AVE	MSV	ASV	Responsiveness	Reliability	Assurance	Tangible	Empathy	Staff Conduct
+	st1	0.825	23.737**											
onpuo	st2	0.771	21.413**	_	0.005	0.70	0.79	0.66	0.80	0.79	0.89	0.69	0.87	0.8
Staff Conduct	st3	0.89	26.845**	0.84 5	0.903	5	6	5	7	3	2	8	3	4
N S	st4	0.836		0.76 8										
			•	at 0.001, Con	•	•		_	Varianc	e Explai	ined, MS	SV=Max	imum	

The overall composite reliability figures as shown in Table 3 are above 0.7 showing that the constructs are reliable. In addition, the AVEs are above 0.5 showing that the constructs have convergent validity. However, there are some discriminant validity concerns for Responsiveness, Reliability, Assurance, Empathy and Staff Conduct dimensions. The square root of the AVE for the dimensions mentioned above is less than one of the correlations with another factor. This problem is expected since some of the items developed by Parasuraman (1988) were identified to be overlapping. This is consistent with the findings of Cui et al. (2003) stating that Servqual is facing validity problems. Since all items from the original measure with a new dimension staff conduct were included in the CFA, some of the items might overlap with other items in different construct. This can be solved by deleting the affected items or by converging with the affected constructs. However, the problem might be due to the differences between the credit cards' users. In the following section, a multigroup CFA is conducted.

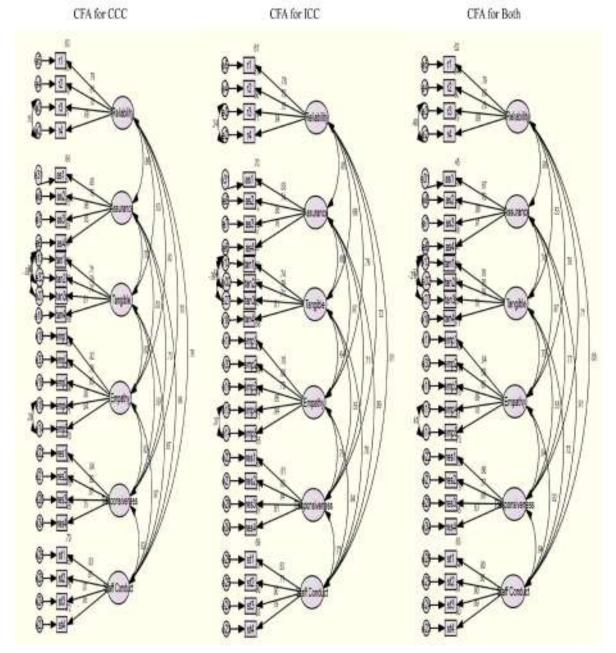
### 4.2 CFA Multigroup Comparisons

The credit card users in Malaysia can be divided into three types of groups as mentioned earlier in the paper. The first group prefers to use the conventional credit card since the conventional credit card cards have been established for more than three decades (CCC). The second group of credit card users prefers the Islamic credit card only as a religious conformity (ICC). The third group of credit card users prefers to own both CCC and ICC (BOTHCC). In this section, a multigroup CFA is explored and presented to deepen our understanding about the differences between the credit-card users. The results for individual groups for CCC, ICC and BOTHCC are shown in the following sub-sections.

### 4.2.1 CFA for CCC, ICC and BOTHCC Groups (FSQ Model)

CFA indicate a good fit to the observed data ( $\chi^2/df=1.826$ ; CFI=0.941; GFI=0.839, RMSEA=0.039; TLI=0.93). The CFA factor loadings results for CCC, ICC and BOTHCC credit card users are acceptable (above the 0.7 thresholds) for all the items in FSQ model as shown in Figure 2.

Figure 2: CFA for CCC, ICC and Both Credit Card Users



The results shown in Figure 2 shows the FSQ model is consistent for all three groups. However, if we examine the individual groups, the models will have some issues with convergent and validity issue. For example, the convergent and discriminant validity results for CCC are shown in Table 4.

Table 4: Reliability, Convergent and Discriminant Validity for CCC

	Convergent Validity		Discriminant Validity					Matrix v Diagona		e Square
	CR	AVE	MSV	ASV	Responsiveness	Reliability	Assurance	Tangible	Empathy	Staff Conduct
Responsivene	0.91	0.73	0.75	0.64	0.85					
SS	5	0	2	4	5					
	0.91	0.72	0.82	0.65	0.78	0.85				
Reliability	2	2	6	9	0	0				
	0.92	0.76	0.82	0.73	0.80	0.90	0.87			
Assurance	7	1	6	4	5	9	2			
	0.88	0.65	0.59	0.52	0.68	0.65	0.77	0.80		
Tangible	1	0	6	0	2	1	2	7		
	0.93	0.73	0.82	0.73	0.86	0.85	0.88	0.74	0.85	
Empathy	2	2	8	1	3	8	6	9	6	
	0.93	0.77	0.82	0.73	0.86	0.83	0.90	0.74	0.91	
Staff Conduct	2	3	8	0	7	6	3	6	0	0.879

It shows that there is no reliability and convergent problems for the CCC constructs because the a) CRs > 0.7, b) CRs > AVEs, c) AVEs are greater than 0.5. However, this model has some discriminant validity issues because the AVEs are lesser than one of the correlations with another factor. This can be detected when the correlation is greater than 0.85. The convergent and validity tests were also conducted for the ICC group and the following results were identified and is shown in Table 5.

Table 5: Reliability, Convergent and Discriminant Validity for ICC

	Convergent Validity		Discriminant Validity			Correl of AVE i			ith the S	quare
	CR	AVE	MSV	ASV	Responsiveness	Reliability	Assurance	Tangible	Empathy	Staff Conduct
Responsiveness	0.885	0.661	0.691	0.608	0.813					
Reliability	0.907	0.709	0.806	0.685	0.788	0.842				
Assurance	0.917	0.735	0.857	0.734	0.786	0.898	0.857			
Tangible	0.870	0.626	0.604	0.538	0.654	0.748	0.750	0.791		
Empathy	0.908	0.666	0.828	0.703	0.826	0.830	0.910	0.731	0.816	
Staff Conduct	0.916	0.732	0.857	0.737	0.831	0.867	0.926	0.777	0.884	0.856

The convergent and discriminant validity results for ICC show that *no* convergent problems are detected. However, this model has some discriminant validity issues because the AVEs are lesser than one of the correlations with another factor. This can be detected when the correlation is greater than 0.85. The convergent and validity tests were also conducted for the BOTHCC credit card users and the following results were identified and shown in Table 6.

Table 6: Reliability, Convergent and Discriminant Validity for Both

	Convergent Validity		Discriminant Validity				tion Ma Diagona		1 the Squ	uare Root
	CR	AVE	MSV	ASV	Responsiveness	Reliability	Assurance	Tangible	Empathy	Staff Conduct
Responsiveness	0.902	0.698	0.781	0.656	0.835					
Reliability	0.924	0.753	0.856	0.674	0.786	0.868				
Assurance	0.895	0.682	0.882	0.776	0.830	0.925	0.826			
Tangible	0.879	0.644	0.630	0.531	0.644	0.640	0.794	0.803		
Empathy	0.930	0.726	0.893	0.758	0.882	0.844	0.906	0.764	0.852	
Staff Conduct	0.936	0.786	0.893	0.789	0.884	0.880	0.939	0.784	0.945	0.887

Source: This Research

The convergent and discriminant validity test results for BOTHCC credit card users shows that *no* convergent problems are detected. However, this model has some discriminant

validity issues because the AVEs are lesser than one of the correlations with another factor. This can be detected when the correlation is greater than 0.85. Even though, the findings show that the model has an overall good fit however; the respective groups have some issues with discriminant problems. In addition, the results for the model of multigroup invariant analysis revealed that the groups are different at the model level (Unconstrained  $\chi^2$  1402.2; Fully constrained  $\chi^2$  1485.7; p-value=0.002). The problems of the discriminant validity might arise from the differences in the multigroup, which will be examined in the following sub-section.

### 4.2.2 CFA Multigroup Differences Analysis (FSQ)

Multigroup difference analysis was conducted to identify if there are any significant differences found in any of the construct between groups. The differences were analysed by determining the z-score between the estimates between any two groups. An examination of the z-score in Table 7, there is a significant difference between CCC and ICC for emp2, emp3, r2, res4, st3, and tan3.

Table 7: The Multigroup Difference Analysis Between CCC Vs ICC, ICC Vs Both and CCC Vs Both

				CCC		ICC			ICC	Both				CCC		ВОТН	
Lo	adin	ıgs	Estimate	Ь	Estimate	P	z-score	Estimate	P	Estimate	Ь	z-score	Estimate	P	Estimate	Ь	z-score
as 1		A S	0. 93 0	0. 00 0	1. 00 3	0. 00 0	1.09	1. 00 3	0. 00 0	0. 66 7	0. 00 0	4.72 2** *	0. 93 0	0. 00 0	0. 66 7	0. 00 0	3.61 5** *
as 2	\ 	A S	0. 83 1	0. 00 0	0. 78 7	0. 00 0	0.65	0. 78 7	0. 00 0	0. 69 0	0. 00 0	1.38	0. 83 1	0. 00 0	0. 69 0	0. 00 0	- 1.97 **
as 3	\ 	A S	0. 94 1	0. 00 0	0. 90 0	0. 00 0	0.70 4	0. 90 0	0. 00 0	0. 92 5	0. 00 0	0.40	0. 94 1	0. 00 0	0. 92 5	0. 00 0	0.24 8
as 4	V	A S	1. 00 0		1. 00 0			1. 00 0		1. 00 0			1. 00 0		1. 00 0		
e m p1	< 	E M P	0. 91 5	0. 00 0	0. 81 1	0. 00 0	1.36	0. 81 1	0. 00 0	1. 14 3	0. 00 0	3.36 9** *	0. 91 5	0. 00 0	1. 14 3	0. 00 0	2.28 4**
e m p2	\ 	E M P	0. 94 2	0. 00 0	0. 77 7	0. 00 0	1.87 5*	0. 77 7	0. 00 0	0. 95 4	0. 00 0	1.62	0. 94 2	0. 00 0	0. 95 4	0. 00 0	0.11
e m p3	< 	E M P	1. 06 0	0. 00 0	0. 79 2	0. 00 0	3.14 5** *	0. 79 2	0. 00 0	1. 24 6	0. 00 0	4.30 8** *	1. 06 0	0. 00 0	1. 24 6	0. 00 0	1.71 5*

				CCC		ICC			ICC	Both				CCC		ВОТН	
Lo	adin	ıgs	Estimate	P	Estimate	P	z-score	Estimate	P	Estimate	P	z-score	Estimate	Ь	Estimate	Ь	z-score
e m p4	< 	E M P	0. 98 0	0. 00 0	1. 02 1	0. 00 0	0.62	1. 02 1	0. 00 0	1. 23 7	0. 00 0	2.74 4** *	0. 98 0	0. 00 0	1. 23 7	0. 00 0	3.05 1** *
e m p5	<	E M P	1. 00 0	0	1. 00 0	0		1. 00 0	0	1. 00 0	0		1. 00 0	-	1. 00 0	0	
r1	< 	R R	0. 86 2	0. 00 0	0. 85 3	0. 00 0	0.14 5	0. 85 3	0. 00 0	0. 89 8	0. 00 0	0.64	0. 86 2	0. 00 0	0. 89 8	0. 00 0	0.49
r2	<	K	1. 03 7	0. 00 0	0. 79 8	0. 00 0	3.25 6** *	0. 79 8	0. 00 0	0. 95 2	0. 00 0	2.06 9**	1. 03 7	0. 00 0	0. 95 2	0. 00 0	- 1.07 7
r3	<	R	0. 80 3	0. 00 0	0. 91 5	0. 00 0	1.59	0. 91 5	0. 00 0	0. 95 3	0. 00 0	0.56	0. 80 3	0. 00 0	0. 95 3	0. 00 0	2.07 8**
r4	< 	R	1. 00 0		1. 00 0			1. 00 0		1. 00 0			1. 00 0		1. 00 0		
re s1	<	R E S	1. 05 7	0. 00 0	1. 08 1	0. 00 0	0.26	1. 08 1	0. 00 0	1. 06 2	0. 00 0	0.20	1. 05 7	0. 00 0	1. 06 2	0. 00 0	0.05
re s2	<	R E S	1. 07 0	0. 00 0	1. 17 1	0. 00 0	1.06	1. 17 1 1.	0. 00 0	0. 92 7	0. 00 0	2.51 1**	1. 07 0	0. 00 0	0. 92 7	0. 00 0	1.53
re s3	/	E S R	00 0	0.	00 0	0.	1	00 0	0.	00 0	0.	-	00 0	0.	00 0	0.	
re s4	<	E S	95 0 0.	00 0	78 8 0.	00 0	1.66 7*	78 8 0.	00 0	76 7 0.	00 0	0.21	95 0 0.	00 0	76 7 0.	00 0	1.90 9*
st 1	<	S C	84 9 0.	00 0	96 2 0.	00 0	1.51	96 2 0.	00 0	83 0 0.	00 0	1.70	84 9 0.	00 0	83 0 0.	00 0	0.25
st 2	<	C	95 1 0.	00 0	86 3	00 0	1.03	86 3	00 0	96 2	00 0	1.13	95 1 0.	00 0	96 2 1.	00 0	0.13
st 3	<	C	91 3	00	09 0	00	2.32 6**	09 0	00	00 0	00	1.18	91 3	00	00 0	00	1.26
st 4 ta n1	- · · · · · · · · · · · · · · · · · · ·	C T A	00 0 0. 82	0. 00	00 0 0. 89	0. 00	0.62	00 0 0. 89	0. 00	00 0 0. 86	0. 00	0.27	00 0 0. 82	0. 00	00 0 0. 86	0. 00	0.30

				CCC		ICC			ICC	Both				CCC		ВОТН	
Lo	adin	ıgs	Estimate	d	Estimate	d	z-score	Estimate	d	Estimate	d	3-8core	Estimate	d	Estimate	d	z-score
		N	5	0	1	0		1	0	0	0	4	5	0	0	0	
	<	T	0.	0.	0.	0.	-	0.	0.	0.	0.	-	0.	0.	0.	0.	-
ta		Α	94	00	91	00	0.26	91	00	86	00	0.44	94	00	86	00	0.68
n2	-	N	4	0	7	0	6	7	0	9	0	1	4	0	9	0	4
	<	T	0.	0.	0.	0.	-	0.	0.	0.	0.		0.	0.	0.	0.	-
ta		A	97	00	76	00	2.05	76	00	86	00	0.93	97	00	86	00	0.99
n3	-	N	8	0	9	0	8**	9	0	6	0	3	8	0	6	0	6
	<	T	1.		1.			1.		1.			1.		1.		
ta		A	00		00			00		00			00		00		
n4	- .a. *	N	0		0		oluo /	0		0			0		0		

Notes: \*\*\* p-value < 0.01; \*\* p-value <

0.05; \* p-value < 0.10 Source: This Research

There are also significant differences for items comparing ICC and BOTHCC credit card users. The items are as, emp1, emp3, emp4, r2, res2, st1. As for the CCC and BOTHCC credit card users, the items found significant difference are as1, as2, emp1, emp3, emp4, r3, and res4. The results show that one size does not fit all for FSQ. In order to solve the problems, the models are re-specified in the exploratory mode.

## 4.3.1 Model Re-specification for CCC

Factor analysis was conducted using promax rotation, and eight items were found to be problematic. They were deleted because the factor loadings are below than 0.5, or they cross loaded into other constructs. The items were r5, as1, as2, as3, as4, st2, emp1 and emp2. Since there is no item loading in assurance, therefore, only five final constructs and 18 items will be used in the further analysis. The model is shown in Figure 3.

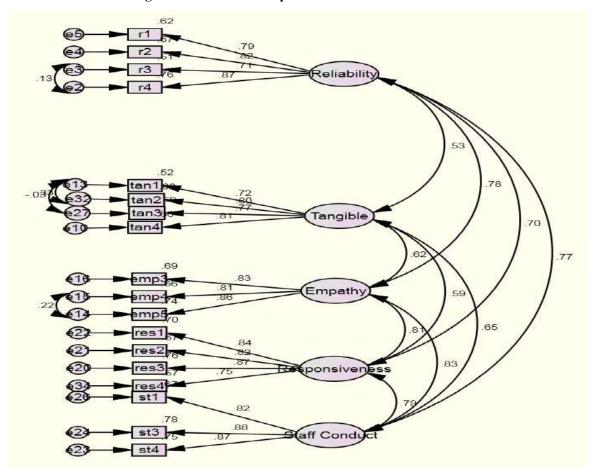


Figure 3: CFA after Re-specification for CCC

In addition, CFA indicates a good fit to the observed data ( $\chi^2$ /df=1.709; CFI=0.965; GFI=0.899, RMSEA=0.062; TLI=0.955). The CFA factor loadings results for CCC are acceptable (above the 0.7 thresholds). Furthermore, the reliability, convergent and discriminant validity as shown in table 8 managed to overcome the validity issues of the original FSQ model presented earlier.

Table 8: Reliability, Convergent and Discriminant Validity after Re-specification (CCC)

	Converge	nt Validity	Discrimina	nt Validity				latrix w	
	CR	AVE	MSV	ASV	Responsiveness	Reliability	Tangible	Empathy	Staff Conduct
Responsiveness	0.892	0.675	0.664	0.532	0.821				
Reliability	0.877	0.642	0.615	0.494	0.700	0.801			
Tangible	0.857	0.600	0.425	0.361	0.591	0.534	0.774		
Empathy	0.874	0.698	0.682	0.586	0.815	0.784	0.619	0.835	
Staff Conduct	0.892	0.733	0.682	0.580	0.791	0.765	0.652	0.826	0.856

The most striking result to emerge from the data is that there is no reliability, convergent and discriminant validity issue for the five constructs because a) CR > 0.7, b) AVEs > 0.5, c) correlation is less than 0.85.

## 4.3.2 Model Re-specification for ICC

Factor analysis was conducted using promax rotation, and nine items were found to be problematic. They were deleted because the factor loadings are below than 0.5, or they cross loaded into other constructs. The items were r5, as1, as2, as4, st2, res4, tan3, emp1 and emp2. Since there is no item loading in assurance, therefore, only five final constructs and 17 items will be used in the further analysis. The model is shown Figure 4.

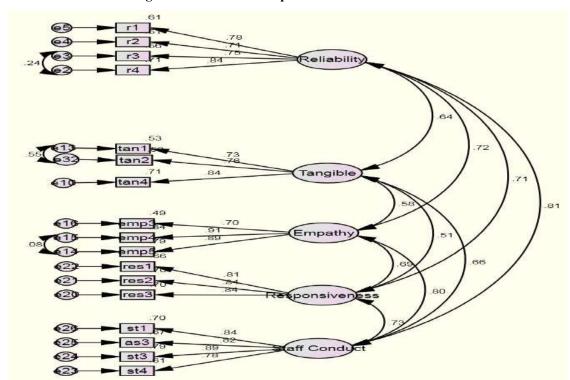


Figure 4: CFA after Re-specification for ICC

In addition, CFA indicates a good fit to the observed data ( $\chi^2$ /df=2.014; CFI=0.959; GFI=0.897, RMSEA=0.068; TLI=0.948). The CFA factor loadings results for ICC are acceptable (above the 0.7 thresholds). Furthermore, the reliability, convergent and discriminant validity is shown in Table 9.

Table 9: Reliability, Convergent and Discriminant Validity after Re-specification (ICC)

	Conve Vali	_		ninant dity	Factor C		Matrix wi E in the Di		are Root
	CR	AVE	MSV	ASV	Responsive ness	Reliability	Tangible	Empathy	Staff Conduct
Responsiveness	0.867	0.685	0.537	0.443	0.828				
Reliability	0.856	0.599	0.656	0.519	0.707	0.774			
Tangible	0.820	0.603	0.436	0.359	0.508	0.637	0.777		
Empathy	0.877	0.706	0.640	0.492	0.691	0.716	0.581	0.840	
Staff Conduct	0.900	0.693	0.656	0.567	0.733	0.810	0.660	0.800	0.833

Source: This Research

There is no reliability, convergent and discriminant validity issue for the five constructs because a) CR > 0.7, b) AVEs > 0.5, c) correlation is < 0.85.

### 4.3.3 Model Re-specification for BOTHCC

Factor analysis was conducted using promax rotation and thirteen (13) items were found to be problematic. They were deleted because the factor loading are below than 0.5, or they cross loaded into other constructs. The items were r3, r5, as1, as2, as3, as4, emp2, emp3, res4, as1, tan3, st4 and tan4. Since there is no item loading in assurance, therefore, only five final constructs and 13 items will be used in the further analysis. The model is shown in Figure 5.

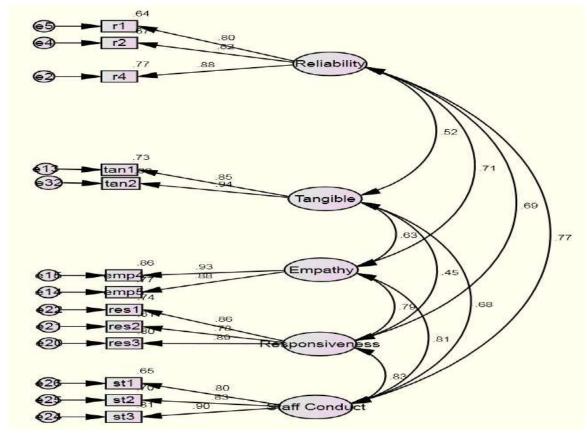


Figure 5: CFA after Re-specification for Both

Source: This Research

In addition, CFA indicates a marginally good fit to the observed data ( $\chi^2/df=2.314$ ; CFI=0.941; GFI=0.854, RMSEA=0.093; TLI=0.924) because RMSEA is greater than 0.08 with a significant Pclose. The CFA factor loadings results for all BOTHCC items are acceptable (above the 0.7 thresholds). Furthermore, the reliability, convergent and discriminant validity is shown in Table 10.

Table 10: Reliability, Convergent and Discriminant Validity after Re-specification (Both)

	Convergent Validity		Discriminant Validity		Factor Correlation Matrix with the Square Root of AVE in the Diagonal				
	CR	AVE	MSV	ASV	Responsiveness	Reliability	Tangible	Empathy	Staff Conduct
Responsiveness	0.883	0.717	0.686	0.498	0.847				
Reliability	0.872	0.694	0.588	0.459	0.689	0.833			
Tangible	0.893	0.807	0.461	0.334	0.452	0.518	0.898		
Empathy	0.897	0.813	0.659	0.549	0.793	0.709	0.635	0.902	
Staff Conduct	0.884	0.718	0.686	0.599	0.828	0.767	0.679	0.812	0.847

There is no reliability, convergent and discriminant validity issue for the five constructs because a) CR > 0.7, b) AVEs > 0.5, c) correlation is < 0.85.

#### 5. DISCUSSION

As mentioned earlier the aims of this paper are to investigate using confirmatory factor analysis, whether the existing functional service quality model can be used within the context of Malaysia and compares the functional service quality model provided for credit card consumers, specifically to see if there are any differences between the three different groups of credit card users in Malaysia. The findings from the CFA for the FSQ model revealed that the replication of the western model without any modification in the context of Malaysia possessed the discriminant validity concerns for Responsiveness, Reliability, Assurance, Empathy and Staff Conduct dimensions. The findings are consistent with the findings of Cui et al. (2003) stating that Servqual is facing validity problems. However, there are several studies using Parasuraman (1988) model or Othman & Owen (2001) model reporting that the models are reliable such as Muslim & Zaidi (2008), Sadek, et al., (2010) and Osman, et al.,(2009) but no attempts were conducted to assess the convergent and discriminant validity. Therefore, this study has contributed a significance finding that the adaptation of the existing model without any modification can be superficial. The model might show a good GOF indices and reliability results. However, it might fail the discriminant validity.

Secondly, the multigroup comparison of the credit card holders revealed that there are differences between the groups as indicated in the findings. The differences identified in the confirmatory and exploratory modes. The Z score difference tests for the different groups revealed that there are significant differences between the groups for several items. In addition, the numbers of items used in different groups are different because some items were found to be problematic in the factor analysis during the exploratory mode. For instance, CCC has 18 items. ICC has 17 items, and BOTHCC have 13 items. As for the constructs, the assurance dimension did not manage to be a contributing factor in all three groups. This is supported by Han & Baek (2004) because they claimed that the assurance dimension would have less human interaction while conducting online banking. In addition, Arasli, Mehtap-Smadi, & Katircioglu (2005) also eliminated assurance dimension for the banking studies

conducted in Cyprus. As for the case of Malaysia, Kumar, et al., (2009) the assurance dimension was also eliminated.

The findings have a significant impact to facilitate the banking industry to segment its market for different diverse religious and cultural value. The findings show that different models are required for different groups of people in the post-purchase behavioural in the banking industry. Failure to meet the different needs of the diverse groups will end up the banks to be positioning their efforts and financial strengths erroneously.

### 6. CONCLUSION

Customer satisfaction is an important research area to understand consumer post purchase behaviours especially in the context of banking and credit-card service industry. This research, studying the difference between the Islamic credit card holders, conventional credit card holders and customers who own both types of the credit cards found that there are differences between the different types of groups. The re-specified models for the different groups revealed that assurance dimension did not form significantly for the CCC, ICC and BOTHCC users. In addition, the idea of one size fits all does not apply to the current context because there are significant differences between the three groups. The result explicitly implies that in the context of CCC, ICC, and BOTHCC some modification or addition to the dimensions is recommended. The study, however, only tested for the measurement models (CFA). This study recommends that structural test to be conducted in order to determine the relationships between the latent constructs and customer satisfaction. However, since there are differences between the credit cards users, the structural relationships might be similar or different between the models. Nevertheless, the overall FSQ model is still relevant with a condition some minor adjustment can be made based on the contextual and industry.

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# Does Faith Move Stock Markets? Evidence from Saudi Arabia

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### Abstract

This paper investigates the effects of religious beliefs on stock prices. Our findings support the viewpoint that the religious tenets have important bearing on portfolio choices of investors. It is found that Shariah-compliant stocks have higher return and volatility than their non-Shariah compliant counterparts.

Keywords: Islamic Religion, Stock Returns, Volatility, Stochastic Dominance, Saudi Arabia.

# 1 Introduction

The role of beliefs, social norms and values has not been widely studied in financial literature. Yet, it seems intuitive that individuals operating in different social environments would exhibit different behavior. In the end, markets do not make decisions, but people do and interactions among individual choices, corporate culture and social norms are unavoidable.

Prior research suggests links between individual religiosity and risk aversion. For example, Miller and Hoffmann (1995) reports a negative correlation at individual level between religiosity and attitude towards risk. Similalry, Osoba (2003) uses individual panel data to show that risk-averse individuals attend churches more often than risk-seeking individuals. Hilary and Hui (2009) examine if religion affects corporate behavior in US. They find that firms located in counties with higher level of religiosity display lower degrees of risk exposure. Extant literature also acknowledge that religiosity and social norms have some bearing on investment decisions of institutions such as pension plans and corporate-decision making in general. In this paper we endeavour to add to the existing body of knowledge by focusing on the relation between religion and financial markets. This study focuses specifically on Islamic religion and examines the market effects of ethical norms in the novel setting of stock markets.

Islamic religion imposes several restrictions on individual investment choices. Most notably, the prohibition of investing in "sin stocks" (i.e. publicly traded companies involved in producing alcohol, tobacco, and gaming) and interest bearing securities. We postulate that in countries where religion plays a heavy role in dictating individual behavioral code and social norms, portfolio selection is affected.

To investigate the market effects (if any) of ethical norms we focus on a country where religion constitutes an integral part of society, namely Saudi Arabia. This country is an ideal setting in which to study this phenomenon, for several reasons. Firstly, Muslims constitute 97% of population. Also, Saudi Arabia is a conservative society that has adopted the most austerely puritanical

form of Islam. The country also plays a central role in the international Muslim community as the host of the two holy cities of Makkah and Medina and this is a paramount to the country identity. Secondly, although Islamic finance services industry is expanding rapidly in the homeland of Islam, non Shariah-compliant stocks are available on the market and there is no legal obligation to invest in these securities. Portfolio selection is entirely left to market participants and any moral obligation depends on the ethical attitude of investors. Finally, as a result of its development and the peculiarity of the Saudi economy (Saudi economy is heavily dependent on oil revenue), the Saudi stock market has several characteristics that makes it unique among emerging-market bourses. Market capitalization and trading volume have multiplied by some orders of magnitude in the last few years, yet the large majority of investors are individuals rather then institutions. Also, foreign investment is very limited as GCC national and other Arab residents account for a small proportion of buy and sell transactions, whereas the non-Arab resident proportion is close to zero.

It is clear from the few highlights above that Islamic religion plays an integral part of everyday life in the country determining much of the interaction within the society. The prominent role of religion in the society together with recent developments of the Saudi stock market constitute a rare opportunity for a social scientist to observe a phenomenon in an almost lab-made experiment in which to test the effect of religious tenets on financial markets: starting from 2001 onward, first-time local individual investors (i.e. not institutional or professional mutual fund managers) entered a "conventional" (i.e. not only Islamic finance oriented) and relatively thin stock market in large number and started trading massively.

A natural question arises at this point: Is portfolio selection of market participants affected by social environment? In other words, is there any market effect that can be ascribed to religious prescriptions? Moreover, given the very large proportion of retail investors versus institutional investors in the market how this affects stock prices? Is there an interaction between religious tenets

concerning financial investment and portfolio choice of retail investors? These are the issues addressed in this paper.

We begin our investigation by classifying stock returns according to their degree of compliance with Islamic finance principles. First, we hypothesize that shares of stocks which are less Shariah-compliant should be held in smaller proportions in the religious minded investor's optimal portfolio. We test this hypothesis by considering the stochastic dominance principle for portfolio selection of a risk averse investor. Consistent with our predictions, we find that stocks that are more Shariah-compliant have higher returns and are associated with higher relative risk. Next we investigate the effect of retail investors on the volatility of returns. Given the massive increase of retail investors in the market that occurred in the recent years we postulate that by increasing trade volume of stocks which are more Shariah-compliant, religious tenets affect the volatility of returns. According to behavioral finance literature noise traders acting on the base of noisy signal create additional source of systemic risk in the market, therefore increasing volatility of the assets affected by the action of noise traders. Looking at the evolution of trade volume in different stock market sectors it is found that individual investors trade more actively in Shariah-compliant stocks. Given the strong relation between trade volume and volatility it appears that by pushing away stock prices from their fundamental values noise traders affect volatility of Shariah-compliant stocks. Finally, because individual investors tend to place small orders their actions have to be coordinated in order to make an impact on the market. Accordingly, in order to test this hypothesis tests for herding behavior in the stock market are conducted.

Overall, our findings on the effect of religious tenets in the context of stock market strongly support the viewpoint that religious prescriptions can have important effect for market in the country under consideration.

The rest of the paper proceeds as follows. Section 2 provides some theoretical background. In Section 3 the results of the empirical investigation are reported and the methodology used is discussed. In Section 4, the relation-

ship between price volatility and trade volume is investigated. Finally, some concluding remarks are given in Section 6.

# 2 Background and Theoretical Motivation

Economists have long realised the importance of understanding individual portfolio choice. A rich theoretical literature demonstrates how portfolio decisions
depend on factors such as risk aversion and investment opportunities. Early
contributions analyse static models in which an investor selects the portfolio
that maximizes expected utility function given total wealth and the risk-return
patters of available assets (Tobin (1958)). More recent research has moved to a
dynamic framework in which a portfolio is selected to maximize expected lifetime utility. The empirical literature on portfolio choice seeks to find observable
variables that explain cross-sectional variations in portfolio behavior. Typically,
covariates include resources available to the household (total wealth and income)
as well as demographic characteristics (age, race, gender, marital status). The
role of religion has received little attention, yet in many communities religious
tenets play a role in shaping economic behavior and market outcomes, overriding
at times the profit motive.

In this paper we aim at investigating if religion affects portfolio selection. From the theoretical point of view our paper relates to the literature of ethical investments where portfolio selection is realised on the basis of ethical principle along with the traditional mean-variance relation. Following this literature we postulate that investors' religious considerations restrict the set of securities available for portfolios selection to a subset of the available stocks in the market.

Testing whether religion affects portfolio selection directly requires microlevel data on individual ownership. Ideally, one should analyse the link level of religiosity and risk attitude. Unfortunately, this type of data are not available to us. Therefore, we adopt and indirect approach and analyse the return behavior in the Saudi stock market. Underneath this approach lays the idea that portfolio composition of a religious minded investor is affected by the degree of Shariahcompliant element of the assets. If this is true one should see an effect of the stock price.

Before describing the empirical analysis we briefly review some basic principle of Islamic finance. One of the main pillars in Islamic finance is the prohibition of collection or payment of interest (riba). In general, any interest or predetermined payment over the principle is not allowed according to Islamic religion. Other forms of restrictions Muslims face are the prohibition of gambling, investing in businesses that are considered sinful or socially irresponsible such as companies that produce alcohol or weapons. Also, many practices associated with stock trading such as margin trading (i.e. borrowing to invest) or short selling are not allowed in Islamic finance. Other important considerations relates to derivative products, such as futures and options which are in general considered invalid instruments in Islamic finance.

Islamic investors have, however, a range of choices when constructing their financial portfolio. These include among other interest free bank deposits, investment in Islamic unit trusts and investments in stock markets. For a review on principles and methods of Islamic finance see for example Gait and Worthington (2007).

# 3 Stock Market and Islamic Law: a Stochastic Dominance Approach

In this section we test the hypothesis that there is a relation between stock market returns and Islamic law. A battery of methodologies has been used in order to test this hypothesis. As a first approach some descriptive statistics are reported. We then go a step further and investigate the hypothesis that returns and in particular the return volatility is higher for Shariah-compliant stocks by using the stochastic dominance approach.

### 3.1 The Empirical Investigation

The data under consideration consists of daily closing prices for Saudi stock market general index (TASI) and the sector indexes. The period considered in this study covers from January 1<sup>st</sup> 2002 to April 1<sup>st</sup> 2008. There are 6 sectors in the stock market. Namely, the sectors are: Banking, Industry, Cement, Agriculture, Services, and Telecommunications. However, we do not include Telecommunication in the study as it consists of one company only and few data are available for this sector.

In order to investigate if Shariah law affects the stock returns the five sectors were classified according to the degree of compliance with Islamic finance principles. Unlike other countries with high proportion of Muslim population Saudi stock market does not offer a Shariah compliant index such as the Malaysian SI index for example. However, Al-Shubily and Al-Osaimi provide highly regarded lists where companies offering securities on the market are classified by authoritative religious experts. In these lists financial services that provide interest (riba), or publicly traded companies involved in producing alcohol, tobacco and gaming are considered not suitable to a devoted Muslim and classified as "haram". On the other side, Shariah-compliant companies enjoy the status of "halal" and can be considered by investors seeking to make their investment based on Islamic jurisprudence. Finally, companies whose business activities are Shariah-compliant, but sources of funds for some activities are not compliant are considered "mixed". Investment in this kind of stock is considered halal, but investors have to relinquish a proportion of their dividends in order to "purify" their profits for the non Shariah-compliant part of their revenues. In principle, the higher this proportion, the less Shariah-compliant is the company and therefore the less suitable the stock is for a pious Muslim investor. Therefore, by considering the distinction between haram, halal and mixed type of securities it is possible to rank each of the five sectors according to the degree of Shariah-compliant element.

According to this criterion the Banking sector is the less compatible with the Islamic principles as there is only one bank trading in Shariah-compliant equities, the remaining 8 being conventional banks. The Cement sector has 8 firms which are classified as mixed companies. According to the Al-Osaimi 2008 list<sup>1</sup>, the proportion of dividend that has to be waived for stocks in this sector ranges from 7% to 15%. The Industrial sector includes 23 joint companies. Some of these firms offer Shariah-compliant securities, but the majority of the publicly traded companies in this sector are classified as mixed. According to the Al-Shubily 2007 list, investors must alienate an amount between 3% and 10% of their dividend per share in order to purify their revenues. The Service sector contains 22 joint companies of which 14 companies are Shariah-compliant and 8 companies are in the mixed category. In this sector the percent that has to be waived to clear revenues is small compared to other sectors. According to the Al-Osaimi 2008 list this proportion ranges between 0.02% and 0.60%. Finally, the Agriculture sector includes 9 joint firms. All companies are Shariah-complaint and therefore suitable for a religions minded investor.

For ease of interpretation the ranking of the sectors according to the degree of Shariah-compliance element of stocks is summarised in Table 1.

Table 1. Ranking of Shariah-compliant stocks by sector.

Sector	Shariah-compliant element				
Bank	Approximately 90% haram				
Cement	Mixed: $6\%$ - $15\%$				
Industrial	Mixed: $3\% - 10\%$				
Services	Mixed: $0.02 - 0.60\%$				
Agriculture	100% halal				

Note: The ranking is in reverse order with the Banking sector being the less Shariah-compliant sector and Agriculture 100% halal.

We next consider the returns for the five sectors and investigate if there is a relation between the ranking of sectors reported in Table 1 and the distribution of returns.

<sup>&</sup>lt;sup>1</sup>Note: The Al-Osaimi and Al-Shubily lists are published annually. However, looking at the published lists between 2000 and 2006 the proportion of dividends that had to be waived did not change substantially. Therefore, only the lists published in 2007 and 2008 were considered.

### 3.2 A First Look at the Data

For the empirical investigation daily returns for each sector and the general market index (TASI) were calculated as:

$$R_t = \ln(P_t/P_{t-1})$$

where  $P_t$  and  $P_{t-1}$  are the closing prices on day t and t-1, respectively.

As volatility is unobservable a proxy was calculated by using the squared returns after filtering returns from the (estimated) conditional mean. That is, for the general index and each sector indexes a proxy for volatility has been calculated as

$$\sigma_t = \left(R_t - (1/T)\sum_{j=1}^T R_t\right)^2. \tag{1}$$

As shown Hansen and Lunde (2006) the expression in (1) provides a unbiased estimator of the unknown data generating process of return volatility. Recently, other proxy for volatility have been suggested. A well known example is realised volatility where volatility is estimated using intraday observations of daily stock prices. Assuming that the log of the series of stock prices are a continuous semimartingale processes, realised volatility also is a consistent estimator of the true underlying volatility process. However, we did not have access to intraday stock prices. Thus, given that square returns provide a unbiased estimator of the true unobservable volatility the former were used as a proxy of volatility.

Table 2 reports some basic univariate statistics for the Saudi returns throughout the sample. The mean, minimum, maximum, standard deviations, skewness and kurtosis indices are reported. The mean returns for the 5 sectors are positive, ranging from a maximum of 0.096 for Industrial to a minimum 0.055 for the Cement sector. The positive sign reflects high growth in Saudi stock market during the period under consideration. From Table 2 it is of interest to note that the Banking sector which is the least Sharia-compliant sector and the Cement sector which is ranked second in Table 1 have the lowest standard deviation.

On the other side, Agriculture is the most volatile sector followed by Service and Industrial.

Table 2. Summary statistics of the daily returns for the five sectors in the Saudi stock market.

Sector	Mean	Std. Dev.	Skewness	Kurtosis	
Bank	0.055	1.150	-0.640	10.653	
Industrial	0.096	2.930	-0.451	6.621	
Cement	0.056	1.688	-0.609	10.600	
Service	0.053	2.153	-0.909	6.382	
Agriculture	0.083	2.788	-0.457	3.670	
Tasi	0.064	1.507	-1.027	9.929	

From Table 2 it also appears that stock returns in each of the sectors are negatively skewed and leptokurtic, as the skewness and kurtosis indices are higher than zero and three, respectively. Excess kurtosis in stock return has been well documented in many equity market studies in both developed and emerging markets.

The preliminary investigation in Table 2 suggests that the magnitude of the standard deviation of returns is a good match with Table 1, where the ranking of the sectors according to the degree of Shariah-compliance is reported. In order to further investigate this issue, below we use the stochastic dominance method to compare the returns in different sectors of the Saudi stock market. The theory of stochastic dominance provides a systematic framework for comparing relationship between two distributions. With respect to the simple mean-variance approach it has the advantage of exploiting the information embedded in the entire distributions of stock market returns instead of finite set of statistics.

### 3.3 The Stochastic Dominance Analysis

Before presenting the results of the empirical investigation we briefly define the criteria of stochastic dominance.

Define X and Y be two stochastic processes for the returns of any two sectors. Let  $U_1$  denote the class of all von Neumann-Morgestern type of utility functions, u, such that  $u' \geq 0$ , also let  $U_2$  denote the class of all utility functions in  $U_1$  for which  $u'' \leq 0$ , and  $U_3$  denote a subset of  $U_j$  for which  $u''' \leq 0$ . Let  $X_1, ..., X_p$  be p observation of X and  $Y_1, ..., Y_m$  denote the m observation in Y and let  $F_1(x)$  and  $F_2(x)$  be the cumulative distribution functions of X and Y respectively, then we define

**Definition 1.** X first order stochastically dominates (FSD) Y if and only if either:

- i)  $E[u(X)] \geq E[u(Y)]$  for all  $u \in \mathcal{U}_1$
- *ii*)  $F_1(x) \leq F_2(x)$   $\forall x$  with strict inequality for some x.

According to Definition 1 investors prefer higher returns to lower returns, which implies that a utility function has a non-negative first derivative. Second order stochastically dominate (SSD) also takes risk aversion into account, but it posits a negative second derivative (which implies diminishing marginal utility) of the investor's utility function. This is sufficient for risk aversion. More formally, the definition of SSD is as follows:

**Definition 2.** X second order stochastic dominates Y if and only if either:

- $i) E[u(X)] \ge E[u(Y)]$
- ii)  $\int_{-\infty}^{x} F_{1}(t) dt \leq \int_{-\infty}^{x} F_{2}(t) dt \ \forall \ x \text{ with strict inequality for some } x.$

Whitmore (1970) introduced third-order SD by adding the condition that utility functions have non-negative third derivative. This assumes the empirically attractive feature of decreasing absolute risk. It is clear that higher order efficient sets are subsets of the lower efficient sets.

Testing for stochastic dominance can be based on comparing (functions of) the cumulate distributions of the five sectors. Of course, the true cumulated distribution functions (CDFs) are not known in practice. Therefore, stochastic dominance relies on the empirical distribution functions. In the literature

several procedures have been proposed to test for stochastic dominance. An early work by McFadden (1989) proposed a generalization of the Kolmogorov–Smirnov test of first and second order stochastic dominance among a number of prospects (distributions) based on i.i.d. observations and independent prospects. Later works by Klecan et al. (1991) and Barrett and Donald (2003) extended these tests allowing for dependence in observations, and replacing independence with a general exchangeability amongst the competing prospects. An important breakthrough in this literature is given in Linton, Maasoumi and Whang (2005) where consistent critical values for testing stochastic dominance are obtained for serially dependent observations. The procedure also accommodates for general dependence amongst the prospects which are to be ranked. Since stock market returns are well known to have fat-tail distributions in this paper the inference procedure suggested by Linton et al. (2005) is adopted.

### Hypotheses of Interest and Test Procedure

Let  $\Xi$  denote the support of  $\{X_{tk}: t=1,...,N,\ k=1,...,6\}$  where k includes the five stock market sectors as well as the all share index TASI. Also, let s=1,2 represents the order of stochastic dominance. Under the null hypothesis returns in sector i stochastically dominates returns in sector j (for  $i,j \in k$ ). For each k and  $x \in \Xi$ , let  $D_i^s(x)$  and  $D_j^s(x)$  the empirical distribution function of sector i and j. To test

$$\mathcal{H}_0: D_i^s(x; F_i) \leq D_i^s(x; F_i) \qquad \forall x \in \mathbb{R}, \ s = 1, 2$$

versus

$$\mathcal{H}_1: D_i^s(x; F_i) > D_i^s(x; F_j) \quad \forall x \in \mathbb{R}, \ s = 1, 2.$$

Linton et al. (2005) consider the Kolmogorov-Smirnov distance between functional of the empirical distribution functions of the returns and define the test statistic as

$$\hat{\Lambda} = \min \sup_{x \in \mathbb{R}} \sqrt{N} \left[ \hat{D}_i^s \left( x; \hat{F}_i \right) - \hat{D}_j^s \left( x; \hat{F}_j \right) \right]. \tag{2}$$

where

$$\hat{D}_{i}^{s}\left(x;\hat{F}_{i}\right) = \frac{1}{N(s-1)!} \sum_{t=1}^{T} 1(X_{it} \leq x) \left(x - X_{it}\right)^{s-1}$$

and  $\hat{D}_{j}^{s}$  is similarly defined. Under suitable regularity conditions Linton *et al.* (2005) show that  $\hat{\Lambda}$  converges to a functional of a Gaussian process. However, the asymptotic null distribution of  $\hat{\Lambda}$  depends on the unknown population distributions, therefore in order to estimate the asymptotic p-values of the test we use the overlapping moving block bootstrap method. Let B be the number of bootstrap replications and b the size of the block. The bootstrap procedure involves calculating the test statistics in  $\hat{\Lambda}$  using the original sample and then generating the subsamples by sampling the N-b+1 overlapping data blocks. Once that the bootstrap subsample is obtained one can calculate the bootstrap analogue of  $\hat{\Lambda}$ . Defining the bootstrap analogue of (2) as

$$\hat{\Lambda}^* = \min \sup_{x \in \mathbb{R}} \sqrt{N} \left[ \hat{D}_j^{s*} \left( x; \hat{F}_i \right) - \hat{D}_j^{s*} \left( x; \hat{F}_j \right) \right], \tag{3}$$

where

$$\left(\hat{D}^{*}(x,\hat{F}_{k}) = \frac{1}{N(s-1)!} \sum_{i=1}^{N} \left\{1\left(X_{2i}^{*} \leq x\right) \left(x - X_{2i}^{*}\right)^{s-1} - \omega(i,b,N) 1\left(X_{2i} \leq x\right) \left(x - X_{2i}\right)^{s-1}\right\},\,$$

and

$$\omega(i,b,N) = \begin{cases} i/b & \text{if } i \in [1,b-1] \\ 1 & \text{if } i \in [1,N-b+1] \\ (N-i+1)/b & \text{if } i \in [N-b+2,N] \end{cases}.$$

The estimated bootstrap p-value function is defined as the quantity

$$p^*\left(\hat{\Lambda}\right) = \frac{1}{N-b+1} \sum_{i=1}^{N-b+1} 1\left(\Lambda^* \ge \hat{\Lambda}\right).$$

Under the assumption that the stochastic processes  $X_k$  are strictly stationary and  $\alpha$ -mixing with  $\alpha(j) = O\left(j^{-\delta}\right)$ , for some  $\delta > 1$ , when  $B \to \infty$  the expression in (3) converges to (2). Note also that asymptotic theory requires that  $b \to \infty$  and  $b/N \to 0$  as  $N \to \infty$ .

### Stochastic Dominance Results

Figure 1 plots the cumulate distribution functions for each of the sectors and the TASI general index. The left panel shows the CDFs of the daily returns over the sample period, whereas the CDFs of the volatility are plotted in right panel. Considering the returns first, we can see that the CDF of the Banking sector is shifted to the left and intersect with CDF of Industrial, Cement sectors and the TASI. This clearly rules out first order stochastic dominance of the Banking sector on the other sectors. On the other hand, the CDF of Agriculture is shifted to the right and does not intersect with the CDFs of Industrial, Cement and the general index. This seems to indicate that returns in the Agriculture sector first order stochastically dominates these sectors. Turning to the CDFs of the volatility, Figure 1 illustrates that there is FSD-dominance for the different sectors considered as all the empirical CDFs do not intersect. Interestingly enough, the ranking is again an exact match with the ranking of sectors in Table 1 as the volatility of Agriculture clearly FSD all the other sectors. Note that in this case FSD means that return volatility is higher for stocks in the Agriculture sector than in for stocks in other sectors. SSD is interpreted in a similar way.

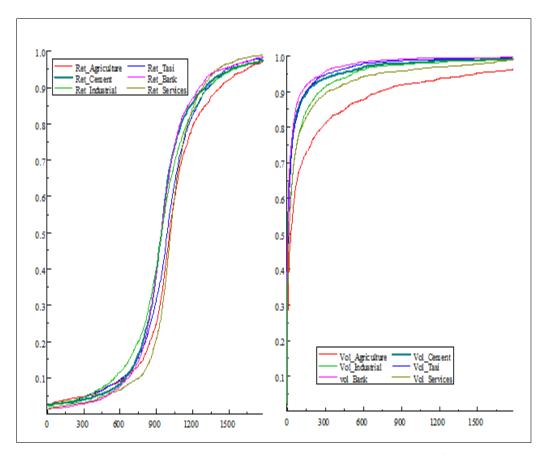


Figure 1: CDFs for the returns and return volatility for different sectors and the TASI general index. Note: Ret\_Tasi and Vol\_Tasi indicate the CDF of the returns and volatility, respectively. The CDFs of the sector indexes are defined in a similar fashion.

Table 3a-b and Table 4a-b report the p-values of the FSD and SSD tests for the returns and volatilities, respectively. The p-values were obtained using the bootstrap algorithm described above with B=1000 replications. To investigate the effect of the stock market crash in February 2006 the analysis was conducted splitting the sample in two sub-periods (i.e. pre and post February 2006) and then repeated considering the whole period.

From the top panel Table 3a it appears that the null hypothesis that the returns in the banking sector FSD or SSD the other sector and the general

index is strongly rejected for both the sub-periods. Coming to the middle panel returns in Industrial sector SSD returns in the Banking and Cement sectors, whereas the null hypotheses is rejected for the other sectors and the TASI. In the bottom panel the null hypothesis that Cement SSD Bank is not rejected, so in this case the test for stochastic dominance is inconclusive. However, both FSD and SSD null hypotheses are rejected for the other sectors. In Table 3b the null hypothesis that Services SSD all the others sectors but Agriculture is not rejected. Similarly, Agriculture SSD all the other sectors including Services. However, there is also evidence of FSD of Agriculture on Industrial, Cement and the TASI. Finally, the general index FSD Cement and SSD Bank and Industrial, whereas the null hypothesis of SSD of Agriculture is rejected.

Turning to the volatility, from the top panel of Table 4a it is clear that the null hypothesis that the Banking sector stochastically dominates the other sectors is strongly rejected: for all sectors, no matter the sub-period considered, the null is rejected in favour of the alternative hypothesis. It is interest to note that the null hypothesis is also rejected for the Tasi Index.

In the middle panel of Table 4a, when the period 2002-2008 is considered, Industrial is first order stochastically dominated by Services and Agriculture, but first order stochastically dominates Banking and Cement. This is in agreement with the ranking of sectors according to the degree of Shariah-compliance given in Table 1. Results for the two sub-periods follow a similar pattern.

The bottom panel of Table 4a reports the p-values for the hypothesis that the Cement sector stochastically dominates the other sectors. Looking at the 2002-2008 period, it is clear that the null hypothesis of FSD is rejected for all but the Banking sector.

Table 3a. P-values for the test for first and second order stochastic dominance (returns) by sector.

Sector	Period	SD	Bank	Industrial	Cement	Services	Agriculture	Tasi
Bank	2002-	$2\mathrm{nd}$	-	0.000	0.008	0.000	0.000	0.003
	2006	1st	-	0.009	0.005	0.005	0.000	0.001
	2006	$2\mathrm{nd}$	_	0.004	0.002	0.000	0.009	0.005
	2008	1st	-	0.009	0.009	0.009	0.000	0.002
	2002-	$2\mathrm{nd}$	_	0.000	0.245	0.013	0.000	0.005
	2008	1st		0.006	0.019	0.008	0.004	0.009
Industrial	2002-	2nd	0.549	-	0.480	0.040	0.000	0.000
	2006	1st	0.015	-	0.009	0.009	0.009	0.012
	2006-	$2\mathrm{nd}$	0.768	-	0.795	0.004	0.000	0.013
	2008	1st	0.005	-	0.009	0.019	0.031	0.014
	2002-	$2\mathrm{nd}$	0.966	-	0.677	0.036	0.000	0.000
	2008	1st	0.012	-	0.011	0.007	0.009	0.010
Cement	2002-	$2\mathrm{nd}$	0.036	0.000	-	0.000	0.000	0.045
	2006	1st	0.000	0.009	-	0.000	0.007	0.037
	2006-	$2\mathrm{nd}$	0.542	0.064	-	0.000	0.000	0.010
	2008	1st	0.012	0.019	-	0.015	0.009	0.008
	2002-	$2\mathrm{nd}$	0.245	0.001	-	0.000	0.000	0.001
	2008	1st	0.001	0.024	_	0.000	0.006	0.002

Table 3b. Continue.

Sector	Period	SD	Bank	Industrial	Cement	Services	Agriculture	Tasi
Services	2002-	2nd	0.583	0.880	0.999	-	0.089	0.876
	2006	1st	0.449	0.000	0.002	-	0.000	0.999
	2006-	$2\mathrm{nd}$	0.432	0.795	0.284	_	0.010	0.995
	2008	1st	0.762	0.003	0.000	-	0.056	0.271
	2002-	$2\mathrm{nd}$	0.519	0.697	0.792		0.031	0.999
	2002-	1st	0.681	0.006	0.007	-	0.004	0.638
Agriculture	2002-	$2\mathrm{nd}$	0.882	0.825	0.999	0.835	-	0.999
	2006	1st	0.022	0.992	0.999	0.029	-	0.887
	2006	$2\mathrm{nd}$	0.253	0.679	0.999	0.673	-	0.999
	2008	1st	0.019	0.999	0.142	0.019	-	0.526
	2002-	$2\mathrm{nd}$	0.763	0.312	0.835	0.792	-	0.999
	2008	1st	0.024	0.999	0.999	0.011	-	0.762
Tasi	2002-	2nd	0.851	0.636	0.876	0.000	0.000	-
	2006	1st	0.295	0.039	0.995	0.028	0.000	-
	2006-	$2\mathrm{nd}$	0.607	0.622	0.278	0.000	0.000	_
	2008	1st	0.008	0.018	0.999	0.034	0.005	-
	2002-	$2\mathrm{nd}$	0.832	0.743	0.638	0.003	0.000	-
	2008	1st	0.025	0.011	0.995	0.019	0.009	-

Table 4a. P-values for the test for first and second order stochastic dominance (volatility) by sector.

Sector	Period	SD	Bank	Industrial	Cement	Services	Agriculture	Tasi
Bank	2002-	2nd	_	0.000	0.000	0.036	0.041	0.036
Dank	2002-	1st	_	0.000	0.000	0.030 $0.027$	0.041	0.030
	2000	180	-	0.002	0.001	0.027	0.041	0.055
	2006-	2nd	-	0.000	0.000	0.019	0.023	0.020
	2008	1st	-	0.007	0.018	0.020	0.024	0.019
	2002-	2nd	-	0.017	0.037	0.035	0.021	0.022
	2008	1st		0.015	0.005	0.005	0.034	0.014
Industrial	2002-	2nd	0.890	_	0.200	0.020	0.037	0.405
masina	2006	1st	0.899	_	0.280	0.037	0.028	0.451
	2000	150	0.000		0.200	0.00.	0.020	0.101
	2006-	$2\mathrm{nd}$	0.215	-	0.993	0.000	0.048	0.795
	2008	1st	0.216	-	0.699	0.000	0.014	0.820
	2002-	2nd	0.986	-	0.774	0.008	0.000	0.999
	2008	1st	0.999	-	0.494	0.007	0.022	0.995
Cement	2002-	2nd	0.938	0.000	-	0.000	0.062	0.419
	2006	1st	0.932	0.000	-	0.000	0.052	0.038
	2006-	2nd	0.967	0.000	-	0.000	0.011	0.154
	2008	1st	0.844	0.028	-	0.028	0.013	0.168
	2002-	2nd	0.975	0.026	-	0.032	0.018	0.012
	2008	1st	0.873	0.000	_	0.021	0.004	0.000

Table 4b. Continue

Sector	Period	SD	Bank	Industrial	Cement	Services	Agriculture	Tasi
Services	2002-	$2\mathrm{nd}$	0.999	0.968	0.999	-	0.010	0.964
	2006	1st	0.954	0.556	0.976	-	0.010	0.763
	2000			0.000			0.004	0.040
	2006-	$2\mathrm{nd}$	0.999	0.720	0.976	-	0.024	0.940
	2008	1st	0.930	0.337	0.835	-	0.020	0.738
	2002-	$2\mathrm{nd}$	0.999	0.973	0.999	_	0.009	0.912
	2008	1st	0.974	0.802	0.971	_	0.015	0.613
Agriculture	2002-	2nd	0.998	0.995	0.999	0.995	-	0.999
	2006	1st	0.972	0.955	0.989	0.663	-	0.950
	2006-	$2\mathrm{nd}$	0.999	0.999	0.999	0.999	-	0.999
	2008	1st	0.988	0.990	0.989	0.930	-	0.956
	2006-	$2\mathrm{nd}$	0.999	0.998	0.867	0.999	_	0.974
	2008	1st	0.975	0.911	0.729	0.939 $0.932$	_	0.780
	2000	186	0.915	0.911	0.129	0.932	_	0.760
Tasi	2002-	2nd	0.541	0.000	0.514	0.000	0.038	-
	2005	1st	0.620	0.000	0.032	0.009	0.019	-
	2006	$2\mathrm{nd}$	0.856	0.008	0.008	0.006	0.027	-
	2008	1st	0.909	0.009	0.209	0.005	0.010	-
	2002			0.040		0.010	0.011	
	2002-	$2\mathrm{nd}$	0.763	0.018	0.137	0.012	0.011	-
	2008	1st	0.536	0.006	0.022	0.013	0.002	-

To summarise our results, the stochastic dominance analysis reveals that portfolios of stocks containing Shariah-compliant assets stochastically dominate their counterparts. As a result, risk-averse investors maximizing their utility function prefer Shariah-compliant stocks to other assets that do not fulfil religious tenets. Also, high returns of Shariah-compliant stocks are explained by the higher risk they carry. However, stochastic dominance analysis only allows us to rank the distributions of returns and does not provide an explanation on why returns and unconditional volatility of returns in particular are higher for Shariah-compliant stocks. To get further insights on this issue we consider the recent evolution of the stock market and in particular the relation between trade volume and conditional volatility.

## 4 Retail Investors, Volatility and Religious Tenets

The literature on the causes of stock market volatility is vast, but there now is widespread consensus that changes in price volatility are affected by investor behavior other than the fundamentals. This is especially true during periods of financial turmoil. Shiller (2000) for example analysed the dramatic rise in stock prices that occurred during the 1990s in the US and suggested that the run-up in stock price volatility was driven by sociological and psychological factors and not justified on the base of changes in the fundamentals. Other important factors affecting volatility are for example the speed with which financial transactions are carried out and the degree of integration of the domestic market with other markets (i.e. the level of global interdependence of between financial markets). In this sense, the Saudi stock market has developed significantly in the last ten years. Trading order volume has multiplied by some order of magnitude, a process facilitated by the incorporation of new trading technologies and market regulation. In order to better understand this phenomenon we look at the evolution of the stock market in more details.

The Saudi stock market experienced an impressive increase in the number of market participants in the recent years. According to the Samba Report (2009) the number of market participants increased from 52,598 in 2001 to 1.5 million at the end of 2005. The overflow of investors associated with the limited number of shares offered in the market inflated asset prices and caused a surge in volatility<sup>2</sup>. The bubble eventually busted in February 2006 when the market collapsed.

Periods of boom followed by painful bust are common in financial markets, however like many emerging markets, the Saudi market is heavily dominated by retail investors. In 2008 individual investors accounted for 88% of buy transactions. Saudi corporations placed less than 10% of transaction orders and mutual funds registered only 1.5% (note that in the majority of large OECD bourses institutional investors account for around 90% of transactions). Also, in the same year foreign participation accounted for only approximately 0.1%, whereas GCC citizens was less than 2%.

As foreign participation is extremely limited in the stock market it is logical to infer that at least during the period of price run-up the most active participants were first-time local investors attracted into the stock market in large number by returns well above the stock fundamental values. In behavioral finance literature individual investors are often viewed as noise-traders (see for example Black (1986) or Kyle (1985)). Several studies confirm that noise-traders (also called uninformed investors) acting on non-fundamental information affect the level of asset prices by trading when markets are unusually bullish or bearish. Noise traders acting in concert on non-fundamental signals can introduce a systematic risk which should manifest itself as added price volatility of assets affected by the actions of noise traders.

The relationship between noise traders and volatility is found to be significant in Brown (1999), whereas the relation between individual behavior and price movements is considered in Kaniel *et al.* (2008). See also DeLong, Shleifer, Summers and Waldam (1990) or Hvidkjaer (2006) among others.

<sup>&</sup>lt;sup>2</sup>Between 2003 and its peak in February 2006 the TASI gained an impressive 700%, with market capitalisation soaring at more than twice the country GDP. During this period the Saudi bourse was one of the largest stock market in the world by value traded, this despite having only 78 listed stocks (many of which with a limited free float).

Against this background, in this paper we acknowledge theoretical models explaining the relation between noise-traders and volatility and postulate that by increasing trade volume for Shariah-compliant stocks religious tenets affect the volatility of returns. In particular, we are interested in investigating if Sharia-compliant stocks are more traded than other stocks and to what extent this affects volatility. If religious prescriptions are binding, then investors should select Shariah-compliant stocks. As individual investors mainly place small orders, we should see that the rate of change in the trade volume should affect volatility more in Shariah-compliant sectors.

In order to test this hypothesis we investigate to what extent volatility in a given sector is affected by changes in trade volume. As a proxy of trade volume we use the number of shares traded in each sector in each given day. From Figure 2 it appears that trade volume is higher in the Industrial and Service sector. This is probably due to the large number of companies in these sectors (note that together stocks in the Industrial and Service sectors constitute 70% of all share traded, a large number of shares traded in these sectors in therefore expected). It is interesting however, that trade volume in Agriculture is high with respect to the size of the sector. There are 8 companies in this sector and more or less the same number in the Banking sector. However, the number of shares traded in Agriculture is significantly higher than the number of shares traded in the Banking sector. Interestingly enough trade volume growth in Agriculture is in correspondence with the exponential expansion of market participation that occurred in recent years. In order to further investigate this phenomenon we look at the relation between trade volume and stock market volatility.

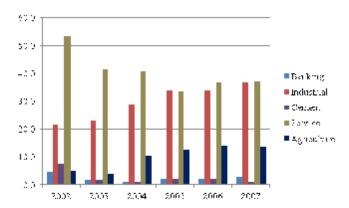


Figure 2: Trade volume by sector as a percentage of the number of shares trated.

To model volatility we consider a GARCH type model. Since the seminal papers by Engle (1982) and Bollerslev (1986), GARCH models have been successfully used to study the behavior over time of financial market volatility. Following Glosten, Jagannathan and Runkle (1993) (GJR) we specify the behavior of the returns as

$$R_{kt} = \delta + u_{kt}$$

$$\sigma_{kt}^2 = \omega + \alpha u_{kt-1}^2 + \gamma u_{kt-1}^2 I_{kt-1} + \beta \sigma_{kt-1}^2 + \kappa DVOL_{kt}$$

$$(4)$$

where  $R_{kt}$  are the realised returns in a given sector and the TASI and  $u_{kt} \sim N(0, \sigma_{kt}^2)$ . The conditional variance is specified as function of the mean volatility  $\omega$ ,  $u_{kt-1}^2$  which is the lag of the squared innovation from the mean equation (the ARCH term) and which provides information about volatility clustering,  $\sigma_{kt-1}^2$  which is the last period's forecast variance (the GARCH) term,  $DVOL_t$  is the first difference in (log) volume at period t, and finally  $I_{kt-1} = 1$  if  $u_{kt-1} > 0$  and  $I_{kt-1} = 0$  otherwise. Finally, the  $\gamma$  coefficient is meant to capture asymmetric effect of news on volatility.

The model in (4) has been estimated separately for each sector and the general index TASI. The estimated parameters as well as the misspecification

tests are reported in Table 5. Columns 2-6 in the top panel of Table 5 report the estimated parameters for the five sectors, whereas in the last columns the estimation results for the general index TASI are given. Robust standard errors are given in parenthesis. Also, due to the non-normality of the innovations, the distribution of the  $\{u_t\}$  process was approximated by a Student-t distribution.

The estimated parameters tell an interesting story. Trade volume affects the conditional variance of returns as the parameter  $\kappa$  is significant in all the estimated models. As expected, all the estimated signs of DVOL are positive, meaning that an increase in trade volume positively affects volatility. Looking at the magnitude of the estimated coefficient, the Agriculture sector has the highest estimated parameter followed by Industrial and Services, whereas the Cement and Banking sectors have the lowest estimated coefficient.

Looking at the  $\omega$  parameter, it appears that the estimated mean volatility is the highest in the Agriculture sector and the lowest for stocks in the Cement sector, with the estimated mean parameters of the other sectors falling in between the two. This result is in agreement with the findings of the stochastic analysis reported in Section 3 where it was found that the unconditional volatility of the Agriculture sector stochastically dominates the other sectors. Coming to the  $\alpha$  parameter, once again volatility clustering is much higher for stocks in the Agriculture sector. The Industrial, Cement and Service sectors show a similar estimated coefficient, but the magnitude of the estimated ARCH parameter for the Banking sector is about one third with respect to its counterpart in Agriculture. As the sign of  $\gamma > 0$  a leverage effect exists in all sectors, but the effect of bad news on volatility (given by  $(\alpha + \gamma)$ ) is much higher for the Agriculture sector. Finally, volatility persistence (given by  $\beta$ ) is relatively high in all sectors as well as the general index TASI.

Table 5. Estimated GJR(1,1) model for sectors and all share index.

			Sectors			TASI
Coeff.	Bank	Industrial	Cement	Services	Agriculture	
δ	$0.035^{***}$ (0.023)	0.116* (0.028)	0.002 (0.051)	$0.115^*$ (0.025)	0.031 (0.033)	$0.135^*$ $(0.020)$
$\omega$	$0.067^* \atop (0.015)$	0.119*	0.031* (0.010)	$0.086^{**}$ $(0.037)$	$0.327^*$ (0.076)	0.064*
$\alpha$	0.109*	$0.172* \\ (0.042)$	$0.214* \\ (0.049)$	0.201* (0.058)	$0.325^*$ (0.055)	0.191*
$\gamma$	$0.153* \\ (0.041)$	$0.150* \\ (0.051)$	0.116*	$0.122* \\ (0.053)$	$0.162^*$ (0.061)	0.138*
β	0.798* (0.018)	0.784*	0.779*	0.794* (0.044)	$0.623^{*} \\ (0.045)$	0.748*
$\kappa$	0.286* (0.038)	0.439*	0.114** (0.015)	0.450* (0.090)	0.711*	0.301*

Note: \*, \*\*, \*\*\* indicate significance at 1% and 5% and 10%, respectively.

To summarise our findings, looking at the evolution of trade volume in different stock market sectors from Figure 2, it appears that individual investors trade more actively in Shariah-compliant stocks. Given the strong relation between trade volume and volatility it is evident that individual investors, acting as noise traders, push away stock prices from their fundamental values thus affecting volatility of Shariah-compliant stocks. These results are in agreement with behavioral finance models (see for example DeLong, Shleifer, Summers and Waldam (1990)) where noise traders acting in concert affect stock prices in a systematic way. According to these models noise traders acting on the base of noisy signal create additional source of systemic risk in the market. This additional risk materialized itself as added volatility of the assets affected by the action of noise traders. Once that the extra-risk is priced by the market, returns of these assets increases.

#### 4.1 Robustness Checks

From Table 5 it is clear that trade volume affects the conditional volatility of returns. Since this is particularly true for Shariah-compliant stocks we infer that religious minded investors trade more actively in these stocks. However, given that individual investors tend to place small orders their actions have

to be coordinated in order to make an impact on the market. To check the validity of this assumption we test for herding behavior in the stock market. Following Chang, Cheng and Khorana (2000) we specify a non linear model that allows controlling for asymmetric relationship between cross-sectional absolute deviation of returns (CSDA) and market returns. The model is specified as follows

$$CSDA_{kt}^{up} = \mathring{\beta} + \mathring{\gamma}_{1t}^{up} |R_{mt}^{up}| + \mathring{\gamma}_{2t}^{up} (R_{mt}^{up})^2 + \varepsilon_t, \tag{5}$$

where

$$CSDA_{kt}^{up} = \frac{1}{N} \sum_{i=1}^{N} |R_{kt} - R_{mt}|,$$

and  $R_{mt}^{up}$  is the absolute value of the equally-weighted realized return portfolio of all available securities in a given sector (market for the TASI) during periods when the market is up. Similarly, the following equation is meant to capture herd behaviour during periods when the market is down

$$CSDA_{kt}^{down} = \mathring{\beta} + \mathring{\gamma}_{1t}^{down} \left| R_{mt}^{Down} \right| + \mathring{\gamma}_{2t}^{down} \left( R_{mt}^{down} \right)^2 + \varepsilon_t. \tag{6}$$

The intuition behind the model in (5)-(6) is that according to the capital asset pricing model the relationship between market return and equity return dispersion should be positive and linear. This is because individual securities have different reactions to the market return to reflect the different investors' beliefs in the rational market. On the other side, if during periods of relatively large price movements market participants herd around indicators such as the average consensus of all market constituents, a non-linear behavior between  $CSAD_{kt}$  and the average market returns should result. In particular, if investors conform to the market consensus, deviations of the individual securities return from  $CSDA_{kt}$  should increase at decreasing rate or decrease as average price movement increases. Therefore a significantly different coefficient  $\gamma_2$  in (5)-(6) implies the presence of herding.

Table 6. Regression results of the daily cross-sectional absolute deviation (asymmetric model).

(	$CSDA_{kt}^{up} = \mathring{\beta}$	$+\mathring{\gamma}_{1t}^{up}\left R_{mt}^{up}\right $	$+ \mathring{\gamma}_{2t}^{up} \left(R_{mt}^{up}\right)^2 +$	$\varepsilon_t$
	$\mathring{eta}$	$\mathring{\gamma}_{1t}^{up}$	$\mathring{\gamma}_{2t}^{up}$	$ar{R}_2$
Bank	0.003 * (0.0002)	$1.509^*$ $(0.053)$	$-9.611^{*}$ (0.961)	0.66
Industrial	$0.005^*$ $(0.0004)$	$1.544* \\ (0.054)$	$-8.296^{*}$ (0.892)	0.55
Cement	$0.002^*$ $(0.0002)$	1.445* (0.034)	$-6.642^{*}$ (0.553)	0.73
Service	$0.002^*$ $(0.0001)$	1.083*	$-1.759^*$ (0.308)	0.88
Agriculture	0.006*	1.601*	$-7.256^{*}$ $(0.609)$	0.73
Tasi	$0.003^{*}$ $(0.0003)$	$1.322^*$ (0.048)	$-0.862^*$ $(0.937)$	0.46
CSDA	$\frac{down}{kt} = \mathring{\beta} + \mathring{\gamma}$	$V_{1t}^{down} \left  R_{mt}^{Down} \right $	$\left  + \mathring{\gamma}_{2t}^{down} \left( R_{mt}^{down} \right) \right $	$(n)^2 + \varepsilon_t$
	$\mathring{eta}$	$\mathring{\gamma}_{1t}^{up}$	$\mathring{\gamma}_{2t}^{up}$	$ar{R}_2$
Bank	$0.003^{*}_{(0.0002)}$	$1.473^{*}$ (0.038)	$-0.812^{*}$ (0.630)	0.69
Industrial	$0.003^*$ $(0.0003)$	$1.532^*$ $(0.043)$	$-6.519^*$ $(0.609)$	0.69
Cement	$0.002^*$ $(0.0002)$	1.476* (0.038)	-5.478* $(0.512)$	0.73
Service	$0.002^*$ $(0.0001)$	$1.035^*$ (0.019)	$-0.517^{**}$ $(0.246)$	0.93
Agriculture	$0.004^{*}$ $(0.0003)$	$1.703^{*}$ $(0.040)$	$-8.162^{*}$ $(0.497)$	0.79
Tasi	$0.001^*$ $(0.0002)$	$1.610^*$ $(0.044)$	$-8.253^{*}$ (0.687)	0.65

Note: \*, \*\*, \*\*\* indicate significance at 1% and 5% and 10%,respectively.

Table 6 reports the estimated coefficient of equations (5)-(6). In Table 6, the top panel refers to the herding behavior during periods of rising market, whereas the model in the bottom panel is intended to capture the behavior when the market is down. Once again the model has been estimated separately for each sector and the TASI. The estimated standard errors are reported in brackets, whereas the adjusted  $\bar{R}^2$ -coefficient in the last column.

From Table 6 it appears that the coefficient  $\gamma_2^{up}$  and  $\gamma_2^{down}$  are negative and statistically significant. This suggests the presence of herd behavior in all sectors as well as the market index, thus confirming the validity of our assumption that noise traders in the market act in concert.

## 5 Conclusion

In this paper we investigate the effect of Islamic tenets on the Saudi stock market and we show that religious norms have a significant effect on stock prices. We show that Shariah-compliant stocks have higher returns and volatility then their non-Shariah compliant counterparts. In particular, we found a close match between return volatility and the degree of compliance with religious tenets. These results have important implications for both corporations seeking to raise capital in the stock market and investors.

Looking at the relation between trade volume and volatility, our findings suggest that individual investors do act as noise traders in the market under consideration. In this sense our findings are in agreement with behavioral finance models where in an economy with risk averse agents noise traders bearing a larger amount of risk relative informed traders earn higher expected returns. According to these models psychological biases and sentiment cause noise traders to trade systematically as a group. From our results it appears that speculation based on sentiment is profitable when trading in Shariah-compliant stocks, given that noise traders are not driven out of the market and therefore able to influence prices.

Overall, from our empirical analysis it is evident that the level of volatility of the stock market cannot be explained with any variant of the efficient market model in which stock prices are formed by looking at the present discounted value of future returns. In this sense behavioral finance models are more helpful. However, there is still something to desired from these models as they fail to consider the interaction between individual choices (rational or not) and environmental factors. From our results it appears that the combination of market structure (i.e. retail versus institutional investors) and ethical norms can have a substantial role in shaping stock market volatility and ultimately the financial stability of a country.

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## A VEHICLE FINANCING COMPARATIVE STUDY BETWEEN IJARAH IN MAYBANK BERHAD AND BAI BITHAMAN AJIL IN BANK ISLAM MALAYSIA BERHAD

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#### **ABSTRACT**

This paper examines the relationship between service quality factors and customer satisfaction of auto financing in Maybank Berhad and Bank Islam Malaysia Berhad. Two auto financing product involved, Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad. Propose area of research will be in the Klang Valley specifically in Wilayah Persekutuan Kuala Lumpur and Putrajaya. The researcher will be using CARTER as a basic service quality model in order to check the relationship and impact of service quality on customer satisfaction and customer loyalty. Demographic profile will also be used as a moderator variable to measure the relationship between service quality with customer satisfaction. Demographic factors such as age, gender, education and income is seen as able to influence the customer satisfaction. Data will be collected from 350 respondents through self-administered questionnaires. Further, data will be analyzed using SPSS version 19.0. Sixteen hypotheses will be tested using Pearson correlation, Hierarchical Regression, One Way ANOVA and also Independent Sample T- test.

**Keywords**: Service quality, Overall customer satisfaction, Customer loyalty, Maybank Berhad, and Bank Islam Malaysia Berhad.

#### 1. INTRODUCTION

Nowadays banking industry is changing rapidly. The increasing of deregulation, and globalization, the operating environment for banking industry is expected to become more dynamic and competitive. Financial institutions across the globe are re-examining how they are meeting their customer's needs today and developing business plans needed to align them strategically to remain competitive and profitable in the future.

Islamic banks in Malaysia are facing a lot of challenging environments. They must be able to adopt and assimilate in fast changing situation. Globalization and technological advancement have led to an open and integrated banking industry. This situation has created a very stiff competition in market place.

Islamic banking is distinct and unique from conventional banking because of the Islamic principles, collectively referred to as Shariah, governing economics, social, political and cultural aspects of Islamic societies (Mukesh et al, 2010). There is a moral filter based on the definitions of halal (Permissible) and haram (Prohibited) providing an expedient legal framework (Chapra, 1992).

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Islamic banking refers to a system of banking that complies with Islamic law also known as Shariah law. The underlying principles that govern Islamic banking are mutual risk and profit sharing between parties, assurance of fairness for all and that transactions are based on an underlying business activity or asset. These principles are supported by Islamic banking's core values whereby activities that cultivate entrepreneurship, trade and commerce and bring societal development or benefit is encouraged. Activities that involve interest (riba), gambling (maisir), and speculation trading (gharar) are prohibited. Through the use of various Islamic finance concepts such as Ijarah (leasing), Bai Bithaman Ajil (differed payment), mudharabah (profit sharing), musyarakah (partnership), and financial institution have a great deal of flexibility, creativity and choice in the creation of Islamic finance products.

Islamic finance has grown tremendously since it first emerged in the 1970's. Current global Islamic banking assets and assets under management have reached more than USD 1 trillion. Malaysia's Islamic finance industry has been in existence for over 30 years. The enactment of the Islamic banking Act 1983 enabled the country's first Islamic Bank to be established and thereafter, with liberalization of the Islamic financial system, more Islamic financial institution have been established. Presently, Malaysia's Islamic banking assets reached RM389.3 Billion as at June 2011, strengthening the country's position as the global hub for Shariah-compliant financing with an average growth rate of 18% to 21% annually. (Ministry of Finance, 2012)).

Currently there are many player engaged in auto financing in Islamic banking. Various auto financing products being offered by banking industry to cater the demand from prospect of hirer purchase applicant. Several auto financing products offered by Islamic banks such as Ijarah by Maybank berhad, Bai Al-Innah by Bank Rakyat Malaysia Berhad, Bai Bithaman Ajil by Bank Islam Malaysia Berhad and so forth. Customers have plenty of choices to choose the bank amongst Islamic bank in the industry.

To date, however there is no attempt have been made to specifically conceptualized customer satisfaction and customer loyalty in auto financing in Islamic banks in Malaysia. Hence, the aims of this research is to ascertain and examine the relationship between antecedents or causes of customer satisfaction towards customer loyalty in Islamic banking industry in Malaysia. Specifically, this paper will examine the relationship of service quality with customer satisfaction towards customer loyalty in Maybank Berhad and Bank Islam Malaysia Berhad.

This paper will be conducted through comparative study measure. Two auto financing products will be involved, Ijarah from Maybank Berhad and Bai Bithaman Ajil from Bank Islam Malaysia Berhad. Currently, the most popular Islamic auto financing are Ijarah by Maybanks Berhad and Bai Bithaman Ajil by Bank Islam Malaysia Berhad. However, there are also many complaints by the public regarding the weakness of the implementation of these two products. Comparatively in certain aspects of auto finance products, Ijarah of Maybank is better than Bai Bithaman Ajil of Bank Islam Malaysia Berhad. In term of finance processing period, Maybank takes about five working days to settle the application whereby Bank Islam takes more than one week to process the application. Time is an essence for business communities. Likewise regarding customer service by both bank, no extra effort made by both banks to further assist customer in auto finance application.

Nurulain Othman, (2009), says that one of the issue being complaint by public is regarding of the higher profit rate of Bai Bithaman Ajil in Bank Islam Malaysia Berhad and subsequently higher instalment repayment compared to conventional bank in Malaysia. A study in Pakistan by Fahad Zafar, (2012), regarding Ijarah auto financing, revealed that the weakness in implementing the product will lead to the dissatisfaction to the customer. Similarly, same problem are happened in Malaysia whereby there is lack of trained finance officer in handling

the Ijarah financing product will lead to customer dissatisfaction. Therefore, the main problem here is the lack of customer satisfaction regarding service quality with regards to the Ijarah of Maybank Berhad and Bay Bithaman Ajil of Bank Islam Malaysia berhad. Thus, this paper will look into characters and dimensions that will influence customer to vigilantly choose the bank which offer better product as well as offer better service quality. There is an urgent need to investigate the economic environment surrounding the competitive business strategy of auto finance in Malaysia Islamic banking industry.

#### 2. LITERATURE REVIEW

#### 2.1 Concept of Service quality

Many researchers (Parasuraman et al., 1985; Mukesh, k., et al., 2010; Firdaus, A., et al., 2010) believe that service quality is an elusive concept, and there are considerable arguments among researchers of how to conceptualise this phenomenon. However they acknowledge that service quality is a dynamic, multidimensional concept, incorporating a number of aspects of both past and present service experience. Service quality has been described as aform of attitude but not equivalent to satisfaction that results from the comparison of expectations with performance (Parasuraman et al., (1988; Bolton, R.N. and James, H.D. 1991). It's also defined as the difference between customer expectation of service and perceived service. If expectations are higher than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction prevailed (Parasuraman et al., 1985)

#### 2.2 Concept of Customer satisfaction

Customer satisfaction is one of the essential components of any organization's strategy because customer is the ultimate source of income for the companies. Regarding customer satisfaction, in the banking industry from the last one and half decade the bankers pay attention towards its customer satisfaction.

That's all due to the competition in banking industry and some banks consider customer satisfaction as the principal component of their marketing strategy, (Naveed., A.K., Kashif., U.R., 2010). That's why with the competition mostly the ultimate customer benefited. Now, many financial institutions are trying to increase the customer satisfaction and their retention towards the financial institution through improving the service quality and the products they offered to its customers, the with this effort they will achieve their target objective.

## 2.3 Concept of Customer Loyalty

Customer loyalty is important to a business. The only way a company grows is through the satisfaction of its customers. It determines the integrity and honesty of a business, where the customer can feel confident in dealing with them on a daily or weekly basis. The customer returns because they have been treated fairly, and with respect and decency. They become loyal to the business, as long as the business returns that respect to the customer.

It is more costly to service disloyal customers because they are the ones who keep your employees busy with their complaints. Additionally, unhappy customers become more price-sensitive. If price not in their expectation, they will switch to the rival which offer better and profitable to them. Moreover profitable customer loyalty refers to customers who exhibit both behavioural and attitude loyalty and provide profit for the firm, (Kumar., V. et al., 2013).

The strength of these attitudes is the key predictor of a brand's purchase and repeat patronage. Also define by Oliver (1997, p.392), Loyalty is a deeply held commitment to re-buy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same-brand set purchasing despite situational influences and marketing efforts having the potential to cause switching behaviour. Customer loyalty is concerned with the likelihood of customer returning, making business referrals, providing strong word-of-mouth references and publicity (Bowen and Shoemaker, 1998).

### 2.4 Theoretical Framework and Hypotheses

This paper examined the relationship among service quality, customer satisfaction and customer loyalty within the context of Islamic banking in Malaysia. Specifically, researcher will conduct research on Islamic banking products (i.e., Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad). Figure 1 presents the theoretical framework for the research paper and the hypothesized relationship are indicated.

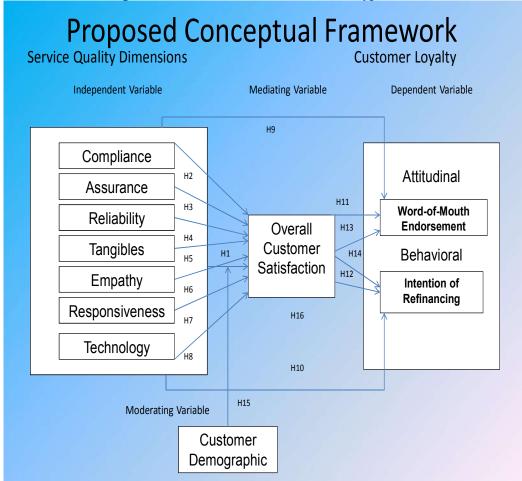


Figure 1: The theoretical framework and hypotheses

Source: Othman & Owen (2001)

#### 2.4.1 Relationship between service quality and customer satisfaction

A substantial number of empirical studies on bank service quality were sighted in the literature, most of these studies measured service quality by using and adapting SERQUAL model (Mohammed, H., Shirley, L., 2009; Muslim, A., Zaidi, I., 2008; Jaya, S., Mahalingam, S., 2011; Lo, L.K., et al 2010; Manshor, A, T., et al, 2011).

Service Quality called "SERVQUAL" is an instrument for measuring the gap between the services. Parasuraman et. Al (1985), considered that a customer's assessment of overall service quality depends on the gap between the expected and perceived service. Thus, the key

to managing perceived service quality is to minimize this gap. Parasuraman et. Al (1988), recast from 10 original determinants into only 5 dimensions: *tangibles, reliability, responsiveness, assurance and empathy*.

However since this paper are regarding Islamic banking, therefore study should take into consideration about Islamic Compliance value. Recently, there are number of study using new model adapted from SERQUAL to measure service quality in Islamic Banking. In Kuwait, Othman and Owen (2001a) developed an instrument called CARTER to measure service quality in Islamic banking. CARTER incorporates an extra dimension which is "Compliance with Islamic Law". The authors defined six dimensions as follows: *D1: Compliance, D2: Assurance, D3: Reliability, D4: Tangibles, D5: Empathy, and D6: Responsiveness.* 

Meanwhile, in order to check the validity of the dimensions or constructs, another research made by Othman and Owen regarding service quality in Kuwait Finance House (2001b), they made assessment about dimensionality of CARTER. Six dimensions were being factor analysed using Principle Factor (PF) followed by Varimax Rotation. Result shows for all dimensions are above 0.50. Also with KMO, which is result shows 0.821( above 0.600) and under Bartlett Test Sphericity, indicated highly significant (0.000). In conclude, the factor analysis test for CARTER variables has resulted as the proposed factors and dimensions.

In Malaysia, researcher such as Shahril et. al (2004), authors using CARTER to measure service quality in Bank Islam Malaysia Berhad. As expected, result shows that all six dimensions have significant relationship with service quality. Amongst six dimensions, Islamic Compliance was given the highest ranking. 95% respondents believed that the Bank Islam should offer products that acceptable by Islamic Law.

Ismah Osman, et al. (2009), the measurement in this paper also based on CARTER model developed by Othman and Owen (2001). Self administered questionnaires is based on six variables adapted from CARTER model, namely Compliance, Assurance, Reliability, Tangibles, Empathy, and Responsiveness. Result disclosed that the all dimensions measured by researcher have significant relationship with customer satisfaction. Also other researcher using CARTER model to measure service quality are such as Shafie et. al (2004), Osman et al. (2009), Muslim, A., and Zaidi, I. (2008), Norma, M.S. (2012), only adopt research of Othman and Owen (2001) in measuring service quality of Islamic bank in Malaysia.

In order to consider the complete rotation process of auto financing and also after review many previous research papers, researcher would like to propose an adoption model of CARTER with modification to the original items and also introducing one new dimension to suit the local Islamic banking context. This new dimension will be incorporated into existing CARTER's dimensions as component of service quality. Technology aspect is not considered in SERQUAL and CARTER. This aspect play an important role in customer satisfaction as it help to improve after sales service, for example customer can pay monthly instalment through ATM or E-banking without time limitation, constraint and without having long queuing through counter service. To support this argument, several previous literatures will be used as a basis of research references. First research, by Vinita, K and Saroj, K.D.(2012), they measure the relationship between service quality and customer satisfaction with the dimension of "Process Through Technology" shows that good and efficient internet banking services lead to higher customer satisfaction.

Second, research by Manshor, A, T., et al, (2011). Beside adopted SERQUAL model to measure service quality in Islamic bank and conventional bank, they also came up with new dimension which is called" Convenience" incorporated in the existing dimension of SERQUAL. This dimension takes into consideration the internet banking technology to facilitate banking businesses. Result proved that service factors together with new dimension

i.e. Convenience, have significant impact on customer satisfaction. Therefore, based on situation in auto mobile industry and previous literature, technology of internet banking play an important role in customer satisfaction.

Another research in area of Islamic banking in Indonesia, Irwan., M. et al, (2013), measure between service quality and customer satisfaction and trust. They used three dimensions to measure customer satisfaction. The dimensions are system of service, reliability, and responsive. Dimension, "System of Service" taking into consideration regarding internet banking facility to facilitate banking business. Result indicated that service quality has significant influence on customer satisfaction. Thus, with all the literatures being discussed, it's reveal and supports the proposal of introduction of new dimension called technology.

Hence, this new dimension together with CARTER model has a positive and significant influence on customer satisfaction. Thus, based on the literatures being discussed, following are several proposed hypothesis:

H1:	There is a positive and significant relationship between service quality and
	overall customer satisfaction in Ijarah of Maybank Berhad and Bai Bithaman
	Ajil of Bank Islam Malaysia Berhad.

H2:	Compliance has a significant impact on overall customer satisfaction in Ijarah
	of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H3:	Assurance has a significant impact on overall customer satisfaction in Ijarah
	of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H4: Reliability has a significant impact on overall customer satisfaction in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H5: Tangible has a significant impact on overall customer satisfaction in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H6: Empathy has a significant impact on overall customer satisfaction in Ijarah of

Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H7: Responsiveness has a significant impact on overall customer satisfaction in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H8: Technology has a significant impact on overall customer satisfaction in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

# 2.4.2 Relationship between service qualities with customer loyalty (intention of refinancing).

Loyalty is developed over a period of time from a consistent of meeting, and sometimes even exceeding customer expectation (Teich, 1997). Further, Lo Liang, K., et al (2010), in their study, they measure the relationship between six dimensions of CARTER model as service quality compare to customer loyalty. Their finding shows that service quality have significant relationship with customer loyalty. Good service quality offered by banks will lead to loyalty by its customers. Boulding et al. (1993) also found positive relationship between service qualities and repurchase intentions and willingness to recommend. Lenka et al. (2009) also found that service quality has a positive impact on loyalty.

In terms of refinancing which is another aspect of loyalty, Gremler and Brown (1996) offer one definition that related to this paper: the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists. Thus, this paper argues that service quality has a positive and significant relation on loyalty. Hence, following the hypothesis being made:

H9: There is a positive and significant relationship between service quality and loyalty in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

 H10: Service quality factors have a significant impact on loyalty in Ijarah of MaybankBerhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

# 2.4.3 Relationship between overall customer satisfactions with customer loyalty (word of-mouth endorsement)

Arisara Seyanont, (2007), in her dissertation, research made about respond from restaurant's customer in Phuket, Thailand. Measuring relationship between customer satisfaction and loyalty which is concerning of spreading a word-of-mouth. The result indicated that spreading word-of-mouth associated with high customer satisfaction. Thus, this paper argues that overall customer satisfaction has a positive and significant impact on customer loyalty. Hence, following the hypothesis proposed:

H11: There is a positive and significant relationship between overall customer satisfaction and word-of-mouth endorsement in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H12: There is a positive and significant relationship between overall customer satisfaction and refinancing in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H13: Overall customer satisfaction has a significant impact on word-of-mouth endorsement in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

H14: Overall customer satisfaction has a significant impact on refinancing in Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

# 2.4.4 Customer satisfaction as a mediating variable between service quality and loyalty.

Customer satisfaction plays an important role in customer loyalty. Previous literatures show that service quality together with customer satisfaction will lead to customer loyalty. Hyung, S.L. (2013), their research indicated that the result of the study reveal that service quality and customer satisfaction positively affect customer loyalty. They tested several models, result of the research in Model 6 is ( $\beta = 0.53$ , p<0.01), with R<sup>2</sup> = 0.22 (Relationship between service quality with loyalty). Result in Model 7, customer satisfaction as a mediating role is ( $\beta = 0.24$ , p<0.01), with R<sup>2</sup> = 0.41. Resulted in R<sup>2</sup> increasing of 0.19. Thus, result show that there is a significant mediating role of customer satisfaction on the relationship between service quality and customer loyalty.

#### 2.4.5 Relationship between service qualities with demographic (Moderator)

As for demographic variable, it has been widely recognized that demographic factors have a great impact on consumer attitude and behaviour (Jayawardhena & Foley, 2000; Matilla, 2001; Karjaluotoet al., 2002). Moreover, both attitude and non-attitudinal variables also influence behaviour (Eagly & Chaiken, 1993). So it's important for Islamic banks to recognize and use them in making better and appropriate strategy concerning gender factor.

Ahasanul, H. (2010) stated in his research that gender as demographic factor is a measurable variable and the findings provide straight forward application in the decision making process of Islamic banking service. Thus, this paper argues that overall customer satisfaction has a positive and significant impact on customer loyalty. Hence, following the hypothesis proposed:

H15: There is a significant difference of service quality factors based on customer's demographic profile on overall customer satisfaction

between Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

# 2.4.6 Significant differences in customer satisfaction between Ijarah and Bay Bithaman Ajil

There are lot of complaints about customer satisfaction regarding Bay Bithaman Ajil of Bank Islam Malaysia Berhad. This complaint due to the weakness and time consumed in the processing of automobile financing application. On the other hand, Ijarah of Maybank Berhad quite popular in the market and also less complaint about customer satisfaction. Therefore, this paper will look into the differences of customer satisfaction between two banks and what are the factors constitute to this discrepancies. Thus, this paper argues that there is a significant difference of customer satisfaction between Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad. Hence, following the hypothesis being made:

There is a significant difference of customer satisfaction between Ijarah of Maybank Berhad and Bai Bithaman Ajil of Bank Islam Malaysia Berhad.

#### 3. RESEARCH METHODOLOGY

The paper was design to explore the service quality of customer satisfaction and customer loyalty for customers of auto finance in Maybank Berhad and Bank Islam Malaysia Berhad. This diagram provide a complete view on the research methodology used to conduct this paper. The complete flow of research methodology has been organised in the following figure.

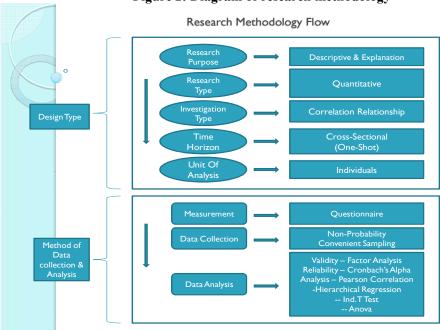


Figure 2: Diagram of research methodology

Source: Uma Sekaran (2003)

#### 3.1 Research design

Regarding research design, researcher will be using quantitative type. Then, the purpose of the paper is to explain and describe to reflex the events involved.

According to Earl Barbie, (2013), concept of explanation involved identifying variables that explain specific situation regarding research purpose being studied whereby descriptive studies answer question of what, where, when, and how. Hence, this methods is suit for this paper, whereby researcher will be using CARTER model as a studying based variables and also a set of questions also will be based on this variables as well to facilitate the study. A part from that, researcher will conduct a cross-sectional study based on observations representing a single point in time. Meaning researcher will set certain time frame to make observation through survey's data collection method. Variables or dimensions in this paper will be analyzing through correlational statistics (r). The correlation coefficient provided a measure of degree and direction of relationship. The square of a correlation coefficient yields the explained variance (r-square). Correlation was the most appropriate in order to determine properly the relationship of service quality attributes, overall customer satisfaction, and customer loyalty. The research design explained will enable the researcher to answer the research questions.

#### 3.2 Subject and location of study

The population for this research paper consist of customer residing in Wilayah Persekutuan Kuala Lumpur and Putrajaya. Most major economic activities are happen in this area and this location being selected because they have most of the branches of the Maybank Berhad and Bank Islam Malaysia Berhad. People in this area also most of them possess higher education status and also high buying power. Klang Valley has the highest rate of auto financing application compared to the other area in Malaysia. The sample is from bank customers who involved in auto finance of Islamic banking transaction.

Based on the general guidelines by previous researchers on simple size required from given population such as (Nunnally, 1978); Tabachnik and Fidell, 1996), from statistical perspective a minimum 260 are required for this research paper. However researcher are proposing 350 samples to be collected from prospective respondents. Our study will include male and female proportionately i.e. male respondents male 60% and female 40%. In terms of racial composition, we will be expected the respondent of about 95% of Malays, and 5% others, (Manshor, A, T., et al, (2011). In terms of age, we will base on financing eligibility requirement set by banks; age will be from 20 years old to 60 years old.

#### 3.3 Measurement of variables

Since this paper employ qualitativetype of technique, the measurement of data will conducted through structured questionnaire. A self reporting questionnaire is designed based on previous research with modification to suit local and current situation of Islamic banking industry in Malaysia.

The propose instrument contains four parts.Part I, regarding service quality with comprised of seven dimensions. Here we are proposing 43 questions, it's consisting of about 6 dimensions with 35items taken from CARTER model (Othman and Owen, 2001b). An additional new propose dimension, "Technology", with additional four statements.

Further, an additional five new statements added to the existing CARTER model to suit objective of the research. Part II, regarding question of overall service quality statement required to fill in percentage manner. Part III; consist of question of overall customer satisfaction with 2 items, word-of-mouth endorsement with 3 items, and refinancing with 3 items. Lastly part IV regarding demographic profile. To facilitate the study, the items will be

positively worded. A seven-point Liker Scale, ranging from 1-strongly disagree to 7-strongly agree, is used in part 1 and part 3.

Questionnaire will be proposed and made through closed-ended questions with Tunnel format. There will be no sensitive issue and no confidential data will be requested, also a simple and direct forward question to the respondent. This to ensure that there is no bias to the respondents. The sequencing of question in questionnaire will be arranged correctly and smoothly.

The sequence of questions started with the question of the attributes of dimensions, then customer satisfaction and loyalty in four pages and followed by demographic profile in one page.

#### 3.4 Data collection methods

Data collection will be conducted by researcher and third party assistance. Questionnaire will be distributed using non-probability convenience sampling method. Two steps will be employed by researcher, first the researcher will distribute questionnaire to the respondent at the selected branches of Perodua car dealers and also at Proton car dealers. The bulk of questionnaire will be managed by appointed agent in the branches. Their duty is to distribute questionnaire directly to respondent who are coming to the branch to collect their brand new car. The respondent will ask to fill the questionnaire spontaneously within ten minutes and then once finished, agent will collect the questionnaires and simultaneously give souvenir as token of appreciation. Agents will be given complete and ample training regarding understanding, administrating the questionnaire. Second, researcher will call previous customers through assistance from selected car dealers. Then researcher will make call interview to fill the questionnaire, part of that, researcher will go directly to the target respondents to fill the questionnaires. Other method, researcher also will find target respondents through friends, neighbour and schools and also any appropriate method to fill the questionnaire by explain them the purpose of the survey.

Two types of Islamic auto financing under this study are Ijarah under Maybank Berhad and Bay Bithaman Ajil under Bank Islam Malaysia Berhad. The respondents will be of those who are already had Islamic auto financing account with respective bank. The time frame for account holders will be accounted from 2011 until current year. The reasons for this time frame selected is to ensure that the research will only reflex current situation including after sales services provided by the banks and also to ensure account holder still have the memory regarding the financing application and the process involved in the respective banks.

### 3.5 Proposed Data analysis Procedures

To check content validity, the draft will be reviewed by two subject matter expert, one from expert in Islamic banking industry and the other one from language expert to ensure correct translation being made to the questionnaire from English into Bahasa Malaysia and vice versa.

To ensure the construct validity, the dimensions will be checking using factor analysis method. An Exploratory Factor analysis (EFA) and Confirmatory Factor Analysis (CFA) will be employed. Then, factor extraction (Kaiser Criterion) with eigenvalue must be greater value of 1.0 will be retaining in the factor solution (Tabachnik and Fidell, 1989). Factor rotation such as Direct Oblimin using structure and pattern matrix and communalities with cut off loading 0.45 (Blaikie, 2003) will be used to check whether correct variable being measure by correct items.

Under confirmatory factor analysis, the goodness-of-fit statistic (GFI) will be employed as this method generally considered as the most reliable measure of absolute fir in most circumstances (Diamantopoulos, and Siguaw, 2000). These two steps are very important to validate the questionnaire besides using established service quality model. Then reliability of the scale in this paper will be certified using several methods, first by using the established model of service quality such as CARTER by Owen and Othman. Second, checking will be made using statistical tool through Cronbach's Alpha with prescribed 0.70 thresholds (Nunnaly, 1978).

This paper will be proposing a few statistical methods in the presenting of the result. First, researcher will be using descriptive statistic to determine the mean and standard deviation score of each dimensions for both banks. Second, Pearson correlation to check the strength, direction and significant relationship between independent variables and dependent variable. Third, Hierarchical regression to determine the impact of the dimensions proposed on customer satisfaction and on loyalty. One Way ANOVA to test significant difference of service quality factors on customer demographic profile ( gender, marital status, age and education level). Also we will be using Independent sample-t-test to check the mean score customer satisfaction between Maybank Berhad and Bank Islam Malaysia Berhad.

#### 4. EXPECTED RESULT

Theoretically, result of the research will clarify and endorse the relationship between service quality and customer satisfaction that have been studied by previous researcher. Most of the previous literature suggested that there is a relationship between service quality factor and customer satisfaction and customer loyalty.

Practically, the proposed research paper in local Islamic banking context regarding service quality with customer satisfaction and customer loyalty is expected to be an important complement to traditional measures of economics performance, providing useful information to the banking institutions, shareholders, investors, government regulators, and most importantly to customers.

Also, result from study will act as the guidance to management of the bank to be more conscious about customer satisfaction and also the factors contributed to customer loyalty. Management of the bank should consider the factor that will influence their customer in terms of satisfaction.

#### 5. CONCLUSION

The operations of auto finance in Islamic banks are based on Islamic (Shariah) Law which is different in terms of spirit, process and practice from conventional banks. Nowadays Islamic banks are operated in a globally integrated banking industry which is characterised by strong competition and rapid changes in technology. Since the auto finance provided by Islamic banks are generally undifferentiated with conventional bank, Islamic banks will have to compete on the basis of high quality and flexibility of products and procedures offered by its finance staff to its customers in order to gain a competitive advantage against their rivals.

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#### PARAMETER OABD DALAM TRANSAKSI PEMBIAYAAN TAWARRUO

(The Qabd Parameters in Tawarruq Financing Transactions)

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#### **ABSTRACT**

This paper will examine the concepts and parameters of qabd in the implementation of financing based on tawarruq instruments. This study adopts the documentation approach for the collection of data and the writings of fiqh scholars related to the qabd concept. The objective of the study is to identify the actual concept of qabd from the perspective of past and present Islamic scholars relating to the fiqh muamalat. In addition, the parameters of qabd performance according to the discussion of the Islamic fiqh scholars will be reviewed and evaluated in detail. The results of the study indicate that Islam emphasizes the implementation of qabd element in the tawarruq without compromise. Neglecting this element will result in the impaired implementation of the tawarruq contracts and may give rise to gharar, which in turn might lead to infighting among the contracting parties. At the end of the study, the authors have proposed a comprehensive and rational parameter based on the guidelines set by the Shariah.

Keywords: Qabd, Tawarruq, Parameter.

## 1. PENDAHULUAN

Pembiayaan *tawarruq* banyak memberi kemudahan kepada pengguna untuk mendapatkan kecairan dana bagi tujuan memenuhi kehendak harian. Pada masa yang sama, ia juga turut menjadi komponen penting dalam menyumbang keuntungan besar kepada portfolio sebuah institusi kewangan.

Kepesatan pembangunan instrumen *tawarruq* ini adalah selaras dengan Pelan Sektor Kewangan 2011-2020 yang menjangkakan landskap sistem kewangan Malaysia mampu menyediakan aktiviti kewangan Islam yang lebih besar dengan lebih penekanan terhadap pengurusan dana Islam di Malaysia melalui penubuhan bank pelaburan, pengurus dana dan penyedia khidmat nasihat kekayaan Islam dengan jangkauan global dan bertaraf dunia (BNM, 2012).

Sungguhpun demikian, Persidangan MajmaÑ Fiqh Islami pada April 2009 telah mengambil keputusan untuk mengharamkan perlaksanaan *tawarruq* (Zuhayli, 2009; Haddad, 2009; Dabu, 2009). Keputusan ini patut diberi perhatian serius kerana ia dikeluarkan oleh badan yang berauntentik tinggi dalam menerbitkan resolusi bagi isu *muÑamalat maliyyah*. Pengharaman ini pada dasarnya bukan berpunca dari konsep atau sifat *tawarruq* itu sendiri, tetapi disebabkan oleh perlaksanaannya yang telah melanggar prinsip-prinsip jual beli menurut Syarak. Antara punca utama pengharaman ini ialah berlakunya

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kepincangan dalam proses pindah milik (*qabd*) pada transaksi pembiayaan *tawarruq* yang seterusnya mewujudkan unsur *gharar* yang dilarang keras oleh Islam. lantaran itu, makalah ini sedaya upaya cuba menjawab dua persoalan utama:

- i) Bagaimanakah konsep *qabd* menurut fiqh muamalat?
- ii) Apakah parameter perlaksanaan *qabd* menurut perbincangan ilmuwan fiqh Islam?

Kajian akan dilakukan menerusi metod kepustakaan terhadap kajian-kajian para sarjana silam dan moden dan ia dapat diagihkan kepada beberapa fasal: fasal pertama membincangkan tentang konsep *qabd* dalam Islam, fasal kedua membahaskan tentang pembiayaan *tawarruq* dan fasal terakhir akan mengusulkan parameter *qabd* yang dirasakan rasional untuk perlaksanaan pembiayaan *tawarruq*.

#### 2. DEFINISI QABD

*Qabd* dari segi literal merujuk kepada tindakan mengambil sesuatu dengan tapak tangan (Ibn Manzur, 1988). Perkataan ini turut digunakan bagi menunjukkan perpindahan milik sesuatu barang dari satu pihak kepada pihak yang lain (al-Matrazi, 1979). Menurut istilah Syarak pula, *qabd* bermaksud pemilikan sesuatu barang dan mempunyai kemampuan untuk menggunanya (al-MawsuÑah al-Fiqhiyyah, 1988; Musa, 2012). Daripada pentakrifan ini, beberapa elemen penting mestilah wujud dalam perlaksanaan *qabd*:

- 1) *Qabid*: pihak yang dipindahkan pemilikan barang kepadanya. Dalam konteks pembiayaan tawarruq, ia merujuk kepada pemohon biaya.
- 2) *Muqbid*: pihak yang memindahkan pemilikan barang kepada *qabid*. Dalam konteks pembiayaan *tawarruq, muqbid* merujuk kepada pihak bank.
- 3) Maqbud: pemilikan komoditi atau objek yang menjadi tumpuan pihak berkontrak

#### 3. PENSYARIATAN QABD

Antara dalil yang menerangkan tentang aplikasi *qabd* adalah seperti berikut:

Daripada Ibn ÑUmar r.h. bahawa Nabi sallallahu Ñalayhi wa sallam bersabda:

Maksudnya: Sesiapa yang membeli bahan makanan, jangan dia jual semula sehingga selesai melakukan (*qabd*) terhadap makanan itu (Bukhari no. 2133, Muslim no. 1526).

Ibn ÑAbbas r.h dalam komentarnya terhadap hadis di atas menyatakan bahawa *qabd* bukan sekadar terpakai pada makanan sahaja, tetapi pada setiap jenis barang (Muslim no. 1525). Hakim bin Hizam r.h pula menukilkan bahawa Rasulullah *sallallahu Ñalayhi wa sallam* bersabda:

Maksudnya: Jika kamu membeli sesuatu, janganlah menjualnya semula kecuali kamu melakukan *qabd* terhadapnya (Bayhaqi 1933, Ahmad 1977).

Zayd bin Thabit r.h pula menceritakan bahawa Rasulullah sallallahu Ñalayhi wa sallam:

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<sup>&</sup>lt;sup>3</sup> Hadis ini dinilai hasan oleh al-Bayhaqi.

<sup>&</sup>lt;sup>4</sup> Hadis ini dinilai sahih oleh al-Hakim.

Maksudnya: (Nabi) melarang daripada menjual komoditi yang dibeli sehinggalah seorang pedagang memilikinya dan mampu meletakkannya di atas kenderaan tunggangannya (Hakim, 1978; Abu Dawud no. 3499).

Dalil-dalil tersebut membuktikan bahawa terdapat tegahan (*al-nahy*) yang jelas terhadap jual beli tanpa *qabd*. Kaedah usul fiqh pula menyatakan bahawa setiap tegahan di dalam nas membawa maksud pengharaman. Atas dasar ini, difahami bahawa perlaksanaan *qabd* dalam jual beli adalah wajib dan pengabaian elemen ini boleh mengakibatkan akad tersebut menjadi *fasid*. Berkait dengan transaksi *tawarruq* pula, Shaykh Bin Baz (1992) mengulas bahawa jika seseorang ingin menjual semula sesuatu komoditi bagi mendapatkan kecairan tunai, dia perlu membeli komoditi tersebut dan perlu berlakunya pemilikan sempurna, kemudian dia boleh menjualnya semula kerana seseorang dilarang menjual barang yang bukan miliknya<sup>5</sup>.

## 4. IMPILKASI PERLAKSANAAN QABD

- 1) **Perpindahan hak Penjagaan Aset**: perlaksanaan *qabd* menyebabkan beban penjagaan aset berada di bawah tanggungjawab pembeli menurut pandangan majoriti fuqaha (Ibrahim, 1984). Oleh itu, segala penambahan atau penyusutan nilai aset adalah berada di bawah tanggungjawab pembeli kerana itulah fungsi akad jual beli. Di dalam aplikasi tawarruq semasa, pejagaan komoditi secara rapi amat penting supaya tidak berlaku penyusutan nilai kerana biasanya ia digunakan sebagai aset sandaran untuk tempoh yang lama (Zulbahri Zainuddin, 2011).
- 2) **Kewajipan Membayar Harga Aset**: perlaksanaan *qabd* akan menerbitkan obligasi ke atas pembeli untuk membayar harga aset serta merta kecuali berlaku persetujuan antara pihak berakad agar pembayaran dibuat secara bertangguh kerana pada asalnya, hak pemilikan melalui transaksi jual beli dikira sah setelah berlakunya pembayaran harga komoditi dan ia tidak memadai sekadar berlakunya *qabd* (Ibn Juzayy, 1982; Kasani, 1982). Menurut amalan pembiayaan *tawarruq* semasa, bank selalunya bersetuju supaya pemohon biaya membayar harga belian pertama secara bertangguh. Dalam konteks ini, bank (penjual) perlu serta merta menyerahkan komoditi kepada pemohon biaya (pembeli) seperti mana pandangan yang telah disepakati fuqaha (Nawawi, 1928 dlm. Sawas, 2000).
- 3) **Keupayaan Menggunakan Aset**: dengan terlaksanya *qabd*, maka akan berlaku pemilikan yang sah terhadap aset bagi pihak pembeli dan dia boleh memanfaatkan aset tersebut sepenuhnya (Sawas, 2000).

#### 5. JENIS-JENIS *QABD*

Melalui penilaian terhadap kajian-kajian para fuqaha, *qabd* dapat diagihkan kepada tiga jenis yang utama (Suruhanjaya Sekuriti, 2006; Sawas, 2000):

## 5.1 Pertamanya: Qabd Haqiqi

Ia merujuk kepada perpindahan hak milik sesuatu aset secara fizikal seperti mana yang dijalankan menurut adat kebiasaan. Contoh yang biasa diamalkan seperti transaksi jual beli dan gadaian terhadap aset mudah alih (manqul) di mana qabd haqiqi dianggap berlaku apabila apabila wujud pengambilan komoditi. Termasuk dalam jenis qabd haqiqi ialah jual beli aset tidak alih (Niqar) seperti rumah atau blok kedai di mana qabd berlaku secara takhliyyah iaitu tindakan mengosongkan premis oleh pemilik asal dan

<sup>&</sup>lt;sup>5</sup> Larangan ini adalah berdasarkan hadis yang bermaksud: jangan kamu jual barangan yang bukan milik kamu (al-Turmidhi no. 1233).

penyerahan kuncinya kepada pembeli premis. Dalam pentadbiran hartanah moden, pertukaran nama pada sijil pemilikan sudah memadai untuk dikira sebagai *qabd* yang sempurna.

## 5.2 Keduanya: *Qabd Hukmi*

Ia meruju kepada pindah milik yang berlaku bukan secara zahir. Namun Syarak tetap mengiktirafnya dan status pemilikannya menyamai qabd haqiqi. Qabd hukmi boleh berlaku melalui beberapa jenis kaedah:

- 1) *Muqasah*: iaitu konsep tolak selesai hutang. sebagai contoh, jika pelanggan insuran mempunyai deposit sebanyak RM 50 ribu, dalam masa yang sama mempunyai obligasi hutang tertunggak dengan syarikat insuran sebanyak RM 25 ribu, maka pelanggan tersebut hanya layak menerima pembayaran berjumlah RM 25 ribu sahaja manakala bakinya boleh diambil oleh syarikat insuran.
- 2) *Itlaf*: iaitu kerosakan pada komoditi. Sebagai contoh, seorang pembeli yang sedang meneliti barang mudah pecah lalu berlaku kerosakan pada barang tersebut disebabkan tindakannya, maka pembeli mestilah membayar harga barang tersebut. Ini kerana menurut Syarak, sekiranya berlaku kerosakan barang disebabkan oleh pembeli (walaupun sebelum berlaku akad), qabd dianggap sempurna.
- 3) Tindakan terdahulu: ia merujuk kepada tindakan terdahulu yang menunjukkan qabd berlaku lebih awal. Contohnya dalam kontrak sewa dan beli rumah, ketika tempoh penyewaan, penyewa telah menduduki premis sewa dan ia merupakan qabd yang awal. Kemudian rumah tersebut dijual kepadanya, maka qabd hukmi telah berlaku walaupun qabd hakiki adalah selepas akad jual beli.

## 5.3 Ketiganya: *Qabd* yang diiktiraf Syarak

Konsep pindah milik yang tidak disebut di dalam nas Syarak, namun ia dibolehkan melalui prinsip-prinsip Syarak. Sebagai contoh, pemilikan terhadap barang yang dijumpai tanpa pemilik (*luqatah*) atau rampasan terhadap barang larangan yang dilakukan oleh pemerintah, ia dikira pemilikan yang sah menurut Syarak. Termasuk juga dalam kategori ini ialah tatacara *qabd* yang diluluskan oleh pihak pemerintah atas asas untuk memudahkan urusan manusia dan memenuhi keperluan masyarakat yang semakin kompleks kerana sememangnya Islam bersifat luas dalam hal-hal muamalat.

#### 6. PEMBIAYAAN BERASASKAN TAWARRUQ

Secara literal, *tawarruq* berasal dari perkataan *al-waraq* atau *al-wariq* yang dapat diertikan sebagai harta atau daun pada pokok (Ibn Faris, 1984). Menurut istilah Syarak pula, *tawarruq* merujuk kepada tindakan seseorang yang membeli komoditi dengan harga bertangguh, kemudian menjualnya kepada pihak yang bukan penjual asal dengan harga tunai (Al-Suwaylim, 2003; Ibrahim 2009).

Daripada pentakrifan secara istilah, beberapa kesimpulan dapat dibuat:

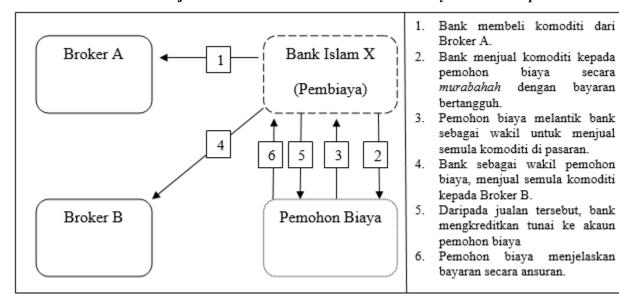
- 1. Pembiayaan *tawarruq* mestilah melibatkan sekurang-kurangnya tiga pihak bertransaksi:
  - i. **Pihak pertama**: pemohon biaya wang tunai (*al-mustawriq*).
  - ii. **Pihak kedua**: penjual barang kepada pihak pertama.
  - iii. **Pihak ketiga**: pembeli komoditi daripada pihak pertama dan dia bukan daripada pihak kedua.
- 2. Proses penjualan mestilah dilakukan ke atas komoditi yang dimiliki oleh penjual dengan harga tangguh.
- 3. Berlakunya proses pemilikan (*qabd*) komoditi secara penuh daripada penjual kepada pembeli selepas selesai akad jual beli dilakukan.

Tawarruq pada asalnya telah diperkenalkan oleh mazhab Hanbali sebagai akses mudah untuk mendapatkan cairan tunai (ÑUthmani, 2009). Dalam konteks semasa, instrumen tawarruq telah

dimodenkan bahkan telah wujud usaha menggandingkannya dengan instrumen Syariah yang lain seperti *ijarah*, *musharakah* dan *mudarabah*. Pemodenan ini telah terbukti mampu memesatkan lagi pembangunan produk perbankan dan pasaran modal Islam (sukuk) dan mencipta keuntungan besar bagi sebuah institusi kewangan Islam. Secara umumnya, pemakaian *tawarruq* oleh institusi perbankan Islam bertujuan untuk mencapai matlamat berikut (Zaharuddin, 2012):

- 1. Mekanisma untuk bersaing dengan produk konvensional
- 2. Menawarkan perkhidamatan mendapatkan keciran dana yang efisyen untuk individu dan institusi perbankan lainnya.
- 3. Menawarkan instrumen pendapatan tetap yang patuh Syariah bagi masyarakat awam.

Gambaran perlaksanaan pembiayaan *tawarruq* yang diamalkan di institusi perbankan Islam secara umumnya dapat dicermati melalui rajah di bawah:



Rajah 1: Carta Aliran Perlaksanaan Pembiayaan Tawarrug

Melalui apa yang digambarkan dalam Rajah 1, ambiguiti perlaksanaan *qabd* selalunya muncul pada peringkat kedua kerana pemohon biaya biasanya tidak mengetahui secara spesifik perihal komoditi yang dijualkan kepadanya. Jika *qabd* tidak berlaku, bagaimana mungkin pemohon biaya boleh menjual semula komoditi kepada Broker B kerana dia tidak memiliki komoditi tersebut secara sah. Selain itu, masalah turut timbul pada kondisi komoditi itu sendiri yang rosak teruk tanpa penyeliaan rapi sehingga mengakibatkan nilainya menyusut. Turut berlaku juga di mana perlakasanaan puluhan kontrak jual beli yang dilakukan secara serentak ke atas komoditi yang sama lalu mencipta unsur *gharar* pada pemilikan komoditi berkenaan (Daghi, 2008). Dalam pada itu, wujud juga isu persepakatan awal yang wujud akibat tindakan bank yang menjadi wakil pemohon biaya untuk menjualkan komoditi kepada pembeli baru kerana mengikut konsep *tawarruq* yang asal, pemohon biaya perlu berusaha sendiri menjual semula komoditi kepada pihak ketiga (Haddad, 2009).

# 6.1 Rukun Pembiayaan Tawarruq

Tawarruq sebenarnya merupakan akad hasil manifestasi akad  $bay\tilde{N}$  (jual beli). Atas asas ini, perbincangan rukun tawaruq akan merujuk terus kepada rukun jual beli itu sendiri. Menurut pandangan majoriti

mazhab (Maliki, ShafiÑi dan Hanbali)<sup>6</sup>, jual beli atau *tawarruq* mengandungi tiga rukun. Pertamanya, pihak-pihak yang berkontrak (*mutaÑaqidan*) yang merujuk kepada penjual dan pembeli. Keduanya, lafaz kontrak (*sighah*) yang mengandungi unsur penawaran (*ijab*) serta penerimaan (*qabul*) dan ketiganya, komoditi (*maÑqud Ñalayh*) yang menjadi tumpuan akad (Zuhayli, 1985). Namun begitu, rukun yang menjadi tumpuan utama kajian ini adalah pada *al-maÑqud 'alayh* dan ia perlu memenuhi syarat-syarat berikut:

- a) Komoditi mestilah wujud<sup>7</sup> pada masa akad dilaksanakan dan ia dimiliki oleh pengguna (ÑAli, 2003).
- b) Komoditi mestilah mampu untuk dipindah milik (*qabd*) kepada pembeli (Zuhayli, 1985)<sup>8</sup>
- c) Komoditi mestilah boleh dimanfaatkan dan berharga pada kaca mata Syarak (Zuhayli, 1985)
- d) Komiditi mestilah jelas pada pengetahuan pembeli<sup>9</sup> dan ditentukan sifat, kuantiti serta harganya.
- e) Komoditi mestilah tidak bercanggah dengan kehendak akad itu sendiri serta menepati undangundang Syarak (Abdul Hakam, 2012).

Syarat-syarat yang ditetapkan ini bertujuan agar akad *tawarruq* yang terlaksana jelas pada pengetahuan pihak-pihak berkontrak tanpa wujud unsur *gharar* atau *jahalah* yang dilarang keras dalam Islam dan boleh mengakibatkan pertelingkahan antara pihak yang berkontrak. Oleh yang demikian, segala prosedur perlaksanaan *tawarruq* perlulah dicermati dengan sebaiknya. Apa-apa unsur yang boleh mendatangkan *gharar* perlulah dihindari.

# 7. KESIMPULAN PARAMETER QABD

Parameter *qabd* yang diusulkan ini perlu diikuti oleh pihak pembiaya dan pemohon piaya. Parameter ini dirumuskan berdasarkan pandangan-pandangan fuqaha dan nas-nas Syarak. Ini bermakna, sekiranya parameter ini dipenuhi, maka perlaksanaan *qabd* dalam pembiayaan *tawarruq* dikira menepati Syarak dan terlaksanalah pemilikan yang sah serta sempurna pada komoditi yang seterusnya akan menatijahkan implikasi-implikasi *qabd*.

**Parameter 1**: perlaksanaan *qabd* mestilah membuktikan perpindahan komoditi *manqul* melalui serahan tangan dari satu pihak ke pihak yang lain pada waktu akad.

*Qabd* terhadap komoditi melalui serahan tangan secara serta merta adalah kaedah *qabd* yang paling jelas lagi terhindar dari *gharar* serta mampu membuktikan bahawa transaksi jual beli benar-benar berlaku. Kaedah lain yang turut berkongsi taraf yang sama dengan serahan tangan ialah:

- i) Tindakan penjual melalui penunjukan terus terhadap komoditi dari sudut kondisi, nilai dan kuantitinya (ÑAyni, 1981).
- ii) Melaui serahan sijil yang mewakili pemilikan barang secara spesifik dari aspek kondisi, nilai dan kuantiti (JuÑayd, 1986).

**Parameter 2**: Mestilah berlakunya *Takhliyyah* pada aset igar

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<sup>&</sup>lt;sup>6</sup> Terdapat segelintir kecil fuqaha mazhab yang berpandangan bahawa qabd termasuk rukun jual beli kerana tanpanya akad dikira tidak sah dan tidak sabit implikasi hukum-hakam jual beli (Sawas, 2000).

<sup>&</sup>lt;sup>7</sup> Syarat kewujudan komoditi ini dikecualikan dalam transaksi *bayÑ al-salam*. Namun begitu syarat ini tetap perlu dipenuhi walaupun komoditi tidak dibawa semasa akad dijalankan.

<sup>&</sup>lt;sup>8</sup> Syarat ini telah disepakati oleh semua mazhab. Apa sahaja yang dikhuatiri tidak boleh untuk diserahkan atau memang berada di luar kemampuan penjual untuk menyerahkannya sama ada disebabkan jaraknya, pemilikannya, ketiadaan kepakaran untuk membuatnya, mengusahakannya atau lain-lain sebab, ia tidak boleh dijual kepada pihak lain (Zaharuddin, 2012).

<sup>&</sup>lt;sup>9</sup> Terdapat dua kaedah untuk memaklumkan kepada pembeli akan kondisi komoditi. Pertamanya ialah dengan mengisyaratkan atau menunjukkan komoditi ketika majlis akad. Keduanya, kaedah penceritaan sifat, kadar dan jenis komoditi (ÑAli Haydar, 2003).

Jika aset sandaran adalah dari jenis harta tidak alih, fuqaha mazhab bersepakat bahawa penjual mestilah melakukan *takhliyyah* iaitu mengosongkan premis sehingga membolehkan pembeli menggunanya atau menjualkannya kepada pihak lain (Sawas, 2000). *Takhliyyah* juga oleh berlaku penjual penjual memberi izin kepada pembeli untuk mengambil komoditi di premisnya (Suruhanjaya Sekuriti, 2006).

# Parameter 3: Berlakunya penyerahan komoditi daripada penjual kepada pembeli

Setiap perlaksanaan qabd tidak memadai hanya dengan penerangan melalui tutur kata atau penyerahan dokumen sahaja. Ia mestilah disusuli dengan perpindahan komoditi dari jagaan penjual kepada jagaan pembeli bagi melayakkan pembeli untuk menjualnya semula kepada pihak pembeli yang baru (Bin Baz, 1992). Hal ini boleh dilakukan dengan mengasingkan komoditi tersebut dari aset lain yang dimiliki oleh penjual atau dengan merekodkan rujukan pemilikan pada dokumen pemilikan yang menunjukkan tempat penimpanan komoditi (AAOIFI, 2010).

# 8. PENUTUP

Daripada perbahasan kajian ini, dapat dirumuskan bahawa Syarak amat memberi penekanan terhadap perlaksanaan *qabd* di dalam akad *tawarruq*. Status *qabd* sama ada sahih atau *fasid* di dalam pembiayaan tawarruq dapat ditentukan melalui parameter *qabd* yang telah diusulkan. Pengabaian parameter *qabd* akan mengakibatkan kerosakan pada akad yang seterusnya menggagalkan berlakunya implikasi pemilikan pada komoditi untuk diurus niagakan kerana pada dasarnya, parameter ini adalah dibahas berteraskan nas-nas Syarak dan pandangan sarjana yang berkelayakan. Kajian ini seterusnya mencadangkan agar perlaksanaan *qabd* oleh institusi kewangan Islam dapat dicermati dan diteliti semula agar *tawarruq* bukan hanya mendapat nilaian patuh Syariah pada produknya sahaja, tetapi apa yang lebih mustahak ialah pada perlaksanaannya. Kajian ini juga menyarankan agar isu-isu lain seperti kaedah penyeliaan komoditi dan penggunaannya secara serentak dapat dijalankan agar segala kepincangan dapat diatasi dan perlaksanaan pembiayaan *tawarruq* benar-benar mampu memenuhi hajat masyarakat muslim yang inginkan produk pembiayaan 100 peratus mematuhi prinsip Syarak.

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# SHARIAH-COMPLIANT FINANCING FOR AGRICULTURE IN ISLAMIC BANKING INSTITUTIONS

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# **ABSTRACT**

Among of the roles of Islamic financing in agriculture is to prevent involvement of *haram* elements in funding agriculture-based projects. It is also important to entrepreneurs to use banking and financing instruments which is Shariah-compliant. This paper aims to propose financing methods for Muslim entrepreneurs in funding their agro projects through Shariah-compliant products and services offered by Islamic banking institutions, with basis of *Fiqh Muamalat* contracts. The methodology of this paper is through qualitative research based on document-analysis on previous articles and literatures on several types of *Fiqh Muamalat* contracts. The general finding of this paper shows that there is a need to have Shariah-compliant financing in Islamic institutions, based on *Fiqh Muamalat* contracts.

**Keywords:** Shariah-compliant, agriculture financing, Islamic banking institutions

#### 1. INTRODUCTION

One of the main contributors to local economy in most countries of the world is agriculture – its products ranging from plant-based foods to household materials. According to Ken (2006), agriculture has two meanings; 1) by narrow or daily definition, farming, and 2) by wide definition, an activity which relates to the production process of human needs which originated from plants or animals, accompanied by efforts of renew, reproduce and reconsider economic factor. The second definition matches with the main topic of this research very well. Malaysia is no exception since this country was well known for local plantations such as rice, fruits, cocoa, rubber and palm oil. This country also had cultivation of common livestock including chickens, cows and goats. These plentiful natural resources had opened a wide opportunity for people to begin a highly potential business and may receive high expectations of wealthy income due to stable demand-supply chain.

Entrepreneurs who wished to begin their agriculture-based projects – "agro projects" in short – would require some funds to purchase required materials and as their financial capital for the projects. Being a large project and receiving high demand from local citizens, this may take a lot of hard work and effort, so a good management and entrepreneurial skill is essential for each agro-entrepreneur.

Muslims are encouraged to involve in entrepreneurial business, since it was a part of *Sunnah* practiced by the beloved Last Prophet Muhammad (*SAW*), and even there was several *dalils* mentioned in the Holy Quran and Hadith which mentions about business and its benefits. Allah also mentioned that humans were *khalifahs* of the Earth, which means that humans not only should become his own leader but also should administer the natural resources gifted by Allah, which is coincidental with recommendations to Muslims involving in agrobusiness.

Nowadays, local banking institutions in Malaysia offer Islamic banking products and services, after the National Shariah Advisory Council advises Bank Negara Malaysia to include Shariah-compliant instruments. This is because Islamic banking, due to its moral and ethical Islamic practices, was highly trusted and

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accepted by the people including non-Muslim, and the benefits gained could be shared by both institutions and people. Therefore, businessmen and entrepreneurs are recommended to use these products and services to support their projects and ensure the outcome is truly *halal* (permissible).

# 2. LITERATURE REVIEW

As stated by Amir (2000), Allah wanted humans to work on land, including agriculture and food production, which are promised to be the most *halal* income for mankind. The teachings and guidance mentioned in the *al-Quran*, *al-Hadiths* and *as-Sunnah* was perfectly written to aid humans with rules of resources and product allocation. Allah mentioned that the natural resources is always infinite, not as claimed by Western markets or scholars, unless humans departed from the teachings and guidance which had been foretold by Islam. Unfortunately, Muslim nowadays being too dependent to products and services offered by other countries, especially Western countries, and even being governed by their rules and regulations. He urged that Muslim should prevail and secure their food to secure our country. Muslim should also cooperate together to develop their own agriculture and food resources so we could become competitive as other developed countries.

According to Dr. Baharudin (2006), management is required to ensure perfection of administration. Both management and administration should base on the values of Islam in order to enhance the prestige of Islam, race and the country. The performance to achieve the highest level of excellence could also be exchanged though the excellence in providing services to those in need. Muslim should become a role model to others since Islamic management system model contains work ethics and moral values.

In second quarter of the year 2008, there are about 1.48 billion people who are employed in Malaysian agriculture sector, which proves that the agriculture sector the most important sector for Malaysian economy development (Ministry of Agriculture and Agro-based Industry, http://www.moa.gov.my/web/guest/statistik-pertanian, 3<sup>rd</sup> March 2011). Meanwhile, among the members of Pertubuhan Peladang (Farmers Association) in Malaysia, there are about 700,000 people who are known to have direct involvement in agriculture. These people were mostly Muslim, and they are in need of further *riba*-less, Islamic funds, which is why it is urgent for Islamic financial institutions to provide Islamic finance to these farmers and agro entrepreneurs (Ministry of Agriculture and Agro-based Industry, http://www.moa.gov.my/, 7<sup>th</sup> March 2011).

Financing for agriculture sector under Islamic banking system (Islamic banks which reinforces Islamic Banking Act 1983 and Islamic Banking Scheme) had increased from 31.5 billion in 2007 to 41.3 billion in 2010 (Bank Negara Malaysia, http://www.bnm.gov.my, 4<sup>th</sup> March 2011). This increase is a good indication that between 2007 until 2010, the roles of Islamic banking and financing institutions in supporting the government in agriculture sector development and Islamic funding for agro entrepreneurs are appreciated and needed truly, and sometime in the future, more Islamic financing institutions are able to provide more Islamic financing.

In the Annual Report 2009 published by Bank Negara Malaysia (BNM) (2009), there is several imbalancements between total allocations and total approvals in Small and Medium-sized Enterprises (SMEs) special funds, which is administered by BNM. One of the examples of this issue is regarding to Fund for Food (3F) program, it's total allocation was stated as 1.3 billion, however, the total approval was 1.7 billion (Bank Negara Malaysia, http://www.bnm.gov.my, 4<sup>th</sup> March 2011). This would mean the fund demand is larger than the available funds of BNM. Ironically, even in special funds for Small and Medium Industries 2, there are still other unbalance funds, which is 6.7 billion of total allocation and 12.8 billion of total approval. This inequality is urgently in need of new Islamic funding facility which could overcome and administer the issue.

According to Rajhi (2010), agricultural credit is expected to be a requirement in agricultural development for agricultural initiative, including farm credit which had been long identified as a main input. These inputs allocation is important since they are considered as an alternative to already available resources such as labour, land, equipment and raw materials.

One of the major constraints in agricultural development is capital insufficiency. Modern farm inputs (e.g. fertilizers, improved seeds, feeds and plant protection chemicals, agricultural machines) are required over the hoe and machete technology in order to improve agricultural production. Yet, only a small number of farmers who had enough financial resources are able to afford the inputs mentioned.

According to Amir Shaharuddin, et. al. (2005), Small and Medium-sized Enterprises (SMEs) played an important supportive role in Malaysian economy. Many Islamic banks in Malaysia (e.g. Affin Islamic Bank Berhad, Bank Islam Malaysia Berhad, Kuwait Islamic Finance (Malaysia) Berhad) and even conventional commercial banks (e.g. Alliance Bank Malaysia Berhad, HSBC Bank Malaysia Berhad, Public Bank Berhad) have provided financing and facilitating business transactions to the SMEs, including providing total financing which had been increased by 29.6 percent from 2003 to 2004. Some of the products offered included Fiqh Muamalat contracts such as special investment account (mudharabah-based), trust receipts (murabahah-based), Islamic guarantee letters (wakalah-based), overdraft (bai bithaman ajil/bai 'inah-based) and more, however, upon observation, it seems the mentioned products are not utilized by most SMEs customers fully. The reason is because of ineffective marketing strategy by Islamic banks which failed to attract the customers fully.

Abd. Rahman Rasid (2001) said that lack of financing is one of the main reasons why agriculture industry cannot be developed further in Malaysia. Furthermore, both Islamic and conventional banking system are not intensively provide funding to agriculture or due to several factors, including risk of agriculture, incompatible sources of financing, lack of banking experts and people marginalize the agriculture sector. Until now, according to Muhammad Ridhwan (2010), Agro Bank is the only bank able to provide funding and financing facilities to Agro entrepreneurs intensively, although some of the products offered are not Shariah-compliant yet.

Muhammad Fauzi (2008) mentioned that, based from his research on the Holy *al-Quran*, Allah had mentioned 83 verses related to concepts of agriculture. Some good examples had been stated in *Surah al-An'am* (verse 141) and *Surah an-Nahl* (verse 11). These verses mentions about the variety of plants and its products which gifted by Allah for human needs and as one of the proofs of Allah the Most Wise. The Holy al-Qur'an itself mentioned about agriculture, horticulture, botany, and geology the most. According to him, there are three main concepts of agriculture in Islam; 1) Islam encourages the people to involve in agriculture since it is the easiest way to gain good rewards (*pahala*) while earning beneficial and *halal* income, 2) Islam encourages marketing agro-products, but prohibits any form of frauds or monopoly, and 3) Islam, however, discourages any agricultural activities with doubtful and invalid purposes according to Islam, such as planting grapes to produce beer, although the grapes itself is *halal*.

According to Hazaruddin (2001), in Islam, management could be viewed as a complement of business, as long it is according to *syara*'. Allah mentioned in the Holy *al-Quran* at verse 29 of *Surah an-Nisaa*', in which Allah prohibits the Muslim to consumes each other's wealth in wrong ways, unless by acceptable business. Muslims also need to acquire themselves with management skills for business; aspirational skills, interaction skills and technical skills. Since Islam emphasizes good ethics to be practiced by Muslim business managers, such as trust, cooperation, and responsible.

Khaliq (2004) mentioned that even though organizational environment need for Islamic knowledge is becoming more important day by day, only a few Muslims going well with accurate ways of gaining objectives of Islam in organizations. Some others may able to contribute something well to his organization but only work in non-Islamic culture, and some others may involve in healthy competition between firms but with wrong Islamic background knowledge.

According to Syahnaz (2009), Islam advises its people to be wise in managing their lives including monetary management. Islam does allow the people to make monetary loan, however, this action should not be practiced all times unless it is necessary. The implementation of Islamic loan plan, known as *qard al-hassan*, should be featured and extended in driving the *riba*-less Islamic economy system. All agencies should support this honorable intention directly in an attempt to uphold Muslims' socio-economic standards in this country.

Dr. Joni Tamkin, *et. al.* (2009) mentioned that there are higher risks in agricultural investments due to various factors, although it is rare because the risks involve weather and natural disaster effects toward agro productions. Recent and advanced farming technology was able to minimize the effects. He also mentioned that although there are few banks offered Islamic financing facility, but due to importance of agriculture towards Malaysian economy, these banks are willing to provide financial support towards agro entrepreneurs, which is good opportunity to expand the agro business.

Muhammad Ridhwan (2010) stated that in the case of local Islamic banking institutions such as Agro Bank, Bank Kerjasama Rakyat Malaysia Berhad and Maybank Islamic Berhad, these banks used *Bay' Bithaman Ajil* and *Bay' al-Innah* contract types when dealing with Islamic financing for agriculture. However, the contracts mentioned are not suitable for agribusiness according to Shariah view. This is because in *Fiqh Muamalat*, there are other more suitable contracts which could use for dealing with agri-business transactions such as *al-Muqasat*, *al-Muzara'ah* and *Bay' Salam*. At the same time, the application of *Bay' Bithaman Ajil* as selectable contracts used in current Islamic banks are argued and disagreed by several Islamic scholars, since they said that it is a back-door method against *riba* (interest) transactions. Before owning a property, a seller must fulfill some certain requirements in *Fiqh Muamalat* before the asset would later to be sold to other buyers.

Fatimah (2010) mentioned about the development of new supply chain of agro-food marketing in Malaysia, which traces the new retail formats' growth and its structural effect towards small local fresh producers. New super retailers were able to capture an important market share of local fruits and vegetables in similar cost of small time local retailers within less than ten years. Their procurement system indirectly separates the small farmers from the supply chain. Small time wholesalers or traders who acted as middlemen had been replaced by emerging new type of intermediaries and packing houses at farm level. Small farmers who wished to integrate into the new supply chain should have a major revamp of their current system, such as enhancement of productivity, product quality and institutional restructuring, with support of local government.

## 3. RESEARCH METHOD

The paper adopts qualitative research based on several literature works on Islamic finance and agriculture. The literature works and articles will be analyzed to extract information regarding to financing methods and Islamic contracts which can be used by Muslim entrepreneurs in funding their agro projects through Shariah-compliant products and services offered by Islamic banking institutions. The document analysis will also be made to gain information on what types of *Fiqh Muamalat* contracts which is suitable for financing and funding agriculture-based projects.

# 4. CONCLUSION

There are several forms of *Fiqh Muamalat* contracts which are suitable to agro-entrepreneurs to finance agro-projects, which may benefit them as well. These Shariah-compliant instruments will also ensure that the outcome of the projects were truly *halal* (permissible) without any involvement of *haram* (non-permissible) elements, such as usury and interest. It is very important to Muslim agro-entrepreneurs to realize the benefits of financing their projects using Shariah-compliant financing and banking products and services not only because to guarantee the *halal* outcome, but also to ensure the entrepreneurs' work and effort will be an acceptable *ibadah* in their life.

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# MAQASID SHARI'AH IN ISLAMIC FINANCE: ASSESSMENT ON IDEOLOGIES OF MUSLIM PHILOSOPHERS AND ECONOMISTS

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#### **ABSTRACT**

The development of maqasid shari'ah shows the high intense to be relevant to any field of academic studies. This includes the Islamic finance area which comprises of Islamic banking, Takaful and Islamic capital market. Islamic banking in particular has created concern among the scholars with regards to achieving the social justice for the ummah and general society. Maqasid shari'ah in contemporary context has to be deduced from the original sources rather than the fiqhi literature. This paper therefore discussed the literature of maqasid shari'ah in Islamic Finance with relation to its impact towards social welfare. References and assessment were made based on renowned Muslim philosophers and economists namely Imam al-Ghazali, Ibn Qayyim, Imam al-Shatibi, and Ibn Ashur on their ideologies. The study confirmed that Islamic finance needs to make maqasid shari'ah as the main focus of their operation and performance as it would be a great contribution to the ummah and their future achievement. The most relevant ideas of the philosophers are proposed towards building a framework of maqasid shari'ah base for Islamic finance model.

**Keywords**: Magasid shari'ah, Islamic finance, Islamic banking, social welfare

# 1. INTRODUCTION

Islamic finance as known as Islamic transaction law is founded on *Shari'ah* principles. *Shari'ah* is not just a law, it represents the idea that all human beings and governments are subject to justice under the law – extends to everything from business contracts and marriage to punishment and worshipping. The explicit intention of Islamic finance is to meet the financial needs of the society with integrity and in a manner that is just, fair, trustworthy and honest, while ensuring a more equitable wealth distribution.

Islamic finance offers similar services as conventional finance: taking deposits, giving loans, providing trade finance, investing in financial assets, and distributing insurance. Islamic finance encourage business and trade activities that generate fair and legitimate profit in which the business transaction must be accompanied by an underlying genuine trade and business-related activity (MIFC, n.d.). The promotion of fairness in Islamic finance is visible via the risk and profit sharing

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characteristics. Thus, in a nutshell, Islamic finance embraces the feature of materiality and validity of transactions and mutuality of risk sharing. The application of the principles of Islamic finance and adherence to *shari'ah* could help alleviate poverty and stabilize economies.

Shari'ah is a set of norms, values and laws that governs Islamic way of life, in all its aspects, like faith and worship, as well as the economic, social, political and cultural components in Islamic society (ISRA, 2011). In terms of the Islamic economic system, the philosophical foundations which serve as bases upon which they are formed include *tawhid*, *rububiyyah*, *risalah*, *akhirah*, *istikhlaf*, *tazkiyah*, *kafalah*, *adalah* and *falah*.

Maqasid shari'ah is classified into two main categories namely general objectives (maqasid 'ammah) and specific objectives (maqasid khassah). Islamic finance can generally be categorized under maqasid khassah, the specific objectives. Nevertheless, the general objectives are also very relevant and directly related as the aim of Islamic finance includes preserving the wealth of society. Therefore it is important to investigate into the objective of wealth examination, along with the general objectives of Islamic finance.

This paper shed light on the literature of *maqasid shari'ah* or objective of Islamic law. The characteristics, classification and principles of *maslahah* are highlighted in conjunction with the current situation of Islamic finance. The impact of *maqasid shari'ah* is discussed which focusing on the social welfare within the Malaysian society.

Many scholars have agreed that the ultimate objective of *maqasid shari'ah* is to serve the interests of all human beings and to save them from harm. Others opined that *maqasid shari'ah* is surrounding on the issue of preservation and promotion of human welfare. Islamic scholars have generally considered that the fundamental value and objective of *shari'ah* is the realization of the *maslahah*, or public interest. It is important to highlight that *maslahah* sometimes has the same connotations as *maqasid*, and at times scholars have used the two terms interchangeably. Thus, it is arguably essential that when talking about *maqasid*, one must delve deeper into the principles of *maslahah* as well.

Therefore, we include a comparison and assessment of the concept among four major Muslim scholars namely Imam al-Ghazali, Ibn Qayyim, Imam al-Shatibi and Ibn Ashur to provide guidance for future researches and enlighten the finance industry. This conceptual research found that, Muslim scholars have provided guidance and standard on the application of *maqasid shari'ah* throughout our Islamic financial transaction, contracts and activities. It needs effort and support from all side of the relevant parties in this area in realizing the standard that we can call it the *Shari'ah-based* of Islamic finance. The sections of this paper are as follows.

## 2. LITERATURE OF MAQASID SHARI'AH IN ISLAMIC FINANCE

# 2.1 Definition

Shari'ah can be interpreted to mean "the way", or "a clear path to be followed (Qur'an 45:18). Al-Qurtubi defines shari'ah as the canon law of Islam, as in all the different commandments Allah (s.w.t.) has given to mankind (Al-Qurtubi, n.d.). The fundamental value and objective of shari'ah is the realization of the maslahah, or public interest. It is important to highlight that maslahah sometimes has the same connotations as maqasid, and at times scholars have used the two terms interchangeably. Many scholars have agreed that the ultimate objective of maqasid shari'ah is to serve the interests of all human beings and to save them from harm.

In Arabic, the term *maqasid* means goals, or purposes. "*Maqasid* of the Islamic law highlights rationales, purposes and common good in the Islamic rulings and stresses their importance, while basing itself on the Islamic scripts and observing the Islamic faith" (Al-Shaikh-Ali & Auda, 2006). Many scholars have agreed that the ultimate objective of *maqasid shari'ah* is to serve the interests of all human beings and to save them from harm. However, others have defined *maqasid shari'ah* in different ways. Al-Ghazali, Imam al-Shatibi, Ibn Ashur and Ahmad al-Raysuni opined that *maqasid shari'ah* is surrounding on the issue of preservation and promotion of human welfare.

Al-Ghazali has described *maqasid shari'ah* as the importance of preserving the well-being of the people through the safeguarding of their faith (*din*), their lives (*nafs*), their intellect ('*aql*), their posterity (*nasl*), and their wealth (*mal*), while at the same time highlighting that these five points, when fulfilled adequately, serve public interest and is therefore desirable. However, whatever is done not in accordance with these five points is against public interest and should therefore be removed. (Al-Ghazali, 1973).

Imam al-Shatibi defines *maqasid shari'ah* from a more epistemological perspective, inferring that the aim of *shari'ah* is to free man from selfish endeavors in order for him to realize his place in the scheme of things and serve God willingly and wholeheartedly (Al-Shatibi, 1975).

Ibn Ashur explains that the *maqasid*, in promoting the well-being and virtue of man, also preserves, in consequence, the social order of the community and its healthy progress. He points out that virtue, or *salah*, can be fulfilled through thinking intelligently and doing good deeds, as well as utilizing all the gifts that God has bestowed on him, in a righteous manner that may benefit society as a whole (Ibn Ashur, 2001).

Ahmad al-Raysuni has defined the overall objective of *maqasid* as the preservation of an ordered and peaceful society wherein the people placed there on earth, act as its responsible caretakers, as God had placed them there as His vicegerents. As such, using all the resources at his disposal, they must therefore live justly and promote moral propriety and integrity, in thought and action, for the benefit of all (Al-Raysuni, 2005).

There are similar ideas identified in the *maqasid shari'ah* discussion by the Muslim scholars which are the context of community, society and human being development, either in the area of spiritual or material order. Based on our observation, the social welfare and public interest become the authentic approach among them in defining *maqasid shari'ah* which is united and collective.

There are also some ideas especially the approach and segment of life extracted from the literature which are considered distinctively defined by the Muslim scholar. One of the differentiations is on the approach and segment of life. Al-Ghazali stresses the sequence of the five priorities in human life. Whereby, Al-Shatibi utilises the epistemological instrument in defining *maqasid shari'ah*.

Hence, it can be concluded that the welfare, public interest and justice on community and society in all area of life is the main focus of *maqasid shari'ah*. The objective of five main points of preservation as mentioned by Al-Ghazali is to discard human being from the bad characteristic such as selfish and individualism. Islam suggests the collective culture in all area of life, as discussed by Ibn Ashur and Al-Raysuni. The progress of community and the social order must be utilized by the man's virtues. The moral propriety and integrity are becoming the conditions of the peaceful society.

# 2.2 Characteristics of Magasid Shari'ah

There are four main characteristics of *maqasid shari'ah*. Firstly, it is the basis of legislation serving the interests of all human beings and protects them from harm. Secondly, is universal, as the aim of

Islamic law is to serve the interests of mankind and require the adherence of all human beings. The third is inclusive (absolute), encompassing all human acts irrespective of whether they relate to 'ibadah' (responsibilities to God) or mu'amalah (responsibilities to other human beings). Lastly is definitive, as they have been taken from many different sources, and not just from one single text or item of evidence (Dusuki and Bouheraoua, 2011).

# 2.3 Classification

Islamic scholars divide maqasid shari'ah into two main categories: general objectives (maqasid 'ammah) and specific objectives (maqasid khassah). Al-Shatibi (1975) further divides the general objectives into three sub-categories, which are essentials (daruriyyah), complementary (hajiyyah) and embellishments (tahsiniyyah). Daruriyyah means the interests of life which people essentially depend upon, consisting of the five objectives of Shari'ah; religion, life, intellect, posterity and wealth. However, some scholars have proposed additional daruriyyah such as equality, freedom and protection of the environment, arguing that although the five original daruriyyah are vital for human welfare, necessities are not confined to them. The hajiyyah consist of interests that supplement the essential interests, and of which the neglect would lead to hardship but not to the total disruption of the order of life. This is said to be needed in order to alleviate hardship. The tahsiniyyah is interests whose realization leads to refinement and perfection.

*Maqasid khassah* involves the distinguishing objectives of Islamic legislation, in which a specific discipline, for example, financial transactions or family law, are addressed. Ibn Ashur expresses that the aim of these objectives is to put stress on the importance of public interest, discouraging people from allowing their own personal interests harm their established public ones, through every human flaws such as carelessness and vain desires (Ibn Ashur, 2001).

# 2.4 Principles of Maslahah

Maslahah has always been used, as a juristic device, to promote public benefit and prevent social evils and corruption. Al-Ghazali, in his concept of maslahah, describes it as "the preservation of the ends of the Shari'ah", that is, the preservation of its objectives. Essentially, the fundamental meaning of maslahah lies in the all-encompassing universal objectives such as the protection of faith, life, posterity, intellect and wealth, and do not solely refer to the mere "human goals" as many have thus defined it (Al-Ghazali, 1973).

Al-Shatibi reiterates this by categorizing *maslahah* as the only overriding objective of *shari'ah* that is broad enough to include all measures thought to be beneficial to people, including the administration of people and '*ibadah*. He defines *maslahah* as a principle which involves the subsistence of human life, the completion of man's livelihood and the acquisition of what his emotional and intellectual qualities require of him (Al-Shatibi, 1975).

Ibn Ashur describes two main kinds of *maslahah*; one of obvious benefits for human beings (e.g. consumption of food, wearing clothes, associating with the opposite sex, etc.), which in relation to this *Shari'ah* has deemed unnecessary the laying down of rules for its achievement as it has been assured of man's natural desire to pursue this *maslahah*. Rather, *shari'ah* places more stress on removing the obstacles in the way of achieving these obvious benefits. One of less obvious benefits for human beings (e.g. the paving and widening of roads, the provision of night security guards, etc.), which unlike the in the case of the previous *maslahah*, *shari'ah* is deemed it necessary to intervene by prescribing it, as well as enacting penalties for abandoning and violating it. *Maslahah* can be prescribed in part, for individuals, and in part for society as a whole.

Ibn Qayyim considers the concept of *Istislah* in his economic point of view. *Istislah* or consideration of public interest (*al-maslahah al-'ammah*) is referring to enactment of law where there is no *Shari'ah* rule, guided by public interest. It must be in accordance with the spirit and objectives of *shari'ah*; it should be logical and rational; and it should be adopted to remove some general hardship. He summarized his jurisdicial methodology that is based on wisdom and people's welfare (Auda, 2008).

Maslahah concept is very relative to the moral economy because it seeks to establish justice, eliminate prejudice and alleviate hardship, cooperation and mutual support within the society, realisation of public interest, public benefits and prevent social evils or corruption, securing the benefit and repelling harm (Dusuki, 2010).

The pyramid of maslahah acts as an ethical filter mechanism, exemplifying three levels of judgment that demonstrate their different degrees of importance, in relation to the fulfillment of responsibility, that could be useful to managers for resolving ethical conflicts. It is important to note that the preservation of the three categories in their order of importance is vital for the pyramid to work. Also, all three levels are interrelated and mutually dependent. The essential elements (*daruriyyah*) are at the bottom level as they deal with the preservation and protection of essential needs, and must therefore look out for the interests of the public and everyone involved. Thus, IFIs have a religious, moral and social responsibility to avoid engaging in any business activities which may prove detrimental to society. On the second level, are the complementary (*hajiyyah*), which are necessary in order to remove difficulties, but whose absence does not threaten the normal order of life. IFIs, after fulfilling the needs of the first level should then further extend their responsibilities, as exemplified in the second category. Finally, at the highest level of the pyramid are the embellishments (*tahsiniyyah*) which aim to perfect the conditions of life. In this category, it is inferred that Islamic firms have the responsibility to engage in activities that lead to improvements of public life conditions.

# 2.5 Impact of Magasid Shari'ah on social welfare in Islamic Finance

Islamic finance can be categorized under *maqasid khassah*, the specific objectives. It is also related to *maqasid 'ammah* as the aim of Islamic finance includes one of the five *daruriyyah* i.e. the preservation of wealth, which is interrelated with the other four *daruriyyah*, especially the preservation of religion. Thus, investigating and examining the objective of wealth along with the general objectives of Islamic finance is necessary.

Maqasid shari'ah require IFIs to comply with the standards of virtue and moral consciousness that have been advocated by the Shari'ah (Dusuki & Bouheraoua, 2011), which expects a balance, upheld by firms, in relation to the rights and responsibilities of the individual and of society (Chapra, 1992). As such, the many prohibitions established by the shari'ah should be treated with the aim of providing a level playing field in order to protect the interests of everyone involved as well as create the harmonious society that has been envisioned by the maqasid shari'ah. One could argue that the maqasid shari'ah provide, especially for financial institutions, a framework for decision-making and a means to adapt to change. Furthermore, they act as guidelines for moral judgment (Dusuki & Bouheraoua, 2011).

Maqasid shari'ah reflects the holistic view of Islam, which has to be looked at as a whole, not in parts, for Islam is a complete and integrated code of life, and its goals encompass all way of life, including individual and society, in this world and the hereafter (Dusuki, 2010). Social welfare responsibilities and religious commitments to achieve the Islamic economic objectives, including social justice, equitable distribution of income and wealth and promoting economic development (Dusuki, 2008b) must be uphold at all times. The values become the guidance of Islamic finance

collectively. The values as prevailed within the ambit of *shari'ah* are expressed not only in the minutiae of its transaction but in the breath of its role in society (Dusuki, 2008b).

Maqasid shari'ah is also important to be established in institutional level. In other words, there is the need to organize an institution that serve the public interest and welfare by preserving the five basic needs which are the religion, life, intellect, progeny and wealth. There are certain areas in Islamic finance especially banking sector that seems parallel to maqasid shari'ah which concerns the public interest and social welfare. They are the corporate social responsibility (CSR), service quality (SERVQUAL), customer satisfaction, public or stakeholder awareness, stakeholder perception, poverty alleviation, microfinance and charity. However, the current practice of islamization the conventional to shari'ah compliant is not really fulfilling the objective of shari'ah. The question by many is to what extent these institutions can apply the maqasid shari'ah concept and methodology.

There was an early study by Jasser Auda (2008) that suggests in operationalize and systemize the principals of *maqasid shari'ah*. The reason of the study is current application is reductionist rather than holistic, literal rather than moral, one-dimensional rather than multidimensional, causal rather than teleological, lack of consideration and functionality of the overall purposes and underlying principles of the Islamic law as a whole. In his study, the theory of *maqasid shari'ah* is used as the philosophy and fundamental methodology for assessing classic and current juridical theories, systems theory is constructed to define a new method for analysis.

Other researches on *maqasid shari'ah* in Islamic finance areas include the application of *maqasid shari'ah* in the CSR (Dusuki and Irwani (2007), the stakeholder perspective (Dusuki, 2008a), Islamic capital market (Dusuki, 2010) and Islamic banking products (Habib Ahmed, 2011). It also was suggested that *maqasid shari'ah* will be the main concern if the Islamic microfinance is to be applied in the Islamic banking (Ahmed, 2004; A. W. Dusuki, 2008b; A. Wajdi Dusuki et al., 2008).

# 3. ASSESSMENT ON MUSLIM SCHOLARS' IDEOLOGIES

Islamic finance literature frequently refers to economic justice, equitable distribution of opportunity and wealth, ethics, morality, equity and fairness in business dealings. Critics, however, contend that the prevailing practice of Islamic finance is not sufficiently connected with such ideals. We therefore decided to make an assessment of ideologies on application of *maqasid shari'ah* in Islamic finance. The assessment was made based on the four Muslim scholars' ideology namely Imam al-Ghazali, Ibn Qayyim, Imam al-Shatibi and Ibn Ashur. These scholars were chosen for their significant contribution. In order to understand their views, it is equally important to analyse their background.

# 3.1 Imam Al-Ghazali

Muhammad b. Muhammad b. Ahmad, *al-Imam al-Kabir* Abu Hamid al-Ghazali *Hujjat al-Islam* or better known as Imam al-Ghazali was an important and outstanding Muslim scholar of the medieval period. He was born in AH 450/AD1058 at Tus in Khurasan and died in AH 505/AD1111. Al-Ghazali was one of the religious reformers of the Islamic community during an era of great political turmoil in the fifth century of Hijrah. He made important contributions in all field of Islamic teaching: jurisprudence, theology, philosophy and Sufism. He also studied on psychological, political and metaphysical aspects by combining philosophical and doctrinal approaches and allying rational argumentation with revealed knowledge. Al-Ghazali left behind a massive of intellectual legacy and wrote about 100 treatise of immense cultural value. His works are read throughout the world and translated to English, Spanish, French, German, Urdu and Malay. His greatest works were *Ihya'* 

*'Ulum al-Din* (The Revival of the Religious Sciences), *Maqasid al-Falasifah* (The Aim of the Philosophers) and *Tahafut al-Falasifah* (The Incoherence of the Philosophers). He is celebrated in the Muslim world as a scholar and thinker, and his works are regarded as standard references for Islamic teachings (Mat Akhir, 2010).

# 3.2 Ibn al-Qayyim al-Jawziyya

Sham Al-din Muhammad Ibn Abi Bakr or better known as Ibn al-Qayyim's was born in a small farming village near Damascus, Syria in AH 691/AD 1292 and died in AH 751/AD 1350. He was a famous Sunni Islamic jurist, commentator on the *Qur'an*, astronomer, chemist, philosopher, psychologist, scientist and theologian. He lived in a time in which there was strife and internal confusion and chaos, as well as an external threat which was menacing the Islamic state. The resources of knowledge that Ibn al-Qayyim relied on were the Qur'an, the Sunnah and the Ijmaa, Fatwa and Oiyas. His knowledge encompasses the field of religion and the Arabic language and his vast knowledge including the Sunnah, Figh, Arabic Language, 'Hadith, as well as, being a scholar of healing through divine medicine. He learned with many teachers including his father such as Abu Bakar Ibn Ayub, Ibn Taimiyyah, Abu Bakar Abdul Da-im, Abu Abdullah Ibn Abi al-Fat'h and Muhammad Safi ad-Din al-Hindi. Ibn al-Qayyim al-Jawziyya's contributions to the Islamic library are extensive, and they particularly deal with the Qur'anic commentaries, and understanding and analysis of the prophetic traditions. He compiled a large number of studies besides his own books, including Tahthib Sunan Abi Dãwoud (Emendation of Sunan Abi Dãwoud), Al-Kalām al-Tayyib wa-al-'Amal al-Sălih (The Essence of Good Words and Deeds), Commentaries on the book of Shaikh 'Abdullāh al-Ansāri: Manāzil-u Sā'ireen (Stations of the Seekers), which is considered the epitome of knowledge of sufi books; and, Zãd al-Ma'ãd (Provisions of the Hereafter), from which this book on the medicine of the prophet is extracted, besides other manuscripts copied with his own handwriting, and which are preserved in the Central Library in Damascus, Syria (ibngayyim.com).

# 3.4 Imam Al-Shatibi

Imam al-Shatibi or Ibrahim bin Mosa bin Muhammad al-Shatibi al-Gharnati is the great Andalusian Jurist, wrote that it is incumbent upon the Mufti to carry people on a way that is balanced and moderate. He is one of the foundational scholars in usul al-figh and followed the Maliki school of thought. He was an important jurist, grappling with significant issues of political, economic and social change. His family's descent was from the Banu Lakhm. His Kuniyat was "Abu Ishaq" and his surnames were "Al-Lakhmi", "Al-Gharnati", "Al-Maliki" and "As-Shatibi". The date and place of his birth are unknown but he died 1388 (8th Shabaan 790 H) in Granada. His bases for Magasid Shari'ah were the numerous *Qur'anic* verses and Hadith that emphasize moderation and caution regarding one's expression of faith. He learned from very prominent scholars such as Imam Ibn al-Fakhar al-Abeeri, Abu al-Qasim al-Satti, Imam Abu Abdullah al-Tilmasani, Imam Abu Abdullah al-Magri, Shaikh Abu Saeed bin Lab and became master in Arabic language and Ijtihad. His most important work is the Muwafawat fi usul al-sharia a treatise that contributed immensely to the conception of Islamic law, particularly the concept of maslahah (benefit or public interest). Others famous books of Imam al-Shatibi were Al-Aitesaam, Shara a;a al-Khutasa, Al-Itifaq fi Elm al-Ishtiqaq, Kitab al-Majalis and Kitab Al-ifidaat wa Al-inshadaat. Imam al-Shatibi's environment present challenges to the application and adaption of Islamic law and his worked returned to prominence in the 19<sup>th</sup> century with the emergence of Rashid Rida (1865-1935) and Muhammad Abduh (1849-1905) who cited al-Shatibi's ideas.

### 3.5 Ibn Ashur

Muhammad al-Tahir ibn Ashur was born in Tunis AH 1296/AD 1879 and died in AH 1879/AD 1973. Ibn Ashur's methodology takes a centrist position between two contemporary extremes, namely, 'noeliterism', which ignores rationales and valid re-interpretations of the Islamic rulings for the sake of literal traditional views, and 'neorationalism', which ignores the religious and cultural identity of Muslim in its quest for 'modernization' and 'rationality' (Ibn Ashur, 2001). He combined a thorough knowledge of the classics with a desire to revive Islamic civilization. He saw himself as a bridge between the classical Islamic legal heritage and the needs of a modern world.

Figure 1: Timeline of the four scholars



Figure 1 above shows the timeline for each scholar. It shows that the idea of *maqasid shari'ah* had been into discussion for more than 950 years. The findings may be beneficial to others in defining and proving that *maqasid shari'ah* principles are relevant and crucial in Islamic finance as it ensure society are well protected from undesirable outcome. We also intend to highlight the most relevant ideology in promoting the social welfare institution.

# 4. FINDINGS

Deducing from the four scholars mentioned earlier, *maqasid shari'ah* did not take much interest during the first three century. There were significant developments in the formulation of the theory of *maqasid* during the time of al-Ghazali (d. 505/1111) and al-Shatibi (d. 790/1388). Ibn Ashur then proposed *maqasid* as a methodology for the renewal of the theory of Islamic law.

Table 1 below provides a summary of the importance ideology from the four Muslim scholars. These would assist further research in Islamic Finance.

Table 1: Summary of Muslim Ideologies on Magasid Shari'ah

	AL-GHAZALI IBN QAY	YIM AL-SHATIBI	IBN ASHUR
Maqasid	• The importance of • The aims that	• Comprises those	• Maqasid shari'ah
Shari'ah	preserving the well- safeguard pe	ople's benefits, welfare,	promotes the well-
Definition	being of all interests in the	nis world advantages for	being and virtue of
and	mankind, which lies and the Here	after. which Allah has	man and preserves the
Objectives	in safeguarding their • Shari'ah aim	ns at revealed His	collective culture in
	faith (din), human safeguarding	people's Shari'ah.	all area of life.
	self ( <i>nafs</i> ), intellect interest in th	is world • Aims at the	• Shari'ah aims the
	(`aql), posterity and the Here	after. attainment of good,	importance of public
	(nasl) and wealth	welfare,	interest by discourages
	(mal).	advantages,	people from allowing
	Whatever is done	benefits, etc., and	their own personal
	not in accordance	warding off evil,	interests and harm the
	with these five	injury, loss.	public interests.
	points is against	• To free man from	

	public interest and should therefore be removed.  • Whatever ensures the safeguard of these five adequately serves public interest and is desirable.		selfish endeavors in order for him to realize his place in the scheme of things and serve God willingly and wholeheartedly.	
Source of References	• Qur'an • Sunnah	<ul> <li>Qur'an</li> <li>Sunnah</li> <li>Reasoning - "the interpretation of law should be changed according to the changes in time, space, condition and tradition neglecting these facts will bring about injustices to Shari'ah and would result in more harms and difficulties. Yet, Shariah which is known to protect the interest of human being will never tolerate such consequences"</li> </ul>	• Qur'an • Sunnah	<ul> <li>Qur'an</li> <li>Sunnah</li> <li>Combination of knowledge</li> </ul>
Categories	<ul> <li>Faith (din),</li> <li>Life (nafs),</li> <li>Intellect ('aql),</li> <li>Progeny (nasl), and</li> <li>Wealth (mal)</li> </ul>		<ul> <li>Religion: the strategic vision of well-being – worldview with clear direction and moral purpose</li> <li>Self: the overall socio-economic goal – all provisions for Self must comply with Shari'ah vision that human life has to be regarded with honor and dignity</li> <li>Mind: the productive human resource – not just</li> </ul>	<ul> <li>Real ideas (ma'ani haqiqiyyah) – the sound minds can perceived the conformity or incompatibility with what is good (maslahah)</li> <li>Universal conventional ideas (ma'ani 'urfiyyah) – consists of time-tested notions that are familiar and accepted to the public and give conformity with the public goods</li> <li>Both ideas consist of</li> </ul>

		to qualify members of society for productive jobs, but to create socially responsible generations  • Progeny: intergenerational continuity — adherence to institution of marriage and maintenance of strong family values Wealth: the material economic resource —to achieve goals and targets rather than an end of its own	the four elements; certainty (thubut), evidence (zuhur), consistency (indibat) and regularity (ittirad).
Classification of maslahah	• Dharuriyah preserved the above mentioned five principles and is the strongest kind of maslahah; • Hajiyyah is not essential in itself, but is necessary to realize the maslahah in general; • Tahsiniyah exists only for the refinement of things	( <i>Daruriyyah</i> ) - the	<ul> <li>Obvious benefits for human beings</li> <li>Less obvious benefits for human beings</li> </ul>

disruption to the
•
normal daily order
of life.
• The embellishments
(Tahsiniyyah) -
involves the
interests whose sole
purpose is to aim
for refinement and
perfection in all
aspects of life.

#### 5. DISCUSSION AND CONCLUSION

Table 1 above produces the evidence that Muslim scholars have provided guidance on the application of *maqasid shari'ah* throughout our daily life. The current concern is on the extent of the application of *maqasid shari'ah* in Islamic finance especially the finance and banking system.

Ibn Khaldun stated that the development or decline of economy or society is depend on the interaction of moral, economic, political and historical factors over a long period of time. The sovereign or political authority, beliefs and rules of behaviour or the *shari'ah*, people, wealth or stock of resources, development and justice, in a circular and interdependent manner, each influencing the others and in turn being influence. The concept of *asabiyyah*, which has been translated as social solidarity, Social capital and social infrastructure, group feeling and social cohesion has provides protection, makes possible mutual defense as well as the settlement of claims and performance of all agreed activities. Justice necessitates certain rules of behaviour called institutions in institutional economics and moral values in religious worldviews. Good governance is recognition of private property and respect for individual freedom within the constraint of moral values is a part of Islamic teachings and has always been prevalent in Muslim thinking (Chapra, 2008).

Islamic finance as part of an Islamic economic system has an inherent orientation. The overall goal of this system is to realize the *maqasid shari'ah* which at the end enables growth and justice (Siddiqi, 2004). This implies that Islamic finance will need to fulfill both, the legal and social requirements.

Achieving *maqasid shari'ah* from legal aspect of transactions mean underlying objectives of exchange is fulfilled. These include upholding property rights, respecting consistency of entitlements with the rights of ownership, linking transaction to real life activity, transfer of property rights in sales, prohibiting debt sales, etc (Kahf, 2006). Accordingly, IFIs will need to ensure the contracts used fulfill the form and substance as outline by *shari'ah*.

Social aspects of financial institutions can be assessed by examining their involvement in socially responsible activities, from a product perspective the social role can be determine by the market segments and the needs served (Ahmed, 2011). Welfare can be enhanced by promoting the three level of maslahah - *daruriyyah*, *hajiyyah* and *tahsiniyyah*. The needs can be categorized into three types of financial products and services, namely the survival or basic products (savings, checking), security or complementary products (insurance, pension, endowments) and lastly growth products (investments, mutual funds) (Xiao and Anderson, 1997). Figure 2 below provide summary of the application of *maqasid shari'ah* in Islamic finance.

Figure 2: The pyramid of maslahah and possible application in Islamic Finance



Clearly, whatever the decision of IFIs in operating its business in terms of product, service and/or operation, maqasid shari'ah could be applied. The concept of priority should be the main focus in all decision making and administration. Each maslahah (daruriyyah, hajiyyah and tahsiniyyah) is supporting upon each other. This model is very relevant to be applied in every level of management and parts of Islamic banking and finance industry. This observable fact will give the proof that Islam recognize the authority of reason (aql) if it is applied in line with the means of revelation (the Holy Qur'an and Sunnah). There is no superstition that shari'ah is not suitable for the contemporary and modern millennium economy.

Maqasid shari'ah is an important topic of discussion relating to Islamic finance, especially banking sector. Taking the ideas of the great Muslim scholars', it is hope to enable and enhance further understanding of the reader and assist researcher in the area. As Islamic finance grows and foster, it is expected that the base for the current practices will slowly redefined to pursue the real objective of shari'ah in ensuring just, fair and equitable distribution of wealth among the society.

The benefits of Islamic finance have to go beyond social responsibility and the reduction of wealth gaps and poverty. Economic benefits have to be clear as this will enable social justice and welfare being achieved. International initiatives and domestic infrastructures coupled with the supports and collaboration from regulators and supervisor of the industry is crucial towards a financially stable economy.

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# EXPLORING UNDERGRADUATE STUDENTS' UNDERSTANDING OF SHARI'AH BASED AUDIT: IMPLICATIONS FOR THE FUTURE OF SHARI'AH AUDITING LABOR MARKET IN BRUNEI

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#### **ABSTRACT**

The worldwide Islamic finance industry had grown remarkably in the past decades, primarily propelled by the strong demand for shari'ah (Islamic Law) compliant banking products by Muslims and non-Muslims alike. Behind the façade of such outstanding industry's development, there remain unresolved critical governance issues warranting for immediate attention by industry stakeholders. Besides the presence of significant variations with regards to the scope and framework for shari'ah audit in the currently available shari'ah governance policy standards, another imperative issue surrounds the relatively small pool of knowledgeable and competent shari'ah auditors (vis-à-vis conventional auditors) to perform shari'ah auditing of Islamic financial transactions and hence, the institutions. Arguably, these pose a significant threat to the coordinated development of this religiously rooted industry. The study's conjecture is that education holds the key to resolve the issue. Accordingly, it undertakes a preliminary survey on Bruneian undergraduate students in the field of accounting, business and shari'ah related, majority of whom are expected to be part of Brunei's future shari'ah auditing labor market. The study finds that students' understanding of shari'ah auditing is arguably "rudimentary" in nature. While the characteristics and knowledge expected of shari'ah auditor are well understood, the students are however unsure of the primary objective for shari'ah auditing. These highlight the practical imperative for the Brunei government to consider a holistic revamp of its education strategies in meeting future market demands for qualified and well trained *shari'ah* auditors.

Keywords – Islamic accounting, Islamic finance, shari'ah audit, shari'ah auditor

# 1. INTRODUCTION

Islamic finance has become a credible alternative to conventional, usury-based financing industry, registering a growth in excess of 20% in the past decades (Global Islamic Finance, 2012). The religiously rooted industry has more than three hundred industry players called "Islamic Financial Institutions (IFIs)" operating in almost eighty countries globally with total assets stood at US\$1.3 trillion in 2011 (Grewal, 2012, PwC, 2011) and reached US\$1.6 trillion in 2012 (Global Islamic Finance, 2012). The Islamic finance assets in the Asian region alone constitute 22% of that amount (Grewal, 2012). Official statistics produced by KFH Research, an independent professional research house indicate that Islamic banking activities

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primarily drive the industry's expansion globally with an estimated asset size of USD1.1 trillion as at 2011, which value attributed to almost 81% of the whole *shari'ah* based finance assets worldwide. This is followed by *sukuk* (Islamic bond) with 14% Islamic finance assets portion, equivalent to approximately USD178.2 billion outstanding *sukuk* value as at 2011. The global Islamic finance assets are further expanded by the Islamic fund management activities (4.5%) which assets under management closed to USD60 billion from 876 funds as at 2011. The remaining portion of the world Islamic finance assets (0.5%) as at 2011 came from *Takaful* (Islamic insurance).

Amongst the growing Islamic finance market in South East Asia (SEA) is a small Islamic Nation of Brunei, a sovereign state located on the north Coast of Borneo Island. The country's population stood slightly above four hundred thousand as at July 2011 (US Department of State, 2011). Despite its small size geographically, Brunei recorded the second highest Human Development Index (HDI) among SEA nations (Singapore being the first) and this small Nation is classified as a "developed country" (United Nation, 2011). Consistent with its "developed country" status, Brunei is ranked fifth in the world by gross domestic product per capita at purchasing power parity of approximately US48,000 per capita (International Monetary Fund, 2011). This makes Brunei the fifth richest nation out of 182 nations in the world, primarily due to its extensive petroleum and natural gas field exploration and discovery activities.

The Brunei Islamic finance industry was practically introduced in 1991 following the establishment of the Country's Trust Fund named *Tabung Amanah Islam Brunei Darussalam*, followed by the conversion of a conventional bank (Island Development Bank) into a full-fledged Islamic bank (Islamic Development Bank of Brunei (IDBB)) in January 1993 and later merged with Bank Islam Brunei Darussalam (BIBD). Among the Country's notable Islamic finance progress includes the introduction of equity-based Islamic products of *Musharakah* (partnership) to finance Small and Medium Enterprises (SMEs) and a home-ownership financing based on *Musharakah Mutanaqisaha* instrument by BIBD in 2010. *Sukuk* (Islamic bond) issuance remains a rare debt instrument in Brunei with only two issuances to date. Its first *Sukuk Ijarah* was only available in 2006, issued by the then IDBB and subsequently a short-term money market *Sukuk Ijarah* program issued by the government.

The government continuously supports the Islamic finance development by providing the necessary infrastructure including the establishment of a regulatory authority called "Autoriti Monetari Brunei Darussalam" in 2010. It takes up the role of a central bank for Brunei, functions as a government institution that supervises and regulates the operations of the country's Islamic banks. Further, the Centre for Islamic Banking, Finance and Management (CIBFM) was also established in 2012 by the Ministry of Finance, which aims at developing human talents required for the industry. Among others, it provides professional learning courses in various academic disciplines including banking, finance, insurance, capital market as well as general management.

At the global front, the immediate observable impacts arising from the emergence of Islamic finance industry are diverse. Among others it includes the surfacing of Islamic accounting to cater for the accounting and reporting requirements of Islamic financial transactions, *shari'ah* governance in the form of *shari'ah* audit or review, the consistent and increasing demand for knowledgeable and qualified individuals to

serve as *shari'ah* advisors and *shari'ah* supervisory board members, and finally the official establishment of standard setters for IFIs such as the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) and the International Financial Services Board (IFSB). The former is an international non-profit organization established in 1991 which main objectives are to develop and disseminate Islamic based accounting and auditing thought and standards for IFIs. The latter on the other hand issues standards and guiding principles with the aim of promoting and enhancing prudential stability of the Islamic financial services industry globally.

Behind the façade of such outstanding industry's development however, there remain unresolved critical issues warranting for immediate attention by industry stakeholders. The notable major impediments to the coordinated growth of this sacred industry include weak Islamic finance supporting infrastructure in markets in which Islamic finance activities are currently operating (PwC, 2011). It covers that of legislative, regulatory, legal, accounting, tax, human capital and *shari'ah* governance and business framework. In the specific context of *shari'ah* governance, the *shari'ah* audit in effect pillars the *shari'ah* governance framework of IFIs by providing independent assurance to IFI's diverse stakeholders on matters related to IFI's operations including products and services (Mohamed-Ibrahim, 2008). This effectively ensures that IFIs are operating strictly within a *shari'ah* based operating environment.

Prior academic literature specific on shari'ah audit has indeed highlighted prevalent problems facing the Islamic finance industry which include the small and limited pool of available skilled human capital (Kasim, Mohamed-Ibrahim and Sulaiman, 2009) in terms of knowledge and qualification (Rammal and Parker, 2010) and lack of proper shari'ah audit framework (Shafii, Salleh and Shahwan, 2010). Yaacob and Donglah (2012) conduct a survey in Brunei but they are using the postgraduate students as sample. They find that the postgraduate students' lack of understanding of shari'ah auditing is mainly due to inadequate exposure by the institutions of higher learning and the industry. The study conclude that there is an impending need to promote shari'ah audit as a future potential career in order to address the shortages of talent (qualified and knowledgeable manpower) in the Islamic finance industry. Recent survey (in 2011) conducted by PriceWaterhouseCoopers (PWC), a global professional accounting firm in Malaysia further reveals alarming shari'ah governance issues including the urgency in expanding the talent pool of shari'ah auditors, enhancing the comprehensiveness of shari'ah audit scope and improving shari'ah audit methodologies (PwC, 2011).

Arguably, the above identified problems represent a significant threat to the coordinated development of this religiously rooted industry. The study's conjecture is that education holds the key to address the above human capital issues. Accordingly, it undertakes a preliminary survey on Bruneian undergraduate students (currently enrolled in business and management related programs), whom are expected to be part of the country's *shari'ah* auditing labor market in the future. The survey aims at gauging undergraduates' knowledge on *shari'ah* auditing and their propensity of choosing *shari'ah* auditor as a prospect career. Among others, the students were asked on their perceptions with regards to *shari'ah* auditor's roles and responsibilities, characteristics needed for a *shari'ah* auditor and their current understanding with respect to the most suitable qualification(s) to become a *shari'ah* auditor.

The study finds that the understanding of Bruneian students towards *shari'ah* auditing is "*rudimentary*" on average. They understood well the characteristics and knowledge expected of *shari'ah* auditor but surprisingly however, they are unsure of the primary objective for *shari'ah* auditing activities. The results underscore the practical imperative for the Brunei government to consider a holistic revamp of its education strategies in meeting future market demands for qualified and well trained *shari'ah* auditors. The study considers the awareness on Islamic finance and its components among the undergraduate students as a crucial educational strategy as awareness forms part of the self-development processes. Awareness is however expires only when individuals deemphasize the importance of acquiring and broadening their knowledge frontier.

The paper is organized as follows: A discussion on auditing in general is presented next, followed by discussion on *shari'ah* audit. The roles, responsibilities and code of ethics of *shari'ah* auditor are also presented with the aim of putting the empirical survey into perspective. This is followed by sections explaining the empirical approach to the survey and its corresponding results. Final section presents relevant discussions arising from the empirical results, conclusion and some recommendations and suggested future research.

#### 2. AUDITING AS A DISCIPLINE AND PROFESSION

Auditing is a specialized field which practically branches out from accounting. It involves individuals referred to as "auditors" to undertake the responsibilities of attesting that the "auditee(s)"—the one being audited have done their work according to prescribed pre-agreed rules, standards or regulations. Audit comes in various forms including but not limited to financial, management and performance audit. In the specific context of financial audit, the American Accounting Association (AAA) defines auditing as:

"A systematic assessments of evidences regarding economic events and to ascertain the correspondence of the two and communicate the results to interested users". (www.aaahq.org/audit)

In a much broader context, the International Federation of Accountants (IFAC), the global umbrella body for the accountancy profession defines auditing as:

"An independent examination of financial statements or related financial information of an entity whether profit or not, irrespective of its size, or legal form, when such examination is conducted with a view to expressing an opinion thereon". (www.ifac.org)

Audit process is usually performed at auditee's premises during which an auditor will comprehensively assess auditee's systems and records for among others, accuracy and validity. This involves audit activities of analyzing firm's relevant risks as well as identifying system's loopholes and subsequently recommending the necessary controls. These practically require auditors to understand client's business processes and environment. In the specific context of financial audit, auditing activities and the corresponding independently expressed audit opinions conceptually adds credence to the financial statements produced by firm's management. Accordingly, this helps building confidence among financial statement users in relying on the audited financial statements to make appropriate and relevant decisions (Karim, 1990).

The auditing profession and hence its activities are primarily guided by professional standards called the International Standards on Auditing (ISA) issued by IFAC through the International Auditing and Assurance Standards Board (IAASB). Mirroring the operations of International Accounting Standard Board (IASB), the IAASB operates as an independent standard-setting body with the focus of serving the public interest by developing quality auditing and assurance standards as well as facilitating the convergence of international and local (national) auditing and assurance standards. Similar to the expected end results of global convergence to International Financial Reporting Standards (IFRS) developed by IASB, the IAASB also envisaged that the convergence efforts towards single assurance standards would improve the quality and consistency of global auditing practices, thereby strengthening public confidence in the auditing and assurance profession.

#### 3. SHARI'AH AUDIT

Extant literature on auditing claims that shari'ah based auditing is relatively new, the earliest being after the emergence of IFIs during 1980s. The Islamic history however explains the reverse whereby the institution of hisbah was noted to have already established during the time of Prophet Muhammad (Peace Be Upon Him). It aims at assisting human being in worshipping Allah the Almighty by ensuring Allah's rights and the rights of other human beings are being properly observed and fulfilled. Even though it was institutionalized for the purpose of enjoining good and forbidding evil in general (as oppose to focusing specifically on economic and commercial activities), it forms an integral part of wider effort in establishing just economy in the society (Kasim et al., 2009). The contemporary role of the shari'ah auditor resembles the role of muhtasib in the traditional hisbah institution in the early period of Islam (Yaacob, 2012). The muhtasib or al-khatib audits and checks on compliance and subsequently suggests recommendations on worldly matters from shari'ah perspective (Kasim, 2010). Arguably, while shari'ah audit may have some similarities with that of social accountability audit (e.g. see Courville, 2003) in the specific context of auditing techniques, it is however significantly different in their respective philosophy.

The fact that auditing is not peculiar to the religion of Islam is further substantiated by the availability of auditing essence in various verses in the main source of knowledge to the Islamic religion called *Al-Quran*. The book is considered as the most sacred scriptures to Muslims and it contains the words of Allah which was sent down to His Messenger, Prophet Muhammad (pbuh). The followings are several audit related verses found in the Holy Scriptures:

"Then as for he who is given his record in his right hand, He will be judged with an easy account, and return to his people in happiness" (Ouran, 84:7-9)

"And indeed, [appointed] over you are keepers, Noble and recording. They know whatever you do"
(Quran, 82:10-12)

The above verses indicate that Muslims (and non-Muslims alike) will be audited by Allah in the hereafter, during which human book of deeds will be presented and human will subsequently be rewarded or punished based on the "audit outcome". Comparably and in the specific context of Islamic financial system, shari'ah audit presents a system of compliance checking on its operations with regards to shari'ah

rulings. The reward and punishment system comes in the form of public perceptions (negative or positive) and confidence towards the *shari'ah* based products offered by the IFIs. Consistent with such indirect *Quranic* explanation on auditing, *shari'ah* auditing has been comprehensively defined by Mohamed-Ibrahim (2008) as "a systematic process of objectively obtaining and evaluating evidence regarding assertions about socio-economic, religious and environmental actions and events in order to ascertain the degree of correspondence between those assertions and shari'ah, and communicating the results to users" (p.22).

The AAOIFI on the other hand provides a liberal view of audit from *shari'ah* perspective by merely referring it to the term "*shari'ah review*" without any further specifications. In AAOIFI's documents, the term "*shari'ah audit*" is used interchangeably to represent the checking of IFI's financial statements. The objective of IFI's auditing according to AAOIFI is "*to enable the auditor to express an opinion as to whether the financial statement are prepared, in all material respects, in accordance with shari'ah rules and principles, the accounting standards of AAOIFI and relevant national accounting standards and practices in the country in which the financial institution operates" (AAOIFI, 2010).* 

Shari'ah audit primarily aims at singularizing the religiously rooted financial system from its conventional counterpart, by undertaking the role of certifying the validity and enforceability of Islamic financial contracts adopted. Such role which is absent in the conventional financial system effectively addresses stakeholders' perceptions and hence public confidence towards IFI's operations. In a wider context, shari'ah audit forms an integral structure to the internal governance mechanisms of IFIs by providing the necessary supervision and monitoring towards the whole spectrum of IFI's operations (Garas and Pierce, 2010).

Accumulating academic literature (empirical and theoretical) has highlighted critical problems associated with *shari'ah* auditing. Khan (1985) for instance in discussing the role of *shari'ah* auditor, argues the unreasonable situation of having auditors '*ingrained with secular capitalist philosophy*' to audit IFIs on matters relating to *shari'ah* compliance. Khan (1985) further suggests that auditing on IFIs must ideally be done by auditors trained in accounting and audit, as well as having the necessary knowledge on *shari'ah* and *fiqh*. Recent survey by Grais and Pellegrini (2006) reveals the fact that the existing compliance structure in IFIs is alarmingly inadequate to address the issues of *shari'ah* compliance. They argued that the reliance on internal *shari'ah* review alone provides little assurance to IFI's customers on the entity's compliance level towards *shari'ah* rulings in their operations. Perhaps the most observable problem in *shari'ah* auditing is the lack of expertise and human talent to perform *shari'ah* audit, a point highlighted by Besar, Abd-Sukor, Abdul-Muthalib *et al.*, (2009) in their recent survey in the Malaysian context.

### 4. DESIRABLE ETHICAL DIMENSIONS OF SHARI'AH AUDITOR

The *shari'ah* highly emphasizes morality or ethics in human conduct, consistent with the sayings of Prophet Muhammad (pbuh) (the *hadith*):

"I have been sent to complement the noblest morals".

Accordingly, individuals undertaking *shari'ah* auditing activities are expected to have the following fundamental characteristics (not exhaustive) as promulgated by the Islamic religion. The first is integrity, referring to individual's consistency with his or

her innate purpose (Quran, 7:26). It reflects the extant of individual's life being kept in alignment with their intrinsic function of worshipping Allah (Quran, 51:52). Integrity effectively requires *shari'ah* auditor to be honest and truthful in all actions. As the end output of *shari'ah* auditing comes in the form of independent opinion with regards to *shari'ah* (non)compliance, observing integrity ensures accurate and impartial opinions by auditors. In this regards, accurate and impartial opinions further require auditors to be well-versed in their discipline and able to exercise authority with high competency. Islam further emphasizes the characteristics of *vicegerency* (*khalifah*) and accountability (Haniffa and Hudaib, 2010; Nahar and Yaacob, 2011). Human beings in Islam are effectively temporary trustee to resources available on earth (Haniffa and Hudaib, 2010). Being Allah's vicegerent, human undertook the responsibility (*taklif*) of being the *khalifah* in this world.

# Allah says in the Quran:

Truly, we did offer Al-Amanah (the trust or moral responsibility or honesty and all the duties which Allah has ordained) to the heavens and the earth, and the mountains, but they declined to bear it and were afraid of it (i.e. afraid of Allah's torment). But man, bore it. Verily, he was unjust (to himself) and ignorant (of the results)" (Quran, 33:72).

Undertaking the responsibility necessitates human to take care and develop this world according to Allah's will. They will subsequently be made accountable for whatever (in)actions or decisions they made in this world (Nahar and Yaacob, 2011). Shari'ah auditors are therefore expected to constantly observe strong ethical values as the auditing tasks are principally an amanah (trust) to be questioned in the hereafter. The trust of expressing independent, correct and impartial opinions bears great repercussion not only to the auditors but also to other individuals relying on their opinions.

# 5. INVESTIGATING UNDERGRADUATE STUDENT'S UNDERSTANDING OF SHARI'AH AUDITING: THE METHOD

This empirical work aims at investigating Bruneian undergraduates' knowledge on *shari'ah* auditing and their propensity of choosing *shari'ah* auditor as a prospect career. Specifically, the students were asked on their perceptions with regards to *shari'ah* auditor's roles and responsibilities, *shari'ah* auditor's characteristics and their current understanding with respect to the most suitable qualification(s) to become a *shari'ah* auditor. Adopting a quantitative approach, this study used self-developed questionnaire survey to gather primary data from respondents. This is considered as the most appropriate method in collecting perspective information from respondents (Ghauri and Gronhaug, 2010).

There are only three universities currently operating in Brunei (University A, B and C), all of which are used as the research sample. University A is the oldest university in the country, established nearly three decades ago. University B is a full-fledged Islamic university while university C is the youngest university, a former technical college recently upgraded to university status. All universities currently offer bachelors degree in business, economics, finance and accounting related programs. University A is the only university in the country which currently offers Masters Course in Islamic finance by coursework and by research.

Target respondents are undergraduate students in the field of business, finance, accounting and *shari'ah*. These students are selected as they are expected to become part of *shari'ah* auditing labor market in the future. Prior study by Yavas & Arsan (1996) found that students with accounting or auditing academic background are very likely to favor auditing as their career of choice. As *shari'ah* auditors are also expected to possess business and *shari'ah* knowledge, students enrolling in these two courses are also considered. First year students were also surveyed as they were found in previous studies to have made decisions with regards to their choice of profession during the first two years of their university studies (Gul *et al.*, 1989; Mauldin *et al.*, 2000; Paolillo and Estes, 1982).

A total of 69 students agreed to participate in the survey, representing 27% from University A, 40% from University B and 33% from University C. The number is reasonable as students' enrolment is on average, relatively small across the three universities given the small country's population. Further, a portion of the wealthiest elite societal group in the Country sent their children overseas (mainly western Nations) for quality education abroad, leaving a handful of youth to populate local universities. From the 69 copies of questionnaires distributed, 10 were unusable leaving only 59 copies available for analysis.

# 6. THE UNDERSTANDING OF UNDERGRADUATE STUDENTS TOWARDS SHARI'AH AUDITING: FINDINGS AND DISCUSSIONS

Table 1 to 3 below explain respondents' demographic information, with 29% of them are male and the remaining 71% are female. Majority of respondents (95%) are in the age range of twenty (20) to twenty four (24) years old and mostly in their second and third year of study (87%). Only eight (8) respondents (13%) are in their final year of study.

Table 1: Gender distribution (n = 59)

Gender	Frequency	Percentage
Male	17	29
Female	42	71
Total	59	100

**Table 2: Age distribution (n=59)** 

Range	Frequency	Percentage
15 - 19	1	2
20 - 24	56	95
25 - 34	2	3
Total	59	100

Table 3: Year of study distribution (n = 59)

Year of Study	No	%
2 <sup>nd</sup>	24	41
$3^{\rm rd}$	27	46
4 <sup>th</sup>	8	13
Total	59	100

Table 4 below shows the distributions of respondents according to their currently enrolled program. It indicates that almost all universities offer courses in finance with University C having the highest number of students enrolling for the course. University B being the sole full-fledged Islamic university in the country is the only university providing respondents studying *shari'ah*.

Table 4: Enrolled program distribution (n=59)

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	Enrolled program	(%)	Enrolled program	(%)
U. A	Business administration	5	Economics	2
	Accounting & Finance	18	Others	2
U.B	Islamic Finance	18	<b>Business Management</b>	3
	Shari 'ah	14	Others	5
U. C	Accounting	-	Management	-
	Finance& commerce	2	Others	-
	Finance	31		-

Table 5: Shari'ah auditor's role (n=59)

Shari'ah auditors role	(%)
a) To express an opinion on the true and fair view of the financial statements	36%
b) To check that IFIs activities are <i>shari'ah</i> compliant	24%
c) Both	40%

Table 5 above indicates that only 40% of the respondents expect *shari'ah* auditors to do both jobs of the normal financial auditors (i.e. expressing opinion as to whether the audited financial statements provide a true and fair view of IFI's financial positions) and the true role of *shari'ah* auditors (i.e. checking IFI's *shari'ah* compliance). This implies that majority of undergraduate students surveyed (60%) are not aware of what the precise role of *shari'ah* auditors. This is unsurprising as there are no specific academic courses or sections in any courses that touch on *shari'ah* auditing. The 40% view is however commendable as their understanding is apparently based on piecemeal knowledge of conventional auditing and *shari'ah* in isolation.

Table 6: Characteristics of shari'ah auditors

Characteristics	(%)
Honesty	92
Accountability	81
Highly Ethical	78
Confidentiality	68
Competency	64
Independence	41

Respondent's views on the characteristics of a *shari'ah* auditor (based on AAOIFI) indicate high awareness among Brunei undergraduate students towards the expected characteristics traits of *shari'ah* auditors. They ranked honesty as the first

expected trait (92%), followed by accountability (81%), highly ethical (78%), confidentiality (68%), competency (64%) and the least is independence (41%). The low scoring on independence trait could potentially be attributed to their misconception with regards to the status of *shari'ah* auditor being part of the company, equivalent to the internal auditor or company's *shari'ah* advisors.

Table 7: Knowledge needed in a shari'ah audit profession

Discipline	%
Islamic Finance	93
Shari'ah	92
Auditing	81
Accounting	78
Conventional Finance	53

Students were also asked of their views with regards to the necessary knowledge background to become *shari'ah* auditor. They ranked Islamic finance as the most important knowledge background (93%) followed by *shari'ah* (92%), auditing (81%), accounting (78%) and the least important is conventional finance (53%). This reflects student's single-sided views whereby checking on *shari'ah* compliance to them requires little, if not none of conventional finance knowledge. This view effectively disregards the fact that Islamic finance knowledge is primarily developed based on conventional finance techniques modified to suit *shari'ah* requirements. Knowing both dimensions of finance essentially enables *shari'ah* auditors to analyze financial transactions and subsequently check on *shari'ah* compliance more effectively.

The final part of the questionnaire deals with questions of whether the profession of *shari'ah* auditor should be further emphasized in the Muslims dominated country and the student's view of making *shari'ah* auditor as a career choice. An overwhelming response of 91% agrees that *shari'ah* auditing should be properly developed and the regulatory framework and structure must be strengthened. These necessitate for this religious based profession to provide more exposure to potential participants in its labor market. Among common reason given by respondents in the questionnaire is the fact that Brunei is a country established under the Malay Islamic Monarchy system, with majority of the population are Muslims. This reinforces the practical imperative of properly developing the Islamic finance and putting it in the mainstream financing industry. Therefore, having a sound *shari'ah* auditing framework in fortifying the industry's integrity is not an option to Brunei.

Unfortunately, nearly three quarter of the respondents (approximately 70%) confirms that they are not aware of *shari'ah* audit being another profession available in their career choice list. A heartening rate of 60% of the respondents however plans to consider *shari'ah* audit as their prospect career upon graduation. These results should send a clear alarming signal to the Bruneian government as the development of this religiously based industry is known to be a function of human capital development. Coordinated efforts are imperatively required to expose *shari'ah* audit as another promising profession in light of the industry's robust and exponential development.

In this regard, the government in collaboration with industry players and academia should therefore work towards developing a strategic, short and long term blue print for human capital development in meeting the industry needs. For instance, comprehensive revamp of the current academic curriculum should be done to reflect

the market demand for knowledgeable and competent *shari'ah* auditor. For instance, universities in Brunei should consider incorporating *shari'ah* audit and Islamic finance as core subjects in their degree programs, or at least part of the respective conventional courses, even though the degree programs may not be purely Islamic. This should preferably be done at the earlier year of student's study period as the first course taken by students at undergraduate level provides significant impact on students' perceptions towards the prospective profession (Jackling and Calero, 2006).

A more ambitious plan when the knowledge has been fully developed is to have stand-alone courses on *shari'ah* auditing and Islamic accounting and finance. As for graduated individuals without *shari'ah* knowledge, educational and professional institutions may offer a focused certified *shari'ah* programs, providing them with the necessary *shari'ah* knowledge of becoming *shari'ah* auditor. On the other hand, *shari'ah* graduates without accounting and finance background could also be offered courses on accounting and finance certification, thereby offering them with equal opportunities of becoming *shari'ah* auditors.

Apart from that, industry-academic linkages must also be further strengthened, engaging in activities that disseminate relevant information on Islamic finance including *shari'ah* audit to the public. IFIs could consider organizing frequent visits to higher institutions and employment roadshow to public, informing the "*positive sides*" of the profession such as vast employment opportunities available in the industry and long term career prospect (Dalci, Arasli, Tumer *et al.*, 2013) particularly on *shari'ah* auditing.

#### 7. CONCLUSION

Despite the exponential growth of the Islamic finance industry and the fact that it forms an integral part of the industry's governance structure, *shari'ah* audit has perplexingly gained scarce attention (Sultan, 2007). The focus of both academic research and industry's attention mainly falls on the industry's assets, products and services. De-emphasizing the check and balance (governance) perspective of the industry is unwarranted as it will adversely affect the industry's sustainability in the long run. As the sacred industry develops, the increasing demand for competent *shari'ah* auditors is inevitable. The current shortages on qualified individuals in the labor market has effectively dampens the industry's vision to serve the *ummah* and becoming a viable alternative to conventional, *shari'ah* non-complaint finance.

This study finds that *shari'ah* audit has not been comprehensively introduced to the potential auditing labor market participants (i.e. the undergraduate students). This is despite the students are currently enrolled in Islamic finance, accounting, business and *shari'ah* courses. The students are however found to have at least some basic ideas of what *shari'ah* audit is all about, particularly on the roles and ethical characteristics of *shari'ah* auditor. Concentrated and coordinated efforts between the government, industry and academia are further required to ensure the continuous supply of knowledgeable and qualified *shari'ah* auditor are not disrupted, potentially giving disastrous impact to this *shari'ah* based industry.

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# ORIENTASI SIKAP KEUSAHAWANAN MUSLIM DALAM KALANGAN BUMIPUTERA: KAJIAN TERHADAP USAHAWAN BELIA BUMIPUTERA (MUSLIM ENTREPRENEURIAL ATTITUDE ORIENTATION AMONG BUMIPUTERA: THE STUDY OF BUMIPUTERA YOUTH ENTREPRENEUR)

Zoolhilmi Ahmed<sup>1</sup> Buerah Tunggak<sup>2</sup>

# **ABSTRAK**

Kertas ini dirangka bagi mengemukakan cadangan kajian terhadap orientasi sikap keusahawanan Muslim dalam kalangan usahawan belia Bumiputera.Perbincangan yang diutarakanakan mengupas dan memberi gambaran umum tentang latar belakang masalah keusahawanan dalam kalangan Bumiputera khususnya golongan belia, serta penglibatan agensi-agensi yang berkaitan membantu meningkatkan penyertaan dan tahap daya keusahawanan dalam kalangan Bumiputera di Malaysia. Kemudian skop perbincangan dikhususkan dalam mengenal pasti beberapa permasalahan utama yang membawa kepada pembentukan objektif, persoalan dan hipotesis kajian.Kertas ini seterusnya akan menerangkan kepentingan kajian yang hendak dijalankan berdasarkan kepada skop kajian yang ditetapkan. Dapatan kajian ini dijangka akan menunjukkan dan membuktikan kepentingan lima sub-skala orientasi sikap keusahawanan Muslim (iaitu; etika Muslim, keperluan kepada pencapaian, inovasi, kawalan personal dan penghargaan diri) dalam menentukan tahap kecenderungan dan kebolehupayaan seseorang dalam bidang keusahawanan.

Kata Kunci: Sikap, Keusahawanan Islam, Usahawan, Belia, Bumiputera.

# **ABSTRACT**

This paper is designed to propose the study of Muslim entrepreneurial attitude orientation among youth Bumiputera entrepreneurs. The discussion raised will peel and gave an overview of the background of the problem among the Bumiputera entrepreneurship, especially the youth, as well as the involvement of relevant agencies to help increase the participation and level of entrepreneurship among the Bumiputera in Malaysia. Then the scope of discussion devoted in identifying some of the major problems that led to the formulation of objectives, questions and hypotheses of the study. This paper will further explain the importance of the research to be carried out based on the scope of the study set. The findings of this study are expected to demonstrate and prove the importance of the five sub-scale Muslim entrepreneurial attitude orientation (namely, Muslim ethics, the need for achievement, innovation, personal control and self-esteem) in determining a person's level of interest and capability in the field of entrepreneurship.

Keywords: Attitude, Islamic Entrepreneurship, Entrepreneur, Youth, Bumiputera.

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# 1. PENGENALAN

Sejak manusia mencapai era ketamadunan lagi, pembangunan dan pertumbuhan ekonomi sangat berkait rapat dengan *survival* kehidupan individu, masyarakat mahu pun negara. Kedudukan penting perniagaan dan relevannya dalam konteks sistem ekonomi global telah mengangkat bidang keusahawanan sebagai suatu disiplin yang menjadi tonggak kepada pembangunan dan pertumbuhan ekonomi negara (Syed Othman, 1989; Ab. Aziz, 2001; Muhammad Ali, 2003). Agama Islam sendiri mengiktiraf keutamaan keusahawanan dalam mencari kehidupan yang terbaik dan diberkati. Hal ini dapat dijelaskan melalui hadith Nabi Muhammad (SAW) yang bermaksud:

Daripada Rifa'ah Ibnu Rafi' bahawa baginda Nabi (SAW) telah ditanya; "Apakah jenis mata pencarian yang paling baik?". Maka baginda menjawab; "Hasil usaha sendiri, dan setiap perniagaan yang bersih (dari tipu daya dan khianat)".

(RiwayatAl-Hakim, 2:2211)

Bidang keusahawanan merupakan bidang yang berpotensi luas dan mempunyai peluang yang tidak terbatas untuk diceburi oleh golongan belia. Justeru, usaha-usaha membangunkan masyarakat usahawan belia Bumiputera dalam bidang ekonomi dan perniagaan perlu diberikan tumpuan, dan Buerah (2007) menyimpulkan dalam kajiannya penumpuan tersebut harus diarahkan kepada tiga aspek penting iaitu sikap terhadap keusahawanan, kemahiran menguruskan perniagaan, dan program pembangunan dan latihan keusahawanan. Ini kerana hasrat untuk melahirkan masyarakat mandiri dan berdikari yang bermula di peringkat belia menuntut kepada perubahan sikap dan nilai. Pembentukan sikap akan membantu kepada proses pembangunan manusia yang seimbang antara roh dan jasad, kerana pembangunan usahawan Bumiputera tidak cukup sekadar penekanan kepada aspek-aspek luaran sahaja, malah ia memerlukan kepada pemupukan sikap positif terhadap bidang keusahawanan (Syed Othman, 1989; Buerah & Hussin, 2011). Malah Shetty (2004) menyarankan agar penyelidikan keusahawanan harus difokuskan kepada tahap atau orientasi keusahawanan.

#### 2. BUMIPUTERA DAN PEMBANGUNAN EKONOMI

Fenomena usahawan atau keusahawanan di Malaysia hanya bermula sekitar tahun 1970-an iaitu setelah penggubalan dan pelaksanaan Dasar Ekonomi Baru (Ab. Aziz, 2001). Masyarakat Bumiputera selepas merdeka hinggalah pengenalan Dasar Ekonomi Baru masih merupakan golongan petani tradisional yang mengusahakan tanah dengan tanaman makanan untuk keperluan sendiri atau jualan kecil-kecilan dengan kadar pengeluaran yang terhad dan penggunaan teknologi yang ala kadar (Norhasni, 2007).

Melalui pelaksanaan Dasar Ekonomi Baru (DEB), pelbagai agensi telah ditubuhkan untuk merancakkan pertumbuhan ekonomi negara terutamanya dalam sektor pertanian oleh kerana bidang keusahawanan Bumiputera pada waktu itu adalah berasaskan pertanian, seperti Lembaga Kemajuan Tanah Persekutuan (FELDA), Lembaga Penyatuan dan Pemulihan Tanah Persekutuan (FELCRA), Lembaga Kemajuan Pekebun Kecil Perusahaan Getah (RISDA) dan lain-lain lagi. Kemudian diwujudkan juga agensi-agensi yang lebih terarah kepada kemudahan kredit atau pembiayaan seperti Majlis Amanah Rakyat (MARA), Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN), dan Perbadanan Usahawan Nasional Berhad (PUNB) yang pada asasnya bertujuan membantu dan menggalakkan usahawan Bumiputera terutamanya golongan belia supaya maju dan berkembang dalam bidang keusahawanan. Penubuhan agensi-agensi seumpama ini jelas menunjukkan keprihatinan dan kesungguhan pihak kerajaan (Norhasni, 2007) untuk mencorakkan hala tuju dan sudut pandang baru dalam masyarakat Bumiputera terhadap bidang keusahawanan dan pengurusan perniagaan yang dapat membantu meningkatkan taraf sosio-ekonomi mereka.

Dalam kaitan ini, Mohd. Ali (1994) menjelaskan bahawa usaha bantuan keusahawanan dengan menyediakan kemudahan-kemudahan kewangan kepada usahawan PKS Bumiputera bagi mencapai matlamat DEB adalah sebenarnya selaras dengan Islam. Sebagai contoh, tindakan seumpama ini pernah diamalkan pada zaman Rasulullah (SAW) terutamanya ketika permulaan Kerajaan Islam Madinah dan juga pada zaman Saidina Umar Al-Khattab dalam usaha membantu umat Islam membina dan membangunkan dalam sistem ekonomi yang adil dan membela kepentingan umat Islam. Justeru dapat difahami dalam konteks aplikasinya di Malaysia, tindakan tersebut adalah sesuai berdasarkan sudut

ketidakseimbangan penglibatan Bumiputera (yang majoritinya Muslim) dalam sektor ekonomi berbanding kuasa perdagangan kaum lain. Jurang perbezaan ini menurut Muhammad Ali (2003) perlu diberi perhatian, dan tindakan segera perlu diambil bagi memastikan kedudukan bangsa, agama dan negara ini tidak kekal membangun hanya di persisiran arus perdana bangsa-bangsa lain selama-lamanya.

# 2.1 Pengupayaan Usahawan Bumiputera

Pengalaman keusahawanan dalam kalangan masyarakat Bumiputera Malaysia dalam konsep perniagaan moden menurut Muhammad Ali (2003) adalah sangat singkat, berbanding syarikat-syarikat utama China yang hampir menjangkau usia 100 tahun penubuhannya. Sementara syarikat-syarikat Jepun pula telah beroperasi hampir 200 tahun, dan syarikat-syaraikat tertua di Eropah telah beroperasi melebihi 300 tahun dalam pasaran. Namun demikian, syarikat-syarikat utama Bumiputera di Malaysia yang aktif sehingga kini secara umumnya adalah berusia tidak lebih dari 40 tahun iaitu setelah pelaksanaan Dasar Ekonomi Baru.

Dalam usaha mewujudkan kecemerlangan ekonomi yang mengutamakan peranan usahawan di Malaysia, pelbagai dasar pembangunan negara telah diperkenalkan oleh pihak kerajaan (Buerah, 2007). Antaranya ialah Dasar Ekonomi Baru (1971-1990), Dasar Pembangunan Nasional (1991-2000), Dasar Wawasan Negara (2001-2010), dan yang terkini Misi Nasional (2006-2020). Wan Liz Ozman dan Sulzari (2002), dan Ab. Aziz dan Zakaria (2004) dalam menyokong usaha dan dasar kerajaan ini telah mengemukakan pandangan David McClelland, seorang tokoh sarjana psikologi yang terkenal dengan Teori Motivasi Pencapaian, yang menjelaskan antara faktor yang mendorong kepada kejayaan usahawan ialah faktor-faktor luaran, iaitu; bantuan dan sokongan kerajaan, ketersediaan bahan mentah dan buruh yang mudah dan murah, galakan daripada entiti perniagaan yang besar, dan permintaan yang menggalakkan untuk produk. Justeru, melalui pelaksanaan pelbagai dasar yang telah diperkenalkan, hasrat membangunkan masyarakat usahawan Bumiputera menjadi semakin penting.

Walau bagaimanapun, kegagalan negara sehingga hari ini mencapai sasaran 30 peratus pemilikan ekuiti atau saham Bumiputera yang menjadi matlamat dalam DEB yang berakhir pada tahun 1990 menjadi satu petanda terhadap desakan kepada pengupayaan yang lebih giat dan tersusun dalam bidang keusahawanan khususnya ke atas usahawan Bumiputera sedia ada perlu dilaksanakan. Merujuk kepada dokumen Hala Tuju Transformasi Ekonomi Bumiputera yang dilancarkan pada 26 November 2011 dan kenyataan oleh Unit Perancangan Ekonomi (EPU) yang dikeluarkan pada 23 April 2012, pegangan ekuiti Bumiputera secara relatifnya tidak banyak berubah antara tempoh 1990 dan 2010 dengan Bumiputera hanya memiliki 19 peratus pada 1990, manakala 23 peratus pada 2010. Walaupun data yang diperolehi menunjukkan kenaikan, tetapi ia masih berada di bawah pencapaian sebenar. Bahkan jika mengambil pandangan Tan Sri Muhammad Ali Hashim, bekas Ketua Eksekutif Johor Corporation, ekuiti bumiputera yang sepatutnya dicapai ialah 65 peratus bukannya 30 peratus, kerana jumlah penduduk Muslim di Malaysia ialah 65 peratus.

Sementara itu, laporan oleh BERNAMA (2011, November 26) bertajuk "Teraju Dedah Keadaan Semasa Pemilikan Ekuiti Bumiputera" mendedahkan bahawa menurut Peneraju Agenda Bumiputera (TERAJU), sekretariat kepada Majlis Tindakan Agenda Bumiputera (MTAB), pemilikan ekuiti Bumiputera hanya lebih tinggi dalam sektor yang mempunyai sumbangan kecil kepada Keluaran Dalam Negara Kasar (KDNK) dan majoriti syarikat Bumiputera adalah kecil dengan 65 peratus daripadanya menjana keuntungan kurang daripada RM 250,000.00 setahun. Manakala syarikat yang dikuasai oleh Bumiputera dengan pegangan ekuiti sekurang-kurangnya 51 peratus, sekadar membentuk 25 peratus daripada anggaran 800,000 syarikat berdaftar di Malaysia. Seterusnya laporan oleh Badrila (2012) dalam Harian Metro (24 April 2012) turut mendedahkan bahawa bilangan syarikat Bumiputera telah menurun daripada 73,230 pada tahun 2009 kepada 70,216 pada tahun 2010. Selaras dengan matlamat negara untuk mewujudkan Masyarakat Perdagangan dan Perindustrian Bumiputera (MPPB) yang benar-benar berdikari, keadaan ini seharusnya tidak boleh dipandang ringan oleh semua pihak, baik di pihak kerajaan, mahu pun masyarakat Bumiputera itu sendiri khususnya usahawan Bumiputera.

Rendahnya tahap pencapaian usahawan Bumiputera adalah berkait rapat dengan rendahnya tahap pencapaian ekonominya. Ironisnya, kecemerlangan ekonomi sesebuah negara banyak bergantung kepada tahap daya keusahawanan yang tinggi dalam kalangan usahawan (Muhammad Ali, 2003; Buerah & Hussin, 2011), dan keseimbangan taraf ekonomi di antara bangsa atau etnik (Mohd. Ali, 1994) terutamanya bagi negara berbilang kaum atau masyarakat majmuk seperti Malaysia. Namun pada hakikatnya, ekonomi negara pada hari ini, dan kebanyakan pencapaian ekonomi negara secara globalnya adalah hasil pencapaian keusahawanan dari masyarakat bukan Bumiputera.

Kajian ke atas syarikat Permodalan Nasional Berhad (PNB) dan syarikat-syarikat jawatankuasa pelaburan asing pada 2006 menunjukkan bahawa syarikat yang dikuasai usahawan Bumiputera lebih berkemungkinan untuk memiliki penyertaan Bumiputera yang lebih tinggi dalam pengurusan, berbanding dengan syarikat asing dan bukan Bumiputera (BERNAMA, 2011). Oleh itu penguasaan Bumiputera dalam syarikat adalah penting bagi memastikan Bumiputera berupaya mengisi jawatan pengurusan sekaligus menambahkan pendapatan dan peluang pekerjaan kepada ahli masyarakat (Mohd Noor & Samsuri, 2008) khususnya Bumiputera. Dapatan ini bertepatan dengan pandangan Muhammad Ali (2003)yang menyatakan peningkatan status ekonomi Bumiputera hanya akan dapat dilakukan dengan memastikan para usahawan yang berkemahiran dalam bidang perniagaan diketengahkan oleh kerajaan atau pihak yang bertanggungjawab untuk diamanahkan mengetuai organisasi korporat dan mengurus aset strategik demi kepentingan bangsa dan negara. Justeru, adalah penting agar para usahawan Bumiputera dibekalkan dengan ilmu, kemahiran dan sikap yang menepati ciri-ciri ahli perniagaan yang berkaliber, berwibawa, berintegriti dan berjaya.

# 2.2 Sikap Keusahawanan Usahawan Bumiputera

Perkembangan Islam di nusantara yang bermula berabad lamanya adalah hasil daripada keusahawanan Islam (Mohd. Ali, 1994). Bidang ini telah memberi impak yang besar kepada sejarah Melayu dan Tanah Melayu khususnya apabila Raja Melaka memeluk Islam, maka Islam telah berkembang ke seluruh negara selari dengan perkembangan Melaka sebagai sebuah negara dan pusat perdagangan utama dunia. Amalan keusahawanan ini telah subur dan bertahan sehingga berlakunya penjajahan oleh pihak Barat (Mohd. Ali, 1994). Kesan dari penjajahan tersebut, hari ini golongan Bumiputera terutamanya Melayu-Muslim menurut Muhammad Ali (2003) sudah tidak mempunyai kelebihan minda dan jiwa raga warga penghijrah yang tersedia dengan konteks hidup yang mewajibkan penerimaan pembaharuan dan memaksa pembinaan sikap keusahawanan untuk survival.

Majoriti Bumiputera-Melayu tidak berani untuk mengambil risiko, sedangkan ia adalah berlawanan dengan prinsip keusahawanan itu sendiri. Sikap ini terbukti dan dapat diperhatikan antaranya melalui pemilikan ekuiti Bumiputera sebanyak 23 peratus, yang mana menurut laporan oleh BERNAMA (2011) bahawa kira-kira 12 peratus daripadanya adalah dalam bentuk pegangan amanah dan beberapa institusi kerajaan. Keadaan ini menunjukkan lebih separuh daripada saham yang dimiliki tersebut diuruskan oleh institusi kerajaan yang sekaligus melindungi Bumiputera daripada risiko sebenar perniagaan. Mereka merupakan pelabur pasif dalam perusahaan yang dijalankan oleh entiti kerajaan. Menurut Mahathir (2012), bukanlah menjadi matlamat DEB untuk memupuk sikap dan mentaliti pasif ke dalam diri masyarakat Melayu dan Bumiputera. Namun realitinya majoriti masyarakat Bumiputera bukanlah golongan yang berdaya usaha dan sanggup mengambil risiko.

Hakikatnya sikap dan pemikiran, pandangan dan pegangan secara umumnya boleh berubah, begitu juga dengan aspek sikap terhadap keusahawanan (Muhammad Ali, 2003; Harris & Gibson, 2008). Menurut Harris dan Gibson (2008), seseorang yang menerima maklum balas positif tentang keupayaan atau potensi keusahawanan, mereka mempunyai jangkaan yang lebih tinggi terhadap keusahawanan. Oleh itu, Muhammad Ali (2003) menegaskan bahawa untuk maju dan tidak terus ketinggalan, usahawan Bumiputera tidak dapat lari daripada kewajipan untuk memperbaharui sikap, minda dan jiwa raga serta meningkatkan semangat keusahawanan.

Pendekatan sikap telah dipertimbangkan untuk menjadi salah satu alternatif yang lebih baik bagi kajian personaliti keusahawanan. Menurut Crant (1996), sikap keusahawanan boleh dirujuk sebagai pertimbangan atau kecenderungan individu untuk memiliki, menubuhkan dan menjalankan perniagaan.

Sikap juga boleh diandaikan sebagai ramalan tingkah laku manusia. Sikap keusahawanan yang efektif dan beretika mengikut garis panduan ajaran Islam yang menjadi pegangan seseorang usahawan Muslim akan melahirkan ciri-ciri usahawan yang menepati kehendak ajaran Islam seperti kebebasan, kejujuran, berilmu dan berkemahiran, serta akauntabiliti (Buerah & Hussin, 2011).

Usahawan mempunyai ciri-ciri tertentu yang membezakan mereka antaranya seperti sanggup mengambil dan menanggung risiko, berinovasi, berinisiatif, mempunyai penghargaan diri yang tinggi, berkehendak kepada pencapaian dan seterusnya mempunyai kawalan personal. Menurut Mohd Noor dan Samsuri (2008), kajian-kajian terdahulu telah banyak menunjukkan bahawa individu-individu yang mempunyai ciri-ciri ini mempunyai sikap yang tinggi untuk menjadi seorang usahawan. Sebagai rumusan, setiap usahawan perlu mengenali dan memperbaharui diri sendiri. Hal ini dapat dibantu dengan menjalankan penyelidikan ke atas kesedaran dan sikap mereka.

# 2.3Keusahawanan Dalam Kalangan Belia Bumiputera

Bidang keusahawanan merupakan satu bidang yang diberi perhatian khusus oleh kerajaan sesuai dengan matlamat Wawasan 2020 (Mohd Noor dan Samsuri, 2008). Perkara ini dapat diperhatikan melalui pelaksanaan pelbagai dasar yang telah diperkenalkan selepas merdeka lagi. Perkembangan bidang keusahawanan hari ini sesuai dengan dasar-dasar yang dilaksanakan sejajar dengan hasrat membangunkan masyarakat usahawan dengan menanamkan nilai-nilai keusahawanan terutamanya dalam kalangan belia Bumiputera.

Islam telah terlebih dahulu menekankan usaha-usaha perniagaan dan keusahawanan. Dalam hal ini, Rasulullah (SAW) sendiri telah menunjukkan contoh dengan melibatkan diri secara praktis menceburi bidang keusahawanan ini sejak usianya 12 tahun lagi dengan berdagang ke Syria bersama bapa saudaranya Abu Talib. Selanjutnya pada usia belianya, baginda telah pun memulakan perniagaan sendiri dengan mendapatkan modal dari pelabur yang berminat dengan mengamalkan konsep *mudharabah* (Sobri, 1992; Mohd. Ali, 1994; Ashadi, 2008; Buerah & Hussin, 2011). Lebih membanggakan, pada usia 24 tahun sahaja baginda telah pun menceburkan diri dalam perniagaan yang melibatkan urusan perdagangan import dan eksport barangan yang meliputi 13 bandar-bandar perdagangan besar sehingga ke Syria, Yaman dan Bahrain (Sobri, 1992; Mohd. Ali, 1994).

Hasrat kerajaan pada masa kini ialah melahirkan ramai golongan belia yang menceburi bidang keusahawanan sepenuh masa dan menjadi usahawan yang berjaya. Pada masa kini semakin ramai golongan belia Bumiputera yang terbukti telah berjaya dalam perniagaan, tetapi peratus yang terlibat dalam bidang ini adalah masih terlalu kecil. Walaupun Indeks Belia Malaysia 2011 yang dikeluarkan oleh IPPBM menunjukkan peningkatan minat belia terhadap bidang keusahawanan dari skor 63.3 pada 2008 kepada 68.6 pada 2011, namun realiti penglibatan belia terutamanya Bumiputera masih rendah berbanding populasi belia Bumiputera di Malaysia yang besar iaitu seramai lebih kurang 8 juta orang. Kebanyakan golongan belia Bumiputera lepasan pengajian tinggi yang memiliki ijazah masih rela menunggu kerja dalam sektor awam dan swasta daripada menceburi bidang keusahawanan melalui pelbagai peluang yang dibuka oleh banyak institusi dan agensi.

Melihat kepada perkembangan ini, golongan belia Bumiputera berpendidikan seharusnya mengambil sikap berani menceburkan diri dalam bidang keusahawanan (Norhasni, 2007). Tanggapan bahawa kerjaya usahawan sukar dan tidak stabil untuk menjamin masa depan perlu dikikis selaras dengan tahap kematangan dan pendidikan yang dimiliki oleh golongan belia Bumiputera masa kini. Bahkan penglibatan mereka dalam bidang keusahawanan yang kebanyakannya melalui sektor perniagaan kecil sebenarnya berkemungkinan menjadi sumber utama pekerjaan pada masa depan bagi banyak negara (Harris & Gibson, 2008).

Menurut Laporan Banci Penduduk oleh Jabatan Perancangan Bandar dan Desa pada tahun 2000 menunjukkan golongan belia sahaja mewakili 42.1 peratus daripada penduduk Malaysia seramai 26 juta orang pada ketika itu. Golongan belia telah dikenal pasti sebagai paling produktif, mempunyai idealisme, berfikiran matang dan kumpulan sasaran yang paling berpotensi untuk dibangunkan yang mampu menyumbang kepada pembangunan negara (Norhasni, 2007). Justeru, suatu transformasi perlu

dilakukan untuk memupuk minat dan mengubah persepsi belia terhadap bidang keusahawanan. Belia yang dimaksudkan di sini dapatlah ditakrif sebagai golongan lepasan sekolah yang berusia 18 tahun ke atas sehingga peringkat awal dewasa iaitu 40 tahun.

Sejajar dengan hasrat kerajaan meningkatkan penglibatan belia Bumiputera sebagai usahawan, maka kajian ini akan mengkaji orientasi dan sikap yang dimiliki oleh usahawan belia bagi dijadikan input berguna oleh belia yang baru menceburi bidang ini dan juga kepada pihak yang berkepentingan. Ini kerana secara realitinya, Muhammad Ali (2003) secara sedar dan kritis telah menyifatkan masyarakat Bumiputera di Malaysia sebenarnya bangsa "minoriti" dalam konteks pencapaian ekonomi dan mereka juga adalah kumpulan "baru mendatang" dalam konteks penglibatan perniagaan dan keusahawanan sezaman. Lantas, sesuatu harus dilakukan dengan bermula dengan mengenali dan memperbaharui diri usahawan Bumiputera di peringkat yang seawal mungkin.

# 3. PERNYATAAN MASALAH KAJIAN

Usahawan belia Bumiputera hari ini memerlukan sokongan bukan sahaja dalam bentuk khidmat nasihat tetapi juga dalam bentuk kemudahan kewangan untuk memasuki pasaran yang telahpun dikuasai oleh orang lain, kerana bidang perniagaan ini menuntut seseorang usahawan itu untuk mempunyai kemahiran, pengetahuan serta ketahanan fizikal dan mental bagi menghadapi segala bentuk masalah yang mungkin timbul (Mohd Noor & Samsuri, 2008). Namun disebalik pelbagai peluang-peluang keusahawanan yang dibuka oleh pihak kerajaan, usaha melahirkan dan membangunkan lebih ramai usahawan Bumiputera yang lebih berdaya saing masih belum mencapai matlamat walaupun setelah lebih 40 tahun digerakkan sejak pelancaran DEB (Wan Liz Ozman, 2002; Muhammad Ali, 2003; Buerah, 2007). Keadaan ini menunjukkan bahawa bidang keusahawanan sehingga ke hari ini masih lagi dilihat sebagai sesuatu yang asing walaupun bukan lagi terpencil, khususnya dalam kalangan belia Bumiputera.

Sikap usahawan Bumiputera yang terdiri ramai daripada golongan belia yang masih bersifat dan bermentaliti pasif walaupun sudah masuk ke alam perniagaan (Mohammad Noorizzuddin & Wan Rasyidah, 2006; Norhasni, 2007), adalah tidak selari bukan sahaja dengan matlamat asal DEB bahkan agama Islam sendiri menolak dan tidak menganjurkan sikap yang sedemikian. Keadaan ini boleh dilihat dengan lambakan usahawan belia Bumiputera yang terlalu bergantung kepada subsidi atau bantuan agensi kerajaan (Norhasni, 2007), namun sebaliknya apabila tiba giliran mereka untuk memulangkan kembali hasil pelaburan tersebut, terutamanya dalam bentuk bayaran balik pembiayaan, usahawan-usahawan ini gagal berbuat demikian lebih-lebih lagi secara teratur dan berjadual (Muhamad Salleh, 2003). Selain itu, kekurangan penglibatan golongan belia Bumiputera berpendidikan tinggi atau lepasan institusi pengajian tinggi dalam bidang keusahawanan sedikit sebanyak membentuk pola budaya keusahawanan yang tidak sihat dalam kalangan usahawan Bumiputera (Muhamad Salleh, 2003, Nurizan *et al.*, 2008). Keadaan ini menurut Akmaliah Zaidatol dan Habibah (2004) akan seterusnya menyumbang kepada pembentukan cara fikir usahawan yang kurang dan tidak menitik beratkan berkaitan program pendidikan serta latihan keusahawanan yang berterusan sebagai alternatif meningkatkan prestasi perniagaan dan sebagai medium pengalaman secara tidak langsung.

Dalam kaitan penampilan sikap ini, Islam mengingatkan agar setiap individu Muslim termasuk usahawan perlu melengkapkan diri dengan nilai dan etika Islam sepanjang masa dan ketika. Ini kerana berbeza dengan kelompok usahawan lain, usahawan Muslim bukan sahaja perlu menjalankan perniagaan yang halal, bahkan mereka harus terikat dengan ruh dan etika perundangan syariah agar sentiasa dipatuhi secara menyeluruh dalam setiap aspek kehidupan (Mohammad Noorizzuddin & Wan Rasyidah, 2006). Menurut Mohammad Noorizzuddin dan Wan Rasyidah (2006) lagi, bagi menampilkan identiti sebagai usahawan muslim, sifat-sifat yang baik dan kewajipan-kewajipan asas dalam agama perlu dihadiri dan diamalkan dalam jiwa dan diri seseorang usahawan. Justeru, penglibatan umat Islam dalam bidang keusahawanan hendaklah selari dengan ajaran yang telah digariskan dalam Al-Quran dan As-Sunnah. Bagaimana pun, suasana dan persekitaran perniagaan kini menunjukkan refleksi yang berbeza di mana jika diperhatikan pengamalan ajaran dan kewajipan asas Islam dalam kalangan usahawan belia Bumiputera hari ini boleh dipersoalkan.

Berdasarkan pemerhatian dan pengalaman pengkaji ketika berada dalam proses perniagaan, baik di pasar-pasar malam mahu pun di pejabat dalam amalan korporat, seakan berlaku pencanggahan antara amalan Islam dan perniagaan. Diperhatikan tidak ramai usahawan atau peniaga Muslim yang akan mengutamakan untuk bergerak mencari ruang solat, surau atau masjid khususnya apabila laungan azan dikumandangkan menandakan masuknya waktu solat yang tertentu. Bahkan adab dan etika berpakaian sebahagian usahawan dan peniaga dalam kalangan belia juga kurang diambil peduli. Keadaan-keadaan ini pastinya bertentangan dengan pandangan yang menganjurkan agar usahawan Muslim perlu menunaikan tanggungjawab beragama seperti bersolat, berpuasa dan zakat untuk menghilangkan keraguan dalam diri dalam menjalankan perniagaan kerana perniagaan sebagai wadah jihad ekonomi (Akmaliah Zaidatol & Habibah, 2004). Ini kerana tiada percanggahan di antara Islam dan perniagaan (Akmaliah Zaidatol & Habibah, 2004; Mohammad Noorizzuddin & Wan Rasyidah, 2006) seperti yang telah dibuktikan antaranya melalui hadith Rasulullah (SAW) daripada Al-Miqdam (RA) yang bermaksud:

"Sebaik-baik makanan yang dimakan oleh seseorang itu ialah hasil dari pekerjaan tangannya sendiri, sesungguhnya Nabi Allah Daud a.s. makan sesuatu dari hasil pekerjaan yang dilakukannya sendiri."

(Sahih Al-Bukhari, 3:2072)

Maka, adalah wajar satu kajian dijalankan bagi melihat dan membentuk kefahaman yang mendalam terhadap sikap keusahawanan dalam kalangan usahawan belia Bumiputera khususnya di kawasan perbandaran utama yang biasanya menjadi tanda aras atau contoh yang menjadi trend ikutan di kawasan dan bandar yang lebih kecil. Di samping itu, kajian ini cuba mengkaji sama ada wujud perbezaan di antara usahawan yang mempunyai pengalaman perniagaan, pendidikan formal yang tinggi, dan kekerapan mengikuti latihan keusahawanan dari sudut pendekatan orientasi sikap. Adakah dengan pengamalan disiplin dan ajaran asas dalam Islam yang lebih baik dapat membezakan usahawan belia Bumiputera terhadap sikap mereka menjalankan perniagaan bagi menambahkan pendapatan dan peluang pekerjaan kepada ahli masyarakat?

# 4. OBJEKTIF DAN PERSOALAN KAJIAN

Kajian ini dijalankan bagi meneliti orientasi sikap keusahawanan Muslim dalam kalangan usahawan belia Bumiputera di daerah Johor Bahru yang mendapat bantuan pembiayaan MARA. Sehubungan itu, beberapa objektif kajian digariskan bagi mencapai matlamat tersebut, iaitu:-

- i. menentukan tahap orientasi sikap keusahawanan Muslim dalam kalangan usahawan belia Bumiputera.
- ii. mengukur perbezaan tahap orientasi sikap keusahawanan Muslim berdasarkan faktor-faktor pengalaman perniagaan, tahap pendidikan formal, dan kekerapan mengikuti program latihan keusahawanan.
- iii. mengukur tahap pengamalan kewajipan asas dalam Islam yang lebih baik dalam kalangan usahawan belia Bumiputera dapat mempengaruhi orientasi sikap keusahawanan Muslim mereka.

Melalui objektif kajian yang telah digariskan dan bagi memenuhi objektif tersebut, kajian ini akan menjawab persoalan-persoalan berikut sebagai asas kepada penyelidikan yang akan dijalankan, iaitu:-

- i. Apakah orientasi sikap keusahawanan Muslim dalam kalangan usahawan belia Bumiputera?
- ii. Adakah wujud perbezaan orientasi sikap keusahawanan Muslim berdasarkan faktor-faktor pengalaman perniagaan, tahap pendidikan formal, dan kekerapan mengikuti program latihan keusahawanan?
- iii. Sejauh manakah pengamalan kewajipan asas dalam Islam yang lebih baik dalam kalangan usahawan belia Bumiputera dapat mempengaruhi orientasi sikap keusahawanan Muslim mereka?

# 5. HIPOTESIS KAJIAN

Hipotesis kajian penting dalam membantu penyelidik memfokus kajian, memberi rangka rumusan dapatan kajian dan meningkatkan kebolehpercayaan kajian (Chua, 2006). Hipotesis yang dikemukakan bagi kajian ini adalah seperti berikut:-

 $\mathbf{H0_1}$ : Tidak terdapat perbezaan yang signifikan dalam orientasi sikap keusahawanan Muslim di antara usahawan belia Bumiputera yang mempunyai pengalaman perniagaan yang lama dengan pengalaman perniagaan yang kurang.

**H02**: Tidak terdapat perbezaan yang signifikan dalam orientasi sikap keusahawanan Muslim di antara usahawan belia Bumiputera yang mempunyai tahap pendidikan yang tinggi dengan tahap pendidikan yang rendah.

**H03**: Tidak terdapat perbezaan yang signifikan dalam orientasi sikap keusahawanan Muslim di antara usahawan belia Bumiputera yang kerap mengikuti program latihan keusahawanan dengan yang kurang mengikuti program latihan keusahawanan.

**H04**: Tidak terdapat perbezaan yang signifikan dalam orientasi sikap keusahawanan Muslim yang tinggi di antara usahawan belia Bumiputera yang mengamalkan kewajipan asas dalam Islam dengan lebih baik berbanding yang kurang mengamalkannya.

# 6. METODOLOGI KAJIAN

Bagi tujuan perlaksanaan, kajian ini akan menggunakan kaedah penyelidikan campuran (mixed-method) iaitu menggunakan kedua-dua kaedah penyelidikan kuantitatif dan kualitatif. Reka bentuk kajian pula berdasarkan reka bentuk explanatory, di mana kajian akan dimulakan dengan penyelidikan kuantitatif melalui soal selidik bagi mendapatkan dapatan awal dan diikuti oleh penyelidikan kualitatif melalui temu bual bagi menghuraikan dapatan awal yang diperoleh. Sementara itu, kaedah persampelan kajian yang akan digunakan ialah persampelan rawak mudah bagi kaedah soal selidik dan persampelan bertujuan bagi kaedah temu bual. Bagi tujuan soal selidik, instrumen yang akan digunakan ialah skala Muslim Entrepreneurial Attitude Orientation (MEAO) yang akan menilai sikap keusahawanan dari lima aspek atau sub-skala, iaitu; etika Muslim, keperluan kepada pencapaian, inovasi, kawalan personel dan penghargaan diri.

Seramai 108 daripada 150 orang respondan akan dipilih sebagai sampel kajian bagi menjawab soal selidik. Seterusnya seramai 7 orang respondan akan ditemu bual yang terdiri daripada 5 orang sampel kajian soal selidik dan 2 orang pegawai MARA yang terlibat dalam pengurusan pembiayaan usahawan. Akhirnya, segala data yang diperoleh melalui soal selidik MEAO akan dianalisis menggunakan kaedah analisis MANOVA bagi menilai tahap orientasi sikap keusahawanan dan perbezaan yang wujud, dan kaedah korelasi Pearson bagi menentukan hubungan yang wujud antara pembolehubah-pembolehubah kajian. Manakala data temu bual pula akan dianalisis menggunakan kaedah analisis tema, iaitu data-data kualitatif daripada temu bual dikategorikan mengikut tema-tema dan sub-tema tertentu mengikut koding-koding yang dibina berdasarkan data-data kuantitatif yang telah dikumpul.

# 7. KEPENTINGAN KAJIAN

Pertamanya, kajian ini penting bagi memberikan gambaran umum kepada pihak kerajaan dan pihak-pihak tertentu seperti agensi-agensi dan institusi-institusi pembiayaan berkenaan indeks atau pola orientasi sikap keusahawanan Muslim dalam kalangan usahawan yang menerima bantuan pembiayaan dan sekaligus menjawab beberapa isu berkaitan usahawan belia Bumiputera terutamanya yang mendapat bantuan pembiayaan.

Keduanya, kajian ini penting bagi membolehkan pihak agensi dan institusi pembiayaan seperti MARA menilai semula faktor dan kaedah pemilihan usahawan penerima bantuan pembiayaan, termasuk dengan menjalankan ujian soal selidik orientasi sikap keusahawanan Muslim ke atas pemohon, supaya dapat menyesuaikan atau menyenarai pendek usahawan pemohon mengikut kategori pembiayaan yang sesuai.

Ketiganya melalui garis panduan tambahan yang dibuat berdasarkan ujian orientasi sikap keusahawanan Muslim terhadap usahawan yang terlibat, kajian ini penting bagi membolehkan pihak agensi dan institusi pembiayaan menentukan bentuk dan kaedah latihan keusahawanan yang lebih sesuai dan berkesan untuk diikuti oleh usahawan-usahawan yang menerima bantuan pembiayaan berdasarkan pola orientasi sikap keusahawanan Muslim yang sama atau hampir.

Keempat, kajian ini penting bagi membuktikan dan menjadi penyataan justifikasi kepada golongan usahawan belia Bumiputera Muslim khususnya supaya timbul rasa perlu kepada program latihan keusahawanan atau lain-lain program pembangunan diri sama ada secara formal atau informal supaya boleh lebih berjaya dalam perniagaan.

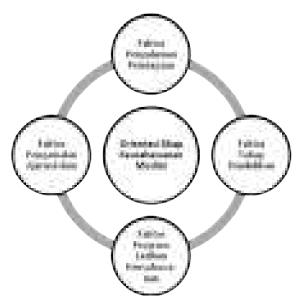
Kelima dan akhirnya, kajian ini juga sangat penting bagi membuktikan dan menunjukkan bahawa dengan lebih berdisiplin dalam mengamalkan kewajipan asas dalam Islam dengan lebih baik, para usahawan Muslim boleh lebih berjaya dan diberkati dalam perniagaan. Selain itu ia penting bagi menanamkan rasa keyakinan bahawa semakin dekat dengan Allah, maka akan semakin dekat dengan kejayaan.

# 8. KERANGKA KONSEPTUAL KAJIAN

Dalam kajian yang akan dijalankan ini, terdapat dua pembolehubah yang terlibat iaitu orientasi sikap keusahawanan Muslim dan faktor-faktor demografi berkaitan pengalaman, pendidikan, latihan keusahawan dan ajaran Islam. Orientasi sikap keusahawanan Muslim merupakan pembolehubah bersandar, manakala faktor-faktor demografi pula ialah pembolehubah bebas. Dimensi-dimensi dalam orientasi sikap keusahawanan Muslim yang hendak dikaji adalah lima sub-skala orientasi sikap keusahawanan Muslim iaitu; (1) Etika Muslim, (2) Keperluan kepada Pencapaian, (3) Inovasi, (4) Kawalan Personal, dan (5) Penghargaan Diri. Sementara itu, pembolehubah faktor-faktor demografi pula terdiri daripada pengalaman perniagaan, tahap pendidikan formal, kekerapan mengikuti program latihan keusahawanan dan pengamalan ajaran Islam yang lebih baik.

Rajah 1 di bawah menunjukkan hubungan bagaimana faktor-faktor demografi menjadi pembolehubah bebas yang boleh mempengaruhi pembentukan orientasi sikap keusahawanan Muslim yang merupakan pembolehubah bersandar. Melalui proses pembentukan sikap keusahawanan Muslim yang tepat, insya-Allah akan mampu melahirkan generasi usahawan belia Bumiputera yang berjaya dunia dan akhirat, iaitu bukan sahaja berusaha mengejar keuntungan dunia semata-mata tetapi juga memastikan syariat Islam terpelihara, tertegak dan tersebar melalui penampilan akhlak, nilai dan etika Islam yang sekaligus dapat menjadi medan dakwah dalam jalur perniagaan secara tidak langsung.

Rajah 1 : Kerangka konsep pembentukan orientasi sikap keusahawanan Muslim



#### 9. JANGKAAN HASIL KAJIAN

Hasil kajian ini dijangka akan dapat mengukuhkan lagi kepentingan dan keutamaan keempat-empat sub-skala asas dalam instrumen orientasi sikap keusahawanan, iaitu; keperluan kepada pencapaian, inovasi, kawalan personal, dan penghargaan diri, dalam menentukan tahap kecenderungan dan kebolehupayaan seseorang terhadap bidang keusahawanan. Selain itu, kajian ini juga akan mengesahkan pembentukan sub-skala kelima iaitu etika muslim sebagai penilaian dari aspek sikap keusahawanan yang lebih menekankan ciri-ciri Islami. Akhirnya, kajian ini dijangka akan dapat mengangkat kepentingan pengamalan ajaran-ajaran atau kewajipan-kewajipan asas dalam Islam khususnya dalam kalangan usahawan Muslim supaya tidak dipisahkan dari sebarang urusan perniagaan dan keusahawanan.

#### 10. KESIMPULAN

Berdasarkan kepada sorotan terhadap latar belakang masalah, pernyataan masalah, objektif dan persoalan serta kepentingan kajian yang dikemukakan, maka penyelidik berpendapat bahawa kajian ini mempunyai asas terhadap keperluan kepada penyelidikannya. Keutamaan terhadap aspek sikap adalah kunci utama dalam perubahan dan mencapai kejayaan dalam kehidupan lebih-lebih lagi dalam bidang keusahawanan yang sememangnya penuh dengan cabaran. Bidang keusahawanan juga telah dinilai dan diiktiraf sebagai satu disiplin kehidupan yang penting oleh Islam, bahkan perspektif Barat turut memberi penilaian serupa. Justeru penglibatan Bumiputera Muslim khususnya golongan belia dalam keusahawanan dilihat oleh banyak pihak sebagai kritikal terutamanya apabila ia berkaitan dengan survival ekonomi masyarakat Islam yang dominan dalam sesebuah negara seperti Malaysia.

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# ENTREPRENEURSHIP AND ISLAM: AN EXPOSITORY STUDY ON CHARACTERISTICS OF MUSLIM ENTREPRENEUR

Syahida Abdullah<sup>1</sup> Said Adekunle Mikail<sup>2</sup>

#### **ABSTRACT**

Entrepreneurship is reckoned as the main impetus for the growth of economy. It has been discussed from different perspectives including but not limited to economics, psychology, sociology and religion. This paper focuses its discussion on entrepreneurship from Islamic perspective. The study aims to provide a brief comparison between conventional entrepreneurship and Islamic entrepreneurship. This is discussed by looking at the objectives of entrepreneurship and ultimate goal of an entrepreneur from both conventional and Islamic perspectives. Thispaper then examines the characteristics of entrepreneurs on the basis of secondary sourcesfrom the perspective of Islam. The paper highlights the characteristics of Islamic entrepreneurs andargues that Islamic values have great influence on the success of Muslims' entrepreneurial endeavor. The study then focused on the characteristics of entrepreneurs in Islam significantly on the four main attributes of a Muslim: honesty, wisdom, trust, and deliver and sharing by sharing some examples of successful Muslim entrepreneurs in the early days of Islam. The study concluded that the success of Muslim entrepreneurs is significantly related to the 4 main attributes of a Muslim, and itappears that Islamic religion has a positive impact on the success of Muslim entrepreneurs in their entrepreneurial endeavor.

**Keywords:** Muslim entrepreneurs, Honesty, Wisdom, Trust, and Deliver and Sharing.

# 1. INTRODUCTION

Entrepreneurship study encompasses various disciplines: economics, psychology, sociology and religion. In the religion realm, entrepreneurship has often been discussed rather independently or in isolation. The relation between entrepreneurship and religion was regarded complex and has poor or no connection. In response to this note, this paper embarks to study on entrepreneurship in the context of Islamic religion.

Islam encourages Muslims to earn living through entrepreneurial activities, and this is evidenced in its primary sources of reference, namely Quran and Hadith. There are several Quranic verses and sayings of the Prophet (pbuh) that encouraged Muslims to become entrepreneurs. In fact the Prophet Muhammad (pbuh) himself was exposed to entrepreneurial activity since he was a young boy, and he grew up being an entrepreneur with special entrepreneurial traits that distinguished him from most of the others in the realm. These special traits have astonished many people and aspired many to become successful entrepreneurs.

Generally, studies have shown that characteristics of entrepreneurs are associated with their performance in terms of success or failure of their ventures, which is weighed by looking at the business survival or growth (Perry, 2001; Cooper, Dunkelberg, and Woo 1988; Bailey, 1986; etc.). This study therefore looks into the characteristics of Muslim entrepreneurs in relation to their success in entrepreneurial endeavor specifically focusing the moral values from Islamic perspective. Thus, the research is library based with information obtained from secondary sources.

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This paper comprises six sections; the first section starts with an introduction. The second section provides a brief literature review on entrepreneurship from conventional perspective. It is then followed by a review on the legitimacy of entrepreneurship in Islam in section three. Section four delineates the key characteristics of entrepreneurs according to the Islamic principles. Section five then provides some examples of successful Muslim entrepreneurs in the early days of Islam. Finally, section five summarizes and concludes the paper.

# 2. ENTREPRENEUSHIP FROM CONVENTIONAL PERSPECTIVE

Entrepreneurship from the conventional perspective has been discussed from various disciplines, and the early literature on entrepreneurship discussed it from the economic view point: Cantillon (1755) and Say (1803) regarded entrepreneurship as an economic activity that is risky and opportunity based. Cantillon (1755) regarded entrepreneurs as people who seize opportunities to earn profit with assumed inherent risk and were directly involved in the equilibrium of supply and demand. Say (1803; 1815) viewed entrepreneurs as change agents who play significant role as leaders and managers in business realm. Schumpeter (1928) then, made a significant contribution to the field of entrepreneurship by introducing the idea of innovation, which was noted as the exploitation of new opportunities. Indeed, Schumpeter extended the idea of innovation as a dynamic process of creative destruction that changes the basic technological and demand parameters of the economy (Schumpeter, 1943). He introduced two theories, known as Mark I and Mark II. The Mark I theory noted that entrepreneurs are not mere traders; instead, they are the people who create innovation and technological change in a nation. Meanwhile, the second theory, Mark II specifically argued that the activities of innovation and technological change are generated by big-sized firms that have adequate resources and capital.

Besides that, entrepreneurship was also viewed from other aspects such as personality traits, behavior, social and environmental influences; for instance, Weber (1930) has discussed on the behavior aspect, in which a value system is regarded essential to an entrepreneur's behavior (Syahida and Amran, 2008). Other scholars like McClelland (1961; 1971), and Chandler and Redlick (1961) (2001) have looked into the entrepreneurship field from psychological aspects such as behavioral, personal traits, motivational factors, incentives and more prominent is the 'need for achievement' as factors towards achieving entrepreneurial success. McClelland's theory of needs classed needs as achievement, affiliation or power, in which a person's motivation and performance is influenced by these three needs. Accordingly, a person with a high need for achievement is characterized as having the desire to take personal responsibility in decision making, working hard, setting goals of achievement and proper planning (McClelland, 1961). Other characteristics of entrepreneurs include risk-taking (Gelderen et al., 2006; Norton and Moore, 2006), locus of control (Rotter, 1966; Brockhaus, 1976), and few others.

Consequently, entrepreneurship has also been discussed from religion perspective. Weber (1976) in his study *The Protestant Ethic and Spirit of Capitalism* noted that the main motivation factor of the early entrepreneurs in Europe was the interrelation between Capitalist development and profit seeking. However, Tawney (1926) argued that only upon the separation between religion and business transaction, the Capitalists achieved success. Hofstede (2001) claimed that the relationship between Confucius teachings and economic growth is not proven despite suggestions made. Dodd and Seaman (1998) noted that the entrepreneurship and religion are two fields that are interdependent and the relationship between them is complex. Seymour (2003) viewed that the study on the relationship between religion and entrepreneurship is scarce and he therefore suggested more research to be carried out. Concomitantly, the next section discusses entrepreneurship from Islamic perspective.

# 3. THE LEGITIMACY OF ENTREPRENEURSHIP IN ISLAM

Muslims have traditionally favored to commerce activity since before the Prophet era. The Prophet (pbuh) has highly regarded entrepreneurial activity as the major source of income generation for economic development of Ummah. In a hadith by Nu'aym ibn Abd Al-Rahman who narrated that the Prophet (pbuh) said nine out of ten sources of income is derived from business activity. Muslims are therefore encouraged to earn living through entrepreneurial activities as it spurs the growth of a nation's economy. Indeed, the legitimacy of sale being permissible is evidenced in Quran as stated in al-Baqarah, part of verse 275, "But Allah has permitted trade" (2:275), "But take witnesses whenever you make a commercial contract" (2:282), "But let there be among you traffic and trade by mutual good will" (4:29), and "It is no crime for you to seek the bounty of your Lord" (2:198).

It is also observed in the "Sunnah" (tradition and sayings of the Prophet pbuh): The Prophet was asked: "Which are the best forms of income generation?" He replied: "A man's labor, and every legitimate sale<sup>5</sup>, i.e. devoid of cheating or treason. Moreover, the Messenger (pbuh) was sent to mankind while people traded among themselves, and he accepted the practice. Generally, the Muslims acknowledged sales are permissible with adherence to the rules of Shariah. According to the Imam Al-Shafi'i: "The general rule for all sales is permissibility as long as they are concluded by consenting capable decision makers except for what the Messenger of Allah (pbuh) has forbidden, or what is sufficiently similar to that which the Messenger of Allah (pbuh) has forbidden; and anything different from those is permissible following the permissibility of sales stated in the book of Allah Almighty" (meaning from the verses 2:275, 2:282, 4:29, and 2:198).

Based on these injunctions from the primary sources of Shariah, it is clear that Islam encourages entrepreneurship. Therefore in Islam, entrepreneurship is regarded as part of "ibadah" as it aims to achieve the blessings of the Glorify Allah. Every deed is a count towards the blessing of the Almighty Allah. Muslims are encouraged to earn living from sources that are permitted or 'halal' and spend it wisely for the benefit of all. Kayed and Hassan (2011) noted that earning income from halal sources and gaining profit through entrepreneurial activities will lead the Muslim entrepreneurs to fulfill ibadat of a 'financial nature' including giving of zakah and charity simultaneously meeting the immediate and extended families needs and requirement, in which the entrepreneurs will be rewarded generously in the hereafter. Besides earning from the permitted sources, effective management of resources and the provisions provided by Allah is among the characteristic of "Khalifah" or vicegerent of Allah. Thus, it is necessary for an entrepreneur to acquire both codified and tacit knowledge and use them wisely for an effective management and success of his entrepreneurial endeavor.

Having adequate knowledge will enable an entrepreneur to act justly. "Deal not unjustly, and you shall not be dealt with unjustly" [2:279]. "Woe to those that deal in fraud those who when they have to receive by measure from men exact full measure. But when they have to give by measure or weight to men give less than due. Do they not think that they will be called to account?" [83:1-4]. Every entrepreneurial activity thus has to conform to the principles of Shariah and meet the objectives of Shariah.

Shariah is defined by Al-Qardawi<sup>2</sup> as the judgements of Allah and his Prophet as laid down in the Quran and the Sunnah (the life and teaching of Muhammad). Maqasid Shariah, or the objectives of Shariah is the foundation for the Shariah rules and regulations; it provides the knowledge, understanding and justification for the principles of Shariah. The aim of Maqasid Shariah is to benefit and protect the Ummah generally, and to discipline and structure the living of the Ummah according to the rulings of Shariah. The rulings is meant for one's daily activity, which encompasses *ibadah* (relationship between man and the Almighty Allah); muamalah, (relationship between man and mankind); *aqidah* (belief

<sup>&</sup>lt;sup>2</sup> Al-Oaradawi (2007: 16-22)

system); *ahkam* (legislation and rulings); and *akhlak* (system of ethics and moral). As such, the purpose of Shariah in Islam is huge that it embraces all aspects of human's life, including the economic and social wellbeing in order to get the blessings from the Almighty Allah.

The general rules of Shariah emphasize on five objectives of Shariah that includes the protection of Islamic religion "deen", protection of human life "nafs", protection of intellect "aql", protection of progeny "nasab", and protection of wealth "maal". With regard to material wealth, the permissibility of sales entails the permissibility of different types of sales including the permissibility of "salam", or payment in advance, barter sale, sleeping partnership, crop sharing, and the like to encourage the entrepreneurial activity to flourish among Muslims and to spur economic growth.

# 4. THE CHARACTERISTICS OF ENTREPRENEUR IN ISLAM

"The truthful and honest trader is among the prophets, the righteous, and the martyrs" (Al-Tirmidhi classified it as a *hadith hasan*). Realizing entrepreneurship is part of Islam and is integrated into the religion, the entrepreneur and the entrepreneurial activities have to conform to the Shariah principles. Therefore, the characteristics of entrepreneurs in Islam differ from the characteristics of conventional entrepreneurs. The conventional entrepreneurs are often inspired by 'profit' making, who constantly seek to maximize profit even at the expense of the others. There is no question on the means of achieving the profit; what matters is the final output. In addition, the conventional economic system regards resources as limited, therefore, the entrepreneur is required to grab as much wealth as possible without considering other human being. Also, often the business activity is separated from the religious aspect.

Oppositely in Islam, the entrepreneur is required to carry out entrepreneurial activity with reference to the Shariah principles as outlined in the Al-Quran and Hadith. The Muslim entrepreneurs are required primarily to have faith in the Almighty Creator, Allah. Having that notion in mind restricts Muslims from all activities that are prohibited in Islam so as to adhere to the rules and regulations of Islam. Hence, ownership of wealth is totally belongs to the Almighty Allah, while human are entrusted as Khalifah or vicegerent to carry out duties and responsibilities in the right path according to the Shariah principles. The purpose of Shariah in Islam is huge that it embraces all aspects of human's life, including the economic wellbeing in order to get the blessings from the Almighty Allah. The comprehensiveness of Maqasid Shariah includes the objectives and purposes to abide by in economic activities that encompass entrepreneurial activities.

As the wealth in Islam is regarded abundant, Muslims are required to acquire and use the wealth accordingly and not to monopolise; instead, share with the rest of the Ummah, which then leads to the concept of brotherhood. With that, the ultimate aim of the Muslim entrepreneur is not merely profit; instead, it is as part of Ibadah to get the blessings from the Almighty Allah.

Indeed, the means of achieving the profit is also of concern to the Muslim entrepreneurs as Muslims are required to take care of the relationship between Muslims and the Creator Allah; between Muslims and other human beings; and lastly between Muslims and other creatures or beings in this world. Thus, an entrepreneur should continuously act according to the Shariah principles so as to seek pleasure of the Almighty Allah in this world and the world hereafter.

Referring to the verse 26 from surah Qasas:

26. Said one of the (damsels): "O My (dear) father! engage Him on wages: truly the best of men for Thee to employ is the (man) who is strong and trusty"....

According to Umar, Ibn Abbas, Shurayh Al-Qadi, Abu Malik, Qatadah, Muhammad ibn Ishaq and others said:

"When she said: إِنَّ خَيْرَ مَنِ اسْتَأْجُرْتَ الْقَوِيُّ الْأَمِينُ (Verily, the best of men for you to hire is the strong, the trustworthy), her father said to her, `What do you know about that?'

She said to him, 'He lifted a rock which could only be lifted by ten men, and when I came back with him, I walked ahead of him, but he said to me, walk behind me, and if I get confused about the route, throw a pebble so that I will know which way to go." (Source: Tafsir Ibn Kathir)

This particular verse from surah Qasas indicates the importance of the attributes of being 'strong' and 'trustworthy'. The word 'strong' connotes a combination of physical, mental and emotional strength that a human being should possess in carrying out duties, including entrepreneurial activities. It is also an indication on the significance of good health that is necessary in performing economic activity. Meanwhile, the word 'trustworthy' is a positive moral value that is highly expected and respected in a Muslim. The word 'trustworthy' incorporate the values of honesty and truthfulness. In the above verse, the Prophet Musa was known as a 'trustworthy' person and therefore is very much adored and respected. Similarly, such noble value is regarded important in all activities of a Muslim, including economic activity. This is as commanded by the Almighty Allah in the following verses of the Quran:

"Verily, God does command you to render back your Trusts to whom they are due." (Quran 4:58)

"He said, "O my people! Worship God, you have no other god but Him, and give not short measure or weight, I see you in prosperity; and verily I fear for you the torment of a Day encompassing. And O my people! Give full measure and weight in justice and reduce not the things that are due to the people, and do not commit mischief in the land, causing corruption. That which is left by God for you (after giving the rights of the people) is better for you, if you are believers." (Quran 11:85-86)

The verses above present the firm commands of the Almighty Allah on the attribute of 'trustworthiness' towards his followers in the activities carried out, without compromising the economic activity. Being trustworthy is an important character for an entrepreneur to ensure right measurement, justice and prosperity of the Ummah or believers. Alternatively, not complying to such command is believed to lead to mischief on the land and corruption. In addition, there is the sayings of Prophet Muhammad that indicate the importance of being a 'trustworthy' person "A hypocrite is known by three traits: When he speaks, he lies; when he promises, he reneges; when he is entrusted, he cheats." (Saheeh Al-Bukhari, Saheeh Muslim).

Therefore, a Muslim entrepreneur is required to possess good ethical conduct that includes being honest, wisdom, trustworthy, and sharing. Honesty is an ethical value which demonstrates a high level of integrity and truthfulness, with total absence of negative attribute such as lying and cheating as shown in the Quran, Allah says: "*Truly, Allah does not guide one who transgresses and lies.*" (Al-Quran: 40:28) (Syahida and Ahcene, 2011). Wisdom is the tacit and codified knowledge that one has to possess in order to have a good understanding of their business industry and other factors such as human capital, finance, technology and environment. This is as illustrated in surah Yusof, verse 55:

55. (Yusof) said: "Set me over the store-houses of the land: I will indeed guard them, As one that knows (Their importance)."

This verse indicates the wisdom or knowledge that is important in managing any task expected of a Muslim. In this respect, it is regarded necessary for a Muslim entrepreneur to equip himself with adequate knowledge to manage effectively. It is the responsibility of each individual Muslim to acquire pertinent

knowledge that is related to his or her field of entrepreneurial activity. Thus, the success of an entrepreneurial endeavor depends on the wisdom of the entrepreneur.

Trust is a value that is regarded highly in Islamic ethic. Quran regarded 'amanah' or trust as one of the major principles in Shariah which must be taken into consideration in all aspects of life, it is not restricted to business or finance but it goes beyond that to include the daily Muslim activity (Syahida and Ahcene, 2011). There are some verses in Quran that specifically stress on the importance of 'trust' in Islam. "Those who faithfully observe their trusts and their covenants," (23:08), and: "Surely Allah commands you to make over trusts to their owners and that when you judge between people you judge with justice; surely Allah admonishes you with what is excellent; surely Allah is Seeing, Hearing," (04:58), and: "O you who believe! Be not unfaithful to Allah and the Messenger, nor be unfaithful to your trusts while you know." (08:27). 'Trust' is an attribute that is necessary in a Muslim entrepreneur as he is involved in economic activity which often creates communication with different groups of people. Being a good entrepreneur necessitates him to build the 'trust' quality in him so that a healthy network is created with the customers and other entrepreneurs in the market. Indeed, upholding the trust value is a virtue to all Muslim entrepreneurs that can lead to success in this world and the hereafter.

Sharing is also an ethical value that has received high importance as it enables one to have a noble character. Muslims are urged to 'deliver and share" any knowledge of Allah to the least possible so that the message of Allah is delivered and disseminated to as many people possible.

67. O Messenger. proclaim the (message) which hath been sent to Thee from Thy Lord. if Thou Didst not, Thou wouldst not have fulfilled and proclaimed His mission. and Allah will defend Thee from men (Who mean mischief). for Allah guideth not those who reject Faith. (5:67)

39. (it is the practice of those) who preach the messages of Allah, and fear him, and fear none but Allah. and Enough is Allah to call (men) to account. (33:39)

Besides sharing knowledge, Muslims are required to share any form of possession he or she owns, which includes wealth and property. Realizing that entrepreneurs are closer to the Ummah in term of economic relation, the sharing activity is believed to be carried out effectively. This includes sharing of the message from the Almighty Allah to His believers. Moreover, having acquired economic control in any particular community, the entrepreneur is believed to be capable of influencing the Ummah effectively through the means of sharing of knowledge and other wisdom thoughts. The act of sharing leads to prosperity and harmony within the Ummah.

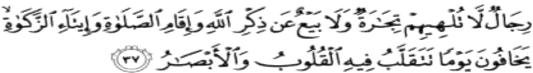
Having acquired good ethical conduct will enable one to be successful in this life and the life hereafter. In Khuluk Almuslim (Muslim's Behavior) Imam Al Ghazali outlined seven steps for success that include knowledge and gnosis stage; repentance stage; temptation stage; obstacle stage; motivation stage; imperfections stage; and praise and thankful stage (Al-Ghazali, 2004). The scholar Al-Qurtubi noted several factors of concern in achieving success; they are: "halal", referring to the livelihood that are in accordance to what is being outlined by Allah; "qanaah", which means being pleased and thankful with one's earning; "taufiq", requesting for the blessings of the Almighty Allah in proportion to one's expectation; "sa'adah", referring to spiritual happiness; and "jannah" or paradise, which emphasizes worldly success as a bridge to the ultimate success in the life hereafter (Hernandez, Noruzi and Sariolghalam, 2010).

# 5. ENTREPRENEURIAL PRACTICES IN EARLY DAYS OF ISLAM

This section shares divine supports and practices of predecessors on business and entrepreneurship in Islam. Thus, it shows the support of Islam for entrepreneurship and development in its entire ramification as long as Islamic value has not been jeopardized, that is ethical development grounded on the divine guidance.

Islam requires every individual to be productive and hardworking. It also requests everyone of us to be perfect in all our undertakings. Therefore, the Prophet connects the love of Allah with perfection in any undertakings that a Muslim assumes. "For indeed Allah loves everyone who perfects his undertakings" (al-Tabarani no. (891); Abu Ya'la 4386); al-Bayhaqi 4:334; Ibn 'Adiy 6:2359)

Below are some reports in Islamic heritage that encourage engagement in business and promote self-sustainability. The focus here is on reports from business practices of companions and their successors. Prior to that, there is a verse which denotes the great quality of companions and their submission to Islamic value even in their work place. They had inner conviction to the extent that when the prayer time arises they leave whatever they are doing for prayer in due time. The Almighty Allah who His knowledge encompasses everything praises them. This praise is also for those who follow their footsteps.



"[Are] men whom neither commerce nor sale distracts from the remembrance of Allah and performance of prayer and giving of zakah. They fear a Day in which the hearts and eyes will [fearfully] turnabout" (Quranic international, 24: 37).

Ibn Battal in his illustration on *hadith* of al-Barra' and Zayd ibn 'Arqam when the Prophet (pbuh) asked them on how do they make money exchange, in which *hadith* ends with the above verse. He said: ""the companions were blacksmiths, perforators, when someone hears the call for prayer while lifting up hammer and stitching gauze, he leaves the work instantly and go for prayer". (Ibn Battal, p. 2938) In addition to that, ImÉm has provided chapters in his book *Sahih al-Bukhari* on the common crafts among the companions (Sa'd al-Shathari, p.338-340), in addition to trading and other businesses. The report of Ummu al-Mu'minin; 'A'ishah affirmed this information when she said (May Allah be pleased with her): "The companions of the Prophet (pbuh) are self-employed people" This report indicates that most of the companions are working for themselves in order to get means for lawful living.

In addition, the reports about Abu Bakr, 'Umar, and 'Abdul Rahman ibn 'Awf were recorded for their excellent performance in trading and business actives. This does not prevent them from being in company with the Prophet (pbuh).

As for Abu Bakr, Ibn Abi Mulaykah reported that 'Aishah-May Allah be pleased with her-said that: AbU Bakr was the most prominent trader of Quraysh tribe until he assumed the position of caliphate" (Abu Bakr al-Khalal, p.91).

It is recorded by al-Tabarani from *hadith* narrated by Ummu Salamah that: Abu Bakr went to Busra as a trader during the life of the Prophet (pbuh). His close relation with his [the Prophet] does not prevent him [Abu Bakr] from his trade. This is because he is so engraved in trade due to having pleasure and satisfaction with earnings can be realized from trading and the Prophet does not ban him [Abu Bakr] from trading for their closeness and affection for each other. This is because the Prophet (pbuh) likes trading (Abu Bakr al-Khalal, p.92).

With regard to 'Umar, he was reported to have said: 'Umar said: Oh Mankind, Allah prescribed to you to take your money and seek for the bounty of Allah, there is *ibadah* and *sadaqah* (charity) for doing so. By Allah, I wish to die with my offshoot on my way to seek for the ounty of Allah than dying on my bed (Abu Bakr al-Khalal, p.105).

'Umar also said: I'm busy with market so I did not have time to be with the Prophet (pbuh) (Ibn Battal, p.2984). In Islam, there is no restriction as long the business is still in conformity with principles of Shariah. Thus, market in Islam is open for poor and rich, scholars and wealthy individuals among the community. To that effect, 'Umar was reported to say: "I was so busy going to market for trading and did not have enough time to stay with the Prophet (pbuh) like Abu Hurayrah and other companions.

Then 'Abdul Rahman ibn 'Awf is a leading companion in business activities, Imam al-Bukhari reported that: "'Abdul Rahman ibn 'Awf said when we migrated to Madinah, the Prophet associated al-Ansar (people of Madinah who hosted Muhajirun) as brothers with Muhajirun (Muslims who migrated from Makkah to Madinah). It happened that I'm the brother of Sa'd ibn al-Rabi', and he [Sa'd] told me I'm one of the very rich among al-Ansar, I'll give you half of my wealth..., 'Abdul Rahman prayed for him saying: May Allah bless your wealth and your wives. "Is there any market for trade?" asked 'Abdul Rahman. He replied "yes, suq Qaynuqa" that is Qaynuqa' market. Can you show me the way? Asked 'Abdul Rahman. In the down 'Abdul Rahman headed to the market and left over cheese and cooking fact. He went the following day, and did not take long he appears in yellowish symbol which is a sign for marriage. When the Prophet (pbuh) saw him, he asked did you marry. Yes, said 'Abdul Rahman. The Prophet (pbuh) asked him to do walimah to celebrat it (Sa'd al-Shathari, p.330). In another report of Sahih al-Bukhari, "We headed to market and got profit and left over cheese and ghee, and brought them for his family. We stayed a while and came out cheerful with yellow stain on his head..."

Apart from the companions, there are some reports related to the successors of the companions that denoted for being productive entrepreneurs. Specifically, it was recorded that Abu Ayub said: "Focus on your business, because by so doing you will remain a noble person among your people as long as you do not ask anyone" (Abu Bakr al-Khala, p.26). Similarly, this was reported in the book called "Shu 'ab al-Iman" of al-Bayqi: "Stay with your business because it gives you contentment from asking people and integrity for you religion" Ibn Abdul Barr, 2:14) On another instance, Ishaq ibn Yasar was passing nearby mercers [dealers in textiles] and said: Keep to your business because your father [Prophet Ibrahim "peace and blessing of Allah be with him"] is a mercer". Similar reports were also related that Shu'bah, Bishr ibn al-Harith (Abu Bakr al-Khalal, p.26). Meanwhile, Sufyan al-Thawri saw some youths sitting down in the Mosque during the day, he [SufyÉn] asked them: "why are you sitting down here this time?" What else can we do? Said the youth. He said: "you should look for bounty of Allah, do not be liabilities on Muslims" (Abu Bakr al-Khalal, p.51).

The evidences above provide crystal clear indication that the development by means of entrepreneurship is strongly encouraged and promoted in Islam. Thus, Muslims do not need the transformation from Islamic values to the so called modern secular society. Rather Islam is a modern and developmental religion. The manifestation of it being developmental has been vividly noticeable in leading global modernization for decades while Europe in the midst of Dark Ages (Kayed and Hassan, p.10). Therefore, Islam does not tolerate unproductive and idle individual meanwhile the production and services should not be harmful, inhuman, unhealthy, and deceitful. All these are inconsistent with justice and mutual interest for human that are the primary objectives that are promoted through Shariah (Islamic law).

# 6. CONCLUSION

This paper contributes significantly to the literature in entrepreneurship by providing an understanding on the positive co-relation between entrepreneur characteristics and his success. It has relied primarily on secondary sources of information in providing explanation on the attributes of Muslim entrepreneurs and the influence of positive moral values on entrepreneurial endeavor. As such, the paper elaborated on the legitimacy of entrepreneurship in Islam with particular reference to the primary sources, namely Quran and Hadith. Moreover, the objectives of Shariah or Maqasid Shariah are discussed as the foundation for the Shariah rules and regulations, which the Muslim entrepreneurs aim to achieve. In addition, the study focused on the comparison between conventional entrepreneurship and Islamic entrepreneurship based on economic objectives and ultimate goal of entrepreneur.

This study clarifies the promotion of entrepreneurship and development in Islam. It affirms that Islam does not deter the progress and development of Muslims. Rather people of integrity once they embraced Islam, it enhances their skills to be more productive and prudent in whatever they do. The example of this can be inferred in history of many companions such as Abu Bakr, 'Umar, 'Uthman, 'Ali and Abdul Rahman ibn 'Awf and many others. It must be made clear that success factors are peculiar and relative because it depends largely on the objective, vision and mission intended to achieve. Thus, the objectives of Muslim entrepreneurs should not be for mundane affairs alone rather it should be to realize *falah* which is eternal bliss through their undertakings. Therefore, one must be sincere and honest to himself by commitment to that very objective which is divinely designed and the rest should be secondary objectives.

Thus, this study confirms four main attributes: honesty, wisdom, trust, and deliver and sharing contribute in the promotion of the success of Muslim entrepreneurs. The study also confirms that Islamic religion has a positive influence on the success of Muslim entrepreneurs, specifically in relation to their characteristics. The Muslim entrepreneurs are influenced by their faith in religion. As such, the Muslim entrepreneurs should continuously make effort to improve the moral values so as to gain success in their entrepreneurial endeavor as well as ultimate success in the hereafter.

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# THE MUSLIM ENTREPRENEURS CHARACTERISTIC FROM MU'AMALAT PERSPECTIVE

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# **ABSTRACT**

Entrepreneurship is a part of Islamic economics and businesses. Entrepreneurship is the pursuit of opportunity beyond resources controlled. Prophet Muhammad SAW and his companions are examples of this. Entrepreneurship is refers to the capacity required for identifying and generating innovative business ideas, mobilizing resources, organizing production, marketing the products, managing the risks and constantly working for growth and excellence of the business. Islam always invite all Muslims to be an innovative and active entrepreneurs. There for, there are a lot of Muslims becomes the successful entrepreneurs in the world. Unfortunately, Muslims have lost their confidence, their characters and souls through the time. This research aims to analyse the characteristic of entrepreneurs from *mu'amalat* perspective which are derives from al-Quran and al-Hadis. This research also concludes that Islam is not opposite with entrepreneurship. Islam warmly invites all Muslims to be entrepreneurs in their life by given the rules that should be followed by all Muslims.

**Keywords:** Entrepreneur, Entrepreneur Characteristic, Muslimpreneur, Islamic Entrepreneurship.

#### 1. INTRODUCTION

Entrepreneurship is a process of searching and steering through the earth's tracts goes beyond simply finding employment opportunities or even engaging in basic entrepreneurial activities. It is also refers to the capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit (www.BusinessDictionary.com, n.d.). The search implies the exploration of the unknown in order to discover new horizons and uncover new opportunities for the benefit of humankind. Such active search involves taking risks and requires innovative thinking and that is "entrepreneurship" (Sadeq, 1993).

In economics, the combination of entrepreneurship with land, labour, natural resources and capital can produce profit. Entrepreneurial spirit is characterized by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace (www.BusinessDictionary.com, n.d.).

All the economics functions in the Islamic economics has been regulated by the concept of livelihood (*al-Rizq*) as well as lawful (*halal*) and unlawful (*haram*) sources of earnings (Muhammad Ridhwan Ab. Aziz, 2011). The term *al-Rizq* is applied to connote livelihoods and means of further production, which has been intimated by the Prophet Muhammad SAW and predetermined by Allah SWT (Joni Tamkin

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Borhan & Muhammad Ridhwan Ab. Aziz, 2009; Muhammad Ridhwan Ab. Aziz, 2011). One way to gain lawful livelihood is through entrepreneurship activities.

Islam is one of the religions that try to encourage people to be an entrepreneur. Islam encourages men to remain always in search of bounties of Allah. Islam accords business and entrepreneurship a place of high esteem (Mohammed Solaiman & Sanoara Yasmin, 2012). Entrepreneurship is a factor that can change the economic problems of any country. It is also engage lots of people as employee or self-employed. Until a few years ago, most of the countries in the world were following other systems namely socialist rather than the capitalist system (Vargas-Hernández, Mohammad Reza, Noruzi, & Sariolghalam, 2010) especially since the fall of the Berlin Wall (De Soto, 2006).

In recent years, the world has witnessed many big financial scandals leading researchers to express different views with regard to holding to higher ethical standards (M-Said Oukil, 2013). While, the religiously committed entrepreneurs exhibited a less tolerant attitude than others in the matter (Emami &Nazari, 2012).

Perkins (2003) analysed the role of Islam in the process of wealth creation and confirmed Weber's conclusions that Islam is an economic hindrance and barrier to prosperity and fulfilment of human ambition, potential and welfare. However, the claims that Islam has the propensity to deter development (Weber, 1963) and that Muslims in general are low in achievement (McClelland, 1961) have been conceptually challenged even by western intellectuals. A number of western thinkers, in addition to Muslim scholars, have acknowledged the progressive nature of Islam and recognized its positive attitude towards prosperity and the desirability of engaging in productive entrepreneurial activity (Wilson, 2006; Zapalska, Brozik, & Shuklian, 2005).

L.P. Dana asserts that religions are neutral and do neither promote nor prohibit entrepreneurship (Dana, 2011) but numerous other authors strongly argue that Islam does not block development through private initiatives and does in fact permit or encourage entrepreneurship (Beekun, 1996; Haneef, 2005; Pistrui & Fahed-Screih, 2010). In fact, entrepreneurship is a part of Islamic culture as showed by Prophet Muhammad SAW and his companions. Islam always invite all Muslims to be innovative, entrepreneur and active.

Islam is a religion of knowledge (Sullivan, 2004) and Islamic tradition has always included a positive approach to economic activity and noted that the Prophet Muhammad SAW was a merchant before his prophetic mission (Wienen, 1997). As the result, a lot of Muslims entrepreneurs becomes a successful entrepreneurs in the world.

# 2. ISLAMIC ENTREPRENEURSHIP: AN OVERVIEW

Entrepreneurs can be described as someone who searches for change, responds to it and exploits it as an opportunity, creates an organisation to pursue it, helping businesses grow and become profitable (Bygrave & Hofer, 1991; Drucker, 1985; Kuratko & Hodgetts, 2004).

The sense of brotherhood creates a bond and a sense of unity in which all work together as a team. The cooperative and collaborative work within the team and between teams in Prophet Muhammad and his companions' era created powerful drivers for innovative societal change. Collaboration is necessary for entrepreneurs to derive innovative solutions that go beyond the traditional, and in which individuals are the key vehicles for such transformation and innovation (Austin, James & Reficco, 2009).

In Islam, there is no separation between entrepreneurial activities and religion. Islam has its own entrepreneurship characteristic and guiding principles based on al-Qur'an and al-Hadis to guide entrepreneurship operation (M-Said Oukil, 2013). By virtue of the human nature, the person must

firstly be a Muslim, then the entrepreneur. He has the responsibility to perform ibadah and be a khalifah. Muslim entrepreneur should search for Allah's SWT blessings above all other factors. Muslim entrepreneurs perform entrepreneurial activities not solely for profit, but above all, to fulfil the fardu kifayah (Vargas-Hernández, Mohammad Reza, Noruzi, & Sariolghalam, 2010).

Islam fulfils an important need by providing the means to satisfy both physical and spiritual need by establishing a framework for behaviour and providing a sense of existence. Islamic moral and ethical values are incentives to achieve greatness of spirit, helping to develop tolerance and empowering with adaptive capacities in response to life's challenging events. Islam provides the individual with a sense of self-respect and family values, and promotes a unified society in a brotherhood imbued with social responsibility. Allah SWT says:

The believers are but brothers, so make settlement between your brothers. And fear Allah that you may receive mercy (Al-Hujurāt 49: 10)(Abdullah Yusuf Ali, n.d.).

By applying Islamic norms and values of the characteristic with prudent use of social, environmental, and economic resources, Islam has created the new communities outside *Al-Jazeera Al-'Arabia* in an innovative entrepreneurial manner. These new communities were given considerable freedom in how they created their local social and economic values under the umbrella of *al-Qur'an* and *al-Hadis*, maintaining synergetic ties with the Islamic leadership. Through this unification of scientific, social, ethical, and economic values they were able to prosper for hundreds of years.

Furthermore, social change implemented under Islamic entrepreneurship influenced neighbouring Europe and other geographical regions through social and commercial interaction. The actions of current civilizations provide testimony to the success of Islamic social entrepreneurship as they currently are faced with developing solutions to their own social problems. Entrepreneur and entrepreneurship have a special place in Islam. An Islamic entrepreneurship model is sourced from the *al-Quran* and *al-Hadis*. Islam sees everything as a comprehensive element in life, including entrepreneurship. Therefore, in Islam, entrepreneurship includes all aspects of life, whether it is for the world or the hereafter (Ummi Salwa, Shahbudin, & Kamaruzaman, 2013).

# 3. METHODOLOGY

This study will employ content analysis as an approach in data analysis. Content analysis is the method of analysing documents in order to describe and quantify phenomena systematically and objectively (Downe-Wamboldt, 1992; Krippendorff, 1980; Sandelowski, 1995). It's allows the researcher enhancing the understanding of the data by testing the theoretical issues.

Content analysis was first use in the 19<sup>th</sup> century (Harwood & Garry, 2003) is a method of analysing various types of documentation (Cole, 1988) such as hymns, newspaper and magazine articles, advertisements and political speeches. The uses of content analysis in communication, journalism, sociology, psychology and entrepreneurship during the last few decades has shown steady growth (Neundorf, 2002). Content analysis will give the possibility to distil the words into fewer content related categories. Therefore, every words, phrases and the like would share the same meaning (Cavanagh, 1997).

In this way, content analysis helps researchers to build-up a picture of the characteristic of the entrepreneur portrayed in the *al-Qur'an* and *al-Hadis*. For the purpose of this research, the meaning of *Qur'anic* verses in *al-Mu'jam al-Mufahras li Alfazh Al-Quran Al-Karim* (Muhammad Fuad 'Abd Al-Baqi, n.d.) and The Meaning of The Holy Qur'an (Abdullah Yusuf 'Ali, 1987) will be analysed to find out the characteristics of entrepreneurs. This finding then, will be supported by various hadis and other document such as book and journal articles in related discussion.

# 4. MUSLIMPRENEURS CHARACTERISTIC

Al-Qur'an recognizes man as a being at once rational, volitional, acquisitive, and ethical. Being primarily a book of moral guidance, al-Qur'an advises all Muslim that it is in their best interest to pursue a moderate course. That is, Muslim should act to provide for existence on this material plane without sacrificing their moral sensibilities. Al-Qur'an insists on the harmony of Muslim's spiritual and material interests. It is guidance on how to achieve success in this life and the next (Imad A. Ahmad, 1994).

For the purpose of this study, a Muslimpreneur is defined as a Muslim who involved in entrepreneurial activities, perceives an opportunity and creates an organisation to pursue it based on Islamic principles. The holistic characteristics of Muslimpreneurs has inculcated rule of metaphysics which are abstract like sin, merit, hell and heaven that becomes the trigger to human's behaviour in structuring entrepreneurial development.

The implication from the concept of property as trust, test, instrument and its inabsolute ownership will make Muslimpreneurs more careful in searching and spending. Thus, Muslimpreneurs should differ from other entrepreneurs in their motives and aims. It is hoped that if they are able to manage their business successfully, they should also have good performance in terms of faith and belief towards Allah SWT (Solahuddin Abdul Hamid & Che Zarrina Sa'ari, 2011).

# A. Taqwa as a framework

A successful Muslim entrepreneurs must have faith (taqwa) to Allah SWT. Allah SWT says: O you who have believed, shall I guide you to a transaction that will save you from a painful punishment? [It is that] you believe in Allah and His Messenger and strive in the cause of Allah with your wealth and your lives. That is best for you, if you should know (Al-Sāff. 61: 10-11) (Abdullah Yusuf Ali, n.d.)

Through this decree, an entrepreneur must believe in Allah and strive in the search of wealth to improve himself and do all of Allah and the Prophet's teachings (Shuhairimi Abdullah, 2013; Yazilmiwati Yaacob & Ilhaamie Abdul Ghani Azmi, 2012). The successful entrepreneur is when he has 'taqwa' to Allah SWT and greatness of 'iman' through gaining lots of profit from the entrepreneurial activities (Mohammad Sahar Bin Mat Din, 2007).

Islam generally has a positive attitude to entrepreneurship and the rights of ownership (Zapalska, Brozik, & Shuklian, 2005). Wilson (2006) also acknowledged the uniqueness of the Islamic code of business ethics and the positive contributions that "trust" can render to the economic activity in the form of cost effectiveness and organization competence (Wilson, 2006). Religion shapes the society by giving meaning to a society's ethical structures, encouraging or discouraging certain behaviours (Dodd & Seaman, 1998).

In Muslim countries, which are usually defined as high-context cultures, people tend to be fatalist meaning that they do not believe that they have much control over events that affect them (Raven & Welsh, 2004). They strongly believe in destiny and events being controlled by fate. In Muslim culture, fatalism is characterised by the phrase "Insha Allah", which means "If God wills it" (Rice, 1999). This means that a Muslim will do their best but the external outcome may not be under their control. For example, there is a widespread belief that strongly religious countries are not receptive to innovation and proactive (Herbig & Dunphy, 1998; Slowikowski & Jarratt, 1997; Tansuhaj, Randall, & McCullough, 1991). This is explained by the high fatalism shaped by the religion of these cultures. In Muslim countries, fatalism is generally associated with less willingness to try new technical and

non-technical products and with higher levels of perceived product risk (Slowikowski & Jarratt, 1997; Tansuhaj, Randall, & McCullough, 1991). Confirming this, Farid (2007) advocates that Islam encourages a conservative culture that leads to risk-averse attitude among Muslim entrepreneur.

# B. Halal as a top priority

Added to the *taqwa* is the concept of "*Halal*" (which can be translated as accepted by the religion) might discourage Muslim entrepreneurs to sell alcohol and pork which are considered to be "*Haram*" (which can be translated as not accepted by the religion) (Basu & Altinay, 2002). Allah SWT says:

Eat of the things which Allah hath provided for you, lawful and good; but fear Allah, In whom ye believe. (Al-Māidah. 5: 88) (Abdullah Yusuf 'Ali, 1987)

The suggestion that religion has a key role to play in shaping the mode and the level of entrepreneurial activity in a given society is gaining widespread acknowledgment and recognition. The link between religion and economic activity in the wider context was explored and demonstrated by the various studies (Dodd & Seaman, 1998; Guiso, Sapienza, & Zingales, 2002; Hirschman, 1983; Sood & Nasu, 1995; Wienen, 1997).

Among the basic rights that all individuals are entitled to, and should enjoy, is access to income. Chapra (1985) explained that socio-economic justice, based on the theory of "social equilibrium", implies that people are entitled to have equal opportunity and does not entail that they should be equal in poverty or in richness. Earning lawful (*Halal*) living is tenable through engagement in productive activities, namely: employment (working for others) and being self-employed and employing others (undertaking entrepreneurial activity). Allah SWT says:

O ye people! eat of what is on earth, lawful and good; and do not follow the footsteps of the evil one, for He is to you an avowed enemy. (Al-Baqarah. 2: 168) (Abdullah Yusuf 'Ali, 1987)

Although Islam endorses working for others for fixed salary, it encourages and stimulates Muslims to embark on entrepreneurship as the preferred option to earning *Halal* income. Beg, (1979) noted that Islam does not only motivate Muslims to be entrepreneurs, but in fact, it makes it obligatory on them to work hard and gain *Halal* earnings beyond their immediate needs in order to care for the community and the Muslim *ummah* at large.

Earning *Halal* income through entrepreneurship and helping others to earn a living spares the public wealth from being exploited by a few and discourages them from being dependent on the state. Public wealth belongs to the Muslim *ummah*, so it should be utilized in projects that serve the common need and the common interest of society.

#### C. Do not waste

Islam encourages people to enjoy blessings of life without waste, Allah SWT says:

Oh children of Adam! eat and drink but waste not in excess, for Allah does not love the wasters (al-A'rāf 7: 31) (Abdullah Yusuf Ali, n.d.)

Prophet Muhammad SAW asked his followers not to over use water even while having the ablution for prayer next to a flowing river. He encouraged his people to remove harmful objects from the path of people and considered that the lowest manifestation of belief. Prophet Muhammad SAW encourage people to plant trees to benefit future generations (Ozalp, 2007). The Prophet SAW said:

There is no Muslim who plants a plant or a tree, except that whatever is eaten from it is a

charity for him. Whatever is stolen from that is a charity for him. Whatever is eaten from it by an animal is a charity for him. Whatever a bird eats is a charity for him, no one suffers a loss except that it will be a charity for him till the Day of Judgement. (Muslim. Book 10: #3764) (Muslim ibn al-Hajjaj, n.d.)

# D. Worship to Allah SWT is a priority

Sadeq (1977) pointed out that entrepreneurship in Islam is highly regarded, and forcefully argued that Islam provides not only the incentives but also the conducive framework for economic and entrepreneurship development (Sadeq, 1977). His argument is based on the interpretation of the *Qur'anic* verse and on the many traditions of the Prophet Muhammad SAW. Allah SWT says:

And when prayer is over, disperse in the world and search for the bounty of Allah (Al-Jumu'ah 62: 10) (Abdullah Yusuf Ali, n.d.)

It is He Who made the earth manageable for you, so traverse ye through its tracts and enjoy of the sustenance which He furnishes: but unto Him is the resurrection (Al-Hijr 15: 67) (Abdullah Yusuf Ali, n.d.)

# E.Practicing high moral value

The Holy *al-Qur'an* and the traditions of the Prophet Muhammad SAW explicitly praise entrepreneurship and commend moral entrepreneurial activity such as the elimination of *riba*. Allah SWT says:

But Allah hath permitted trade (bay') and forbidden usury (riba) (Al-Baqarah 2: 275) (Abdullah Yusuf Ali, n.d.).

# *F. Trustworthy*

The economic transaction of buying and selling for profit (bay') implies the existence of the entrepreneur. Abu Sa'ēd reported that the Prophet said:

The truthful trustworthy merchant is with the Prophet (SAW) the True ones and the martyrs (on the Day of Resurrection) (Al-Tirmidhi. Book 14: #1213) (Muhammad ibn 'Isa Al-Tirmidhi, n.d.)

Furthermore, the Prophet Muhammad SAW and many of his close companions were trustworthy and successful entrepreneurs. He explicitly emphasized the importance of entrepreneurship and encouraged Muslims to actively participate in business and entrepreneurial activity.

Narrated by Hudhaifa that the Prophet said:

Once a man died and was asked: "What did you use to say (or do) (in your life time)?" He replied, "I was a business-man and used to give time to the rich to repay his debt and (used to) deduct part of the debt of the poor." So he was forgiven (his sins). Abu Mas'ud said: "I heard the same (Hadis) from the Prophet". (Bukhari. Sahih Bukhari. Volume 3, Book 41: #576) (Bukhari, n.d.)

# *G.* Concern for the welfare

The Islamic social welfare system or Zakat, in which everyone is obligated to give a percentage of their excess goods to community is just one example of such mercy between community members. Many texts in al-Qur'an and al-Hadis encourage Muslims to offer charity in different forms. Allah SWT says:

O you who have believed, bow and prostrate and worship your Lord and do good that you may succeed (Al-Hajj 22: 77) (Abdullah Yusuf Ali, n.d.).

To encourage the faithful to love to spend from their money, land, and other possessions they treasure,

#### Allah SWT says:

Never will you attain the good [reward] until you spend from that which you love. And whatever you spend indeed, Allah is Knowing of it (Ali 'Imrān 3: 92) (Abdullah Yusuf Ali, n.d.).

The ones who establish prayer, and from what we have provided them, they spend (Al-Anfāl 8: 3)(Abdullah Yusuf Ali, n.d.).

Prophet Muhammad was exemplary as an initiative social entrepreneur. The revelation given to Prophet Muhammad was about the establishment of radical forms of social justice in which tolerance, equity, and charity were at the heart of the Islamic ideology (Lovat, 2005). Therefore, they were necessary characteristic for Islamic community to spring in its name. Prophet Muhammad SAW translated these characteristics into action, and his influence will continue for all time.

Prophet Muhammad SAW demonstrated ethnic and religious tolerance, and established social welfare based on an Islamic social entrepreneur system. The Prophet SAW believed that the ancient Jewish prophet and Jesus proclaimed that Allah SWT demands justice and mercy. Prophet Muhammad SAW encouraged people making donations on specific occasions. For example, he encouraged on-going charity with the following advice:

When the son of Adam dies, his actions are cut off except for three – an ongoing charity (sadaqa jāriah) and knowledge which brought benefit and a virtuous son who makes supplication for him. (al-Nawawi. Chapter 12, Book of Knowledge: #1383) (Yahya Ibn Sharaf Al-Nawawi, n.d.)

During the era of caliph Umar Ibn Abdul Aziz, poverty was eliminated from the Islamic community and prosperity has reached all individuals Muslims or non-Muslims. In addition, *al-Waqf* (or suspension), is a type of charity involving property, which constituted a cornerstone in the Islamic economical welfare system, and was a crucial element in building the Islamic civilization. By participating in *al-Waqf*, faithful Muslims donate property, including money, buildings, land, wells, trees, and other possessions, strictly for the sake of Allah, as a form of worship, thanking Allah for His bounty and in anticipation of a reward in the hereafter.

*Al-Waqf* donations provide long-term benefit for many. Orphans, the poor, sick, and students are allowed to use this charity. While meeting the economic needs of society, *al-Waqf* eliminates selfishness and promotes a sense of responsibility towards current and future generations (Habibollah Salarzehi, Hamed Armesh, & Davoud, 2010).

# H. Knowledgeable

The first *Qura'nic* verses reveal to the prophet Muhammad SAW manifest the important of knowledge in Islam. Allah says:

Proclaim! (or read!) In the name of Thy Lord and Cherisher, who created-; Created man, out of a (mere) clot of congealed Blood; Proclaim! and Thy Lord is Most Bountiful; He who taught (the use of) the pen; Taught man that which He knew not. (Al-'Alaq. 96: 1-5) (Abdullah Yusuf Ali, n.d.)

Prophet Muhammad SAW was also committed to education to ensure the importance of knowledge and emphasise the risk of neglecting it. He SAW particularly encouraged his followers to obtain knowledge of religion and law. He SAW taught his followers that his educated companions taught the ignorant, and many of his followers during his time and after who followed this attitude of sharing knowledge are successful entrepreneurs, who played a significant entrepreneurial role in other communities beyond Arabia.

# I. Caring for the society and environment

In Islam, environment and animals are sacred and valuable. Allah SWT says:

But seek, with the (wealth) which Allah has bestowed on thee, the home of the Hereafter, nor forget Thy portion In This world: but do Thou good, As Allah has been good to thee, and seek not (occasions for) mischief In the land: for Allah loves not those who do mischief. (Al-Qashash. 28: 77) (Abdullah Yusuf Ali, n.d.)

In addition, Prophet Muhammad cared for the health of the society, and encouraged women to participate in this sector, enhancing the role of women society. He also encouraged his followers to care for their aged parents and the elderly people in society. He played with children, talking and listening to them, which gave them self-confidence and influenced their future.

Prophet Muhammad educated his followers to be kind to all living souls and to protect the environment. Narrated by Sahl ibn al-Hanzaliyyah, The Prophet SAW came upon an emaciated camel and said:

Fear Allah regarding these dumb animals. Ride them when they are in good condition and feed them when they are in good condition. (Abu Dawud. Book 14: #2542) (Abu Daud Sulaiman bin Al-Asy'ats Al-Sijistani, n.d.).

Narrated by Abu Huraira: The Prophet SAW said: While a man was walking on a road, he became very thirsty. Then he came across a well, got down into it, drank (of its water) and then came out. Meanwhile he saw a dog panting and licking mud because of excessive thirst. The man said to himself "This dog is suffering from the same state of thirst as I did." So he went down the well (again) and filled his shoe (with water) and held it in his mouth and watered the dog. Allah thanked him for that deed and forgave him. The people asked,

"O Allah's Apostle! Is there a reward for us in serving the animals?" He said, (Yes) There is a reward for serving any animate (living being). (Bukhari. Volume 8, Book 73: #38) (Bukhari, n.d.).

# 5. CONCLUSION

The concept of *fard kifayah* (collective obligations) in Islam is based on the ability of society to meet its minimum and basic needs from a specified activity or meet national challenges and obligations. An appropriate share of the Muslim population should undertake entrepreneurial activities by their own choice and according to their own initiative to ensure the continuity of the nation's economic viability. Failure to achieve such a level of performance means that the Islamic Government has to step in and assume it's legal and moral obligation to compensate for any shortfall of the private sector.

Having Islamic characteristic could cause someone to be closely related to Allah SWT and the people. This relationship is based on the concept of 'taqwa' which needs the entrepreneurs totally recumbence to Allah SWT and also have a good relationship with other people. Generally, it can be concluded that the characteristics of entrepreneurs studied in this research is a dynamic foundation for individual relationships between the entrepreneurs with both Allah and other people.

In conclusion, the relationships between the Muslimpreneurs and the concept of *taqwa* will give them the ability and capability in developing their characteristic based on the Islamic needs which is derived from al-Qur'an and al-Sunah. The Muslimpreneurs characteristic is an important asset to obtain high achievement in the field of entrepreneurship.

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# THE EFFECTS OF SPIRITUALITY ON SOCIAL ENTREPRENEURSHIP FROM ISLAMIC PERSPECTIVE

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#### **ABSTRACT**

Spirituality in social entrepreneurship has formed a considerable awareness among the Muslim scholars in recent times. Although much scholarly work exists regarding spirituality, however, most were carried out from the western perspective. A previous Social entrepreneurship literature has been based on behavior, intentions, and contextual variables and ignores or subordinates spiritual concepts. As social entrepreneurship includes innovative programs to improve livelihood to those who have no financial power, thus, it is the duty of the Muslim entrepreneurs to take initiative and innovate social security to satisfy the needs of the society. Realizing the current situation regarding spirituality in Islam and its effects on entrepreneurial outcomes, this exploratory study aims to explore how spirituality effects on social entrepreneurship from Islamic perspective which continues to create meaning for the Muslim entrepreneurs. Based on the feedback of 20 women social entrepreneurs in Klang Valley, there are six reasons for them to venture into social entrepreneurship. These reasons are paired with the key Islamic spirituality for social entrepreneurship that is in line with the objective (magasid) of the religion on the social responsibility. The results from the qualitative research method are not generalizable, but they could give some insights to Muslim scholars, policy makers and lawmakers to focus more the social entrepreneurship. The future study should use triangulation method and to involve all stakeholders to produce more rigorous and comprehensive results and contribution to the theory and practice.

**Keywords:** Spirituality, Social entrepreneurship, Muslim entrepreneurs

# 1. INTRODUCTION

Spirituality in social entrepreneurship has formed a considerable awareness among the Muslim scholars in recent times. Although much scholarly work exists regarding spirituality (Daya, 2005), however, most were carried out from the western perspective (Kedah & Isa, 2011). Until 1970, there was very little interest in and research on the ways spiritual affects the organizations (Becker, 2011). However, a few studies did emerge in the medical, social and behavioral sciences (Allport, 1950; McFadden, 1995, 1996; Wulff, 1997). More recently, there has been an expansion of interest in this topic. Koenig, colleagues and Larson (2001) looked at both positive and negative effects of research on spirituality on health, while Saksa (2011) studied the importance of the spirit at work and explored how employee engagement is related. Now there is inventive research in these areas across international and multidisciplinary contexts (Clift, 2011; Coleman, Ivani-Chalian & Robinson, 2004; Ellor, 2009; Hank & Schaan, 2008).

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However, the number of research conducted on spirituality from Islam perspective is very limited. Nevertheless, its impact to the overall development of modern organizations is enormous. Moreover, government and commercial institutions' failure to solve the social issues has created the need for social entrepreneurship and creativity (Salarzehi, Armesh & Nikbin, 2010). Social entrepreneurship includes innovative programs to improve livelihood to those who have no financial power. Thus, it is the duty of the Muslim entrepreneurs to take initiative and innovate social security to satisfy the needs of the society. Realizing the current situation regarding spirituality in Islam and its effects on entrepreneurial outcomes, this exploratory study aims to explore how spirituality effects on social entrepreneurship from Islamic perspective which continues to create meaning for the Muslim entrepreneurs.

## 2. LITERATURE REVIEW

## 2.1 SPIRITUALITY

Spirituality can refer to an ultimate or an alleged immaterial reality; an inner path enabling a person to discover the essence of his/her being (Ewert, 19.9.2), or the "deepest values and meanings by which people live" (Sheldrake, 2007, pp. 1). According to Becker (2011), spirituality is often viewed as more subjective and personal. Spirituality refers to a "search for significance" in ways one regards to be sacred (Pargament, 1997). One's spiritual life develops through relationships with self, others, a inspirational power, and all living beings (Becker, 2011). Spirituality reflects one's deepest sense of worth, meaning, connections with ultimate reality, or the ground of all being (Puchalski et al., 2009; Tillich, 1976). Spiritual expression may include experiences of a transpersonal nature and behaviors such as prayer or meditation in which one finds support and meaning (James, 1985).

From a holistic perspective, spirituality can be viewed as essential or core nature; one domain among the psychological, biological, emotional, and social aspects of a person; and the overarching content of self-surrounding one's being (Canda & Furman, 2010; Carroll, 2001). In religions point of view, spirituality is an integral aspect of religious experience. The term "spiritual" is now frequently used in contexts in which the term "religious" was formerly employed (Hogan, 2010). According to James (1985), spirituality highlights humanistic ideas on qualities such as love, compassion, patience, tolerance, forgiveness, contentment, responsibility, harmony, and a concern for others.

Meditation, prayer and contemplation are the common spiritual practices that are intended to develop an individual's inner life. Spiritual practices such as mindfulness and meditation can be experienced as beneficial or even necessary for human fulfillment without any supernatural interpretation or explanation (Afton, Kapuscinski & Masters, 2010). Spirituality in this context may be a matter of nurturing thoughts, emotions, words and actions that are in harmony with a belief that everything in the universe is mutually dependent (Gorsuch & Miller, 1999). This stance has much in common with some versions of Buddhist spirituality (Lama, 1999). According to Fuller (2011), a modern definition of "spirituality" is as follows:

Spirituality exists wherever we struggle with the issues of how our lives fit into the greater scheme of things. This is true when our questions never give way to specific answers or give rise to specific practices such as prayer or meditation. We encounter spiritual issues every time we wonder where the universe comes from, why we are here, or what happens when we die. We also become spiritual when we become moved by values such as beauty, love, or creativity that seem to reveal a meaning or power beyond our visible world. An idea or practice is "spiritual" when it reveals our personal desire to establish a felt-relationship with the deepest meanings or powers governing life.

According to Margaret, Burkhardt and Nagai-Jacobson (2004), spiritual experience includes useful business or social connections with a larger reality with other individuals or the society. Spirituality is often experienced as a source of inspiration or orientation in life (Waaijman, 2002). It can encompass belief in immaterial realities or experiences of the immanent or transcendent nature of the world (Schmidt, 2005).

# 2.2 SPIRITUALITY FROM ISLAMIC PERSPECTIVE

Scholars in Islamic history did not write at length about spirituality as it was never a discussion. Some discussion did take place when Islam came into contact with Hindu philosophy due to elements of the new thinking (e.g. Hindu asceticism being espoused by some) (Khan, 2009). The issue of spirituality in Islam can only refer to two matters; either the reality of the created or it can be the *ruh*, translated often as soul (Khan, 2009). The *ruh* definitely exists and is proven in the definite *Qur'anic* texts, and hence Muslims are obliged to believe in it.

The concept of spirituality is very much related to Islam since all aspects of Muslims' lives have to deal with it given that the main purpose of man's creation is only to worship Allah (Rulindo, Hidayat & Mardhatillah, 2011). Islam recognizes that, human being consists of two parts. The first part is the body which is the physical dimension. The second part is the spirit, which is called "nafs" (in Arabic language) while the human is living and "ruh" (soul) when the human dies (Kamil et al. 2011). According to Nasr (1987), spirituality in Islam deals primarily with the inner dimension of a person's life and embrace the outward elements of Islam as means to achieve spiritual life. The root of Spirituality can be traced to faith (Iman) and is demonstrated by the Islamic rituals of prayer, fasting, pilgrimage to Mecca (haj) and charity (zakah) Nasr (1987). In line with this contention, Hawa (2004) posits that spirituality could not be maintained unless all rituals (Ibadah) of fasting, pilgrimage to Mecca (haj) and charity (zakah) are observed regularly. Al-Helali (2000) mentioned that spending in Allah's ways gets a person closer to Allah.

"The essence of Islamic spirituality... is the realization of Unity as expressed in the *Qur'an*, on the basis of the prophetic model and with the aid of the Prophet. Since the principle of Unity governs all facets of Islamic life, the quest for spirituality in Islam is therefore not restricted to some narrowly conceived domain, apart from the general life of the community; what distinguishes the spirituality of Islam from the religion taken as a whole, then, is "the dimension of depth or inwardness", so that the forms of the religion are interiorized, rather than opposed; and the journey from the form to the essence which it expresses can be conceived as the movement from the outward to the inward, the periphery to the centre, which is the locus of realized Unity" (Nasr, 1991, pp. 13).

Worship in Islam covers emotional, spiritual and physical aspects. Al-Gazzali (2004) stressed that, *Ibadah* such as prayers (*salat*), fasting (*saum*), charity (*zakah*), and pilgrimage to Mecca (*haj*) are expected to improve a person's relationship with Allah and people. Anything short of that become just empty rituals with no value since they lacked spiritual tinge. Additionally, all the rituals Allah instructed the believers to carry out such as fasting and prayer are only for their benefits so they could reach to the highest state of spiritual and physical fitness (Ibrahim, 1997). Similarly, the role of spiritual factors in shaping human behaviour is well recognised in Islam. Hawa (2004) explained that, Islamic spirituality is capable of producing a complete Muslim who would worship Allah and also be a valuable member to his society through kindness. Ali (2005, p. 34) also captured that "Spiritual and mental needs strengthen the quest for perfection and actualization of one's potential in serving the community and organization, while pursuing his/her activities". Spiritual people enjoy minds that are motivated towards good deeds and "complete satisfaction and self-actualization" (Ali, 2005, p. 28).

According to Khan (2009), in Islam, spirituality is defined as the linking of actions to the purpose of life. So for instance, a Muslim's purpose of life is to worship Allah, hence spirituality in this sense is linking the actions of an individual to the purpose of their life. Actions on their own, without using this framework are just that actions. They are material constructs of time, space and objects. A Muslim always complies with the actions in line with the teachings of Islam in order to seek the pleasure of Allah. Thus, all actions undertaken for the pleasure of Allah are spiritual because they link the material action with the purpose of life.

Nasr (1987) states that spirituality in Islam is the realisation of *tawhid* and based on consciousness of Allah. He added further that, the basic of spiritual aspect of one's life is to live by the will of Allah and follow His command. Therefore, to be guaranteed a life of spirituality, one should live in the world of *Qur'an* and according to its injunctions. Hawa (2006) similarly maintains that *tawhid* is the catalyst required by the spirit for its purification and that emphasis should be placed on important role of *ibadat* (such as *salat*, fasting, *zakah* and *zikr*) in order to bring spirituality into people's lives.

Inevitably we must realize our relationship with Allah سبحانه وتعالى when undertaking any action, whether it is spiritual or material, thus making sure that our actions is in accordance to the commands and prohibitions of Allah سبحانه وتعالى and ultimately attaining his pleasure.

To relate spirituality to workplace, Toor (2011, as cited in Mawdudi, 1948,) maintains that, Islam encourages the man to integrate his work and everyday objectives with religion and spirituality and grow every day on earth while establishing God's will. In a similar vein, Bouma, Haidar, Nyland, and Smith (2003) hypothesize that one's spiritual endeavours in Islam must take place in the context of *ummah* relations (of which work is an essential part). They noted further that a worker becomes alienated from both the output of production and the society if work is considered as purely a secular activity only. Thus Islam rejects perceiving work as merely a secular activity or a means to attain material pleasures (Bani-Sadr, 1980).

## 2.3 SOCIAL ENTREPRENEURSHIP

According to Mair and Martí (2006), social entrepreneurship, as a practice and a field for scholarly investigation, provides a unique opportunity to challenge, question, and rethink concepts and assumptions from different fields of management and business research. According to Salarzehi et al., (2010), entrepreneurship pointed out to those, who have been looking for better ways to do works done, and with experiencing economic development as a result. By using limited resources and facilities, entrepreneurs offer more productivity and efficiency to add more values. Commercial entrepreneurs are innovators who are pursuing economic goals (Dees et al., 2001). They always are in search for change, smart reaction to the changes and use the maximum benefit form changes. Entrepreneurs have individual-specific resources that facilitate the recognition of new opportunities and the assembling of resources for the venture (Alvarez & Busenitz, 2001). Where commercial entrepreneurship is more on business by taking the risk is their concern to achieve the profitability goals, instead, social entrepreneurship is as a complementary to business entrepreneurship, have a special position in social development (Salarzehi et al., 2010). The nature of Social entrepreneurship is the cooperative activities such as charity, goodwill, and sense of responsibility for the problems of the vulnerable and deprived classes of the society (Gliedt & Parker, 2007). The necessity for social entrepreneurship in modern society is impasse of capitalist system which has emphasis on personal profitability and ignoring the rights and needs of susceptible classes, caused the added severity of poverty and deprivation and increase the gap between classes in the society (Salarzehi et al., 2010).

Social entrepreneurship is seen as differing from other forms of entrepreneurship in the relatively higher priority given to promoting social value and development versus capturing economic value (Mair &

Martí, 2006). In the past, social enterprises have been modeled on tenets of 'not-for-profit' charitable organizations that have attracted human and social capital with pro-social, community-spirited motives, and have engendered survival strategies premised on grant dependency (Chell, 2007). The essence of social entrepreneurship is an innovative voluntarily and the kind of friendship with a combination of good will (Weerawardena, 2006). These kinds of entrepreneurs give services to human being aim to get an inner satisfaction. Social entrepreneurship is a process in which individuals and groups and social sectors working voluntary in order to produce value by using remained social assets and opportunities (Salarzehi et al., 2010). In societies, people gather together and get along to have cooperation and bilateral cooperation in order to solve social issues. Social capital on the base of trust has been created to that extant in which they can create long lasting capacity for dealing with issues (Miri, 2006).

Social entrepreneurship is the innovation for the problems and social issues (Salarzehi et al., 2010). Social entrepreneurship as a process that catalyzes social change and addresses important social needs in a way that is not dominated by direct financial benefits for the entrepreneurs (Mair & Martí, 2006). Social entrepreneurs normally use the innovative measures to create a mechanism of social security and mobilize resources to deal with social issues. Social entrepreneurship seeks to identify the social and society needs thus, they have encountered ups and downs (Alvord & Brown, 2004).

At the organizational level, companies can employ strategies that simultaneously fulfill both economic and also social and environmental responsibilities so that the different dimensions of corporate activities reinforce rather than weaken each other (Enderle & Tavis, 1998). Enderle (2010) have pointed out some examples such as: activities such as feeding hungry workers in poor areas will improve their productivity; empowerment of workers on the shop floor will have a similar wealth enhancing effect; extending a plantation's water system into the local squatter community or investing in a hospital will improve worker health and motivation with a resulting productivity and positive cash-flow impact. As mentioned by Friedman (2005), economic growth not only generates the means for social and environmental progress, but also social and environmental advances can enhance the economic performance of companies.

## 2.4 SOCIAL ENTREPRENEURSHIP FROM ISLAMIC PERSPECTIVE

Islam is not a new religion. It is in essence, the same message and guidance provided by Allah SWT revealed to all His Prophets. The *Qur'an* is a living proof of the existence of Allah, the All Powerful. It is also a testimony of the validity of the Islamic way of life for all times. Arabic the language of the *Qur'an*, unlike the languages of other revealed books, is a living, dynamic and a very rich language. Millions of people all over the world speak and use Arabic in their daily life. This is further testimony to the unchanging character of the *Qur'an*.

"... Those who truly fear God, among his Servants, are those who have knowledge...", (35:28).

The message which was revealed to the Prophet Muhammad is Islam in its comprehensive, complete and final form.

"Let there be no compulsion in Religion: truth stands out clear from error: whoever rejects evil and believes in Allah (one God) has grasped the most trustworthy hand hold that never breaks. And Allah hears, and knows all things", (2:256).

Past evidence confirms that good actions are rooted from people's beliefs and social culture and social believes of every nation are the essence of personality and communities in trends of friendship and voluntary behavior (Salarzehi et al., 2010). Berger (2006) have studied the religion's effects on charity activities in Canada, and found that, religious belief is influential for expansion of charity and voluntary. Bekker et al., (2007) instituted that, the religious values and morale behavior is extremely important.

Wang and Grady (2008) also confirmed that, religious belief is one of factors that determine the voluntary action and increase in charitable and humanitarian assistance.

Salamon and Anheier (1997) have compared different religions in regard to charity activities and found out that, Islam contributes more the charity activities. Values and common religious symbols in Islamic culture such as alms, pay attention to poor and the deprived, offerings, devotion, *Ehsan* and being kind with slaves, friendship, cooperation and participation and dedicated to property goals for charity have been shown that capabilities of the vast social entrepreneurship in Islam (Salarzehi et al., 2010).

In Islam, Our 'an emphasizes to help the weak and poor people who are considered charity and devoting.

"You cannot attain to righteousness unless you spend (in charity) out of those things which you love." (3:91).

"People always have been invited to charity and *Ehsan* in the *Qur'an* and we cannot find a chapter in Quran that does not say about budding life or property in the way of God" (Bandarchi, 1998). Verses of Quran and many of traditions, has inspired the paradise to Muslims for humanitarian measures and observance. In addition, Allah has created human kind and asked them to be useful to each other.

"Do good to others, surely Allah loves those who do good to others." (2:195).

The Holy *Qur'an* and the *Hadith* mention various categories of people that one has to deal with, and give a great deal of guidance on how to behave towards them.

"Those needy ones who are wholly wrapped up in the cause of Allah, and who are hindered from moving about the earth in search of their livelihood especially deserve help. He who is unaware of their circumstances supposes them to be wealthy because of their dignified bearing, but you will know them by their countenance, although they do not go about begging of people with importunity. And whatever wealth you will spend on helping them, Allah will know of it." (2:273).

The Prophet also said: "Give charity without delay, for it stands in the way of calamity." (Al-Tirmidhi, Hadith 589).

The Prophet Muhammad (peace be upon him) said: "Every Muslim has to give in charity. The people then asked: (But what) if someone has nothing to give, what should he do? The Prophet replied: He should work with his hands and benefit himself and also give in charity (from what he earns). The people further asked: If he cannot find even that? He replied: He should help the needy who appeal for help. Then the people asked: If he cannot do (even) that? The Prophet said finally: Then he should perform good deeds and keep away from evil deeds, and that will be regarded as charitable deeds." (Sahih Al-Bukhari, Volume 2, Hadith 524).

Pure Islam is guideline for, peace, prosperity, good will and social welfare. The principle of social justice in Islam in accordance with Allah ordered in *Qur'an* also approved this point that the poor people and needy have same share from wealth and property rights; because within the framework of Islamic law, all things belong to the essence of Allah (Salarzehi et al., 2010). Furthermore, whatever from his wealth and property that gives some should, forgive and help others. In the Islamic texts it has been emphasized that Allah has hosted reformer slaves and charity that is not only prayer, but are pioneers in the good works (Sami, 2006).

"Spend (in charity) out of the sustenance that We have bestowed on you before that time when death will come to someone, and he shall say: O my Lord! If only you would grant me reprieve for a little while, then I would give in charity, and be among the righteous." (63:10).

#### 2.5 SPIRITUALITY AND SOCIAL ENTREPRENEURSHIP

The study of spirituality as it relates to entrepreneurs and their work organizations has, in large part, been unsuccessful in providing a cohesive explanation of the impact spiritual elements have on an entrepreneur's decision to initiate and maintain a business venture (Kauanui et al., 2008). A significant portion of scholarly work conducted with spirituality and work only pertains to large corporate entities (Ashmos & Duchon, 2000; Burack, 1999; Mitroff & Denton, 1999; Wagner-Marsh & Conley, 1999). The dominance of entrepreneurial research usually ignores spirituality altogether or simply utilizes it as a subordinate factor (Brockhaus, 1980; Cromie & Hayes, 1991; Krueger, 2000).

Ashmos and Dunchon (2000, pp. 136) defined workplace spirituality as the "recognition of an inner life that nourishes and is nourished by meaningful work that takes place in the context of community." The authors have suggested that, individuals are spiritual beings, needing to be fed spiritually at work. Finally, they concluded that, spirituality at work is about bringing together an individual's mind, body and spirit into the workplace environment in which individuals experience more than their required tasks (Ashmos & Dunchon, 2000). These findings are consistent with Mitroff & Denton (1999, pp. 7) in which respondents described spirituality and work as the "basic desire to find ultimate meaning and purpose in one's life and to live an integrated life," which provides a broader definition for spirituality and work.

## 2.6 EFFECTS OF ISLAMIC SPIRITUALITY TO SOCIAL ENTREPRENEURSHIP

There have been extensive arguments on the characteristics of "spirituality in the workplace" as basic themes in Islam because of the recognition of the fact that spirituality and religion in Islam are not distinct entities but rather branches of the same tree (Toor, 2011). For instance, Kriger & Seng (2005) noted that, attributes such as the building of community (Fry, 2003) and concern for social justice within the organisation (Kriger & Hanson, 1999) and its vision, and equality of voice, humility, forgiveness, compassion love, faith, and kindness are all basic Islamic themes found in the Holy *Qur'an* and other popular Islamic literature (Kedah & Isa, 2011).

Kamil *et al.* (2011) conducted an empirical study on the components of spirituality in the business organisation context in Malaysia which found that, Islamic spirituality in the organizational context is explained by four elements (dimensions), namely, Rituals (*Ibadat*), Forgivingness (*Al a'fw*), Belief in Allah (*Iman bil-lah*) and Remembrance of Allah (*Dhikrullah*). Similarly, another study carried out by Mohsen (2007), revealed that spirituality is a construct with three dimensions; Belief, Rituals and Repentance.

Khaliq (2011) considered spirituality synonymous with purification of the heart, which is required to set right all the parts of the human body. He stressed that, for the heart to be purified (spiritual), it must be strong in Islamic belief (*Iman*). Thus to be spiritual, one has to have the firm belief in Allah's greatness and develop divine qualities like "*Taqwa*", (piety) "*Tawakkul*" (trust in Allah) "*Qana'ah*" (contentment) "*Sabir*" (patience) "*Ikhlas*" (purity of intention) "*Risalah*" (prophethood) and "*Akhira*" (the life Hereafter).

According to Abeng (2003), work and participation in all sort of productive activities are considered very important in Islam. In addition, the possession of required skills and technology (referred to as *fadhl* or grace of God) as well as striving to earn a living is highly encouraged and praised in Islam (Abeng, 2003).

Jabnoun (2008) asserts that quality and excellence performance in any job is emphasise by the teaching of Islam. This is buttressed by the following Hadiths:

"Allah, the Almighty wants that when one of you does a job, he or she does it well" (Al-Bayhaqi 4:5312).

However in the process of focusing on Islamic beliefs and value system, entrepreneurs should not be unable to find sight from the rational and scientific approaches of managing the organizational matters (Khaliq, 2011). He further adds that. Islam discouraged irrationality and superstition.

# 2.7 SPIRITUALITY DIMENSIONS FROM ISLAMIC PERSPECTIVE TO SOCIAL ENTREPRENEURSHIP

Some of the spirituality dimensions from Islamic perspective that influence social entrepreneurial performance are discussed below;

# 2.7.1 Islamic Beliefs

One of the sources of motivation in Islam is the belief in Allah. According to Ahmad (2011), a worker with Islamic beliefs draws his/her satisfaction in an organisation not only by need fulfillment as defined by Abraham Maslow's hierarchy of human needs but more fundamentally, from the belief that he/she is a holder of *amanah* (trustee of Allah) on earth. The author further added that, the wonders exhibited by the Muslims recorded in Islamic history can attributed to their high level of Islamic beliefs which is a source of power in human beings that is drawn from Allah the most powerful.

According to Khaliq (2011, p. 261), "the Muslim workers motivation for work and excellent service is derived not only from notion of self-fulfillment upward mobility, uplift of material standards of living or service to the nation but also more fundamentally, from the belief that, a holder *amanah* on earth. He must search industrially for the bounty Allah has provided for his sustenance, either in the form of natural resources to be explored or new processes to utilize available resources. His work is a form of virtuous deed (*amal salih*) which is the key to the attainment of (*falah*) true success in this world and well-being in the hereafter. His work is also a form of (*ibadah*) servitude to God in the broader sense of the word, insofar as it is in conformity with the Devine norms and values; and The reward of his deeds is not confined to this world, but extends to the Hereafter, and similarly punishment for bad deeds is not restricted to worldly life but also takes place after death."

It can thus be inferred a Muslim entrepreneur with strong Islamic beliefs (as a dimension of spirituality) derives satisfaction from doing the business as a holder of *amanah* and hence become motivated.

## 2.7.2 Purity of Intention

Another motivating force from the Islamic point of view that is related to spirituality is purity of intentions (*Ikhlas*). It has the distinct property of moving and changing the direction of mankind (Kedah & Isa, 2011). From the Islamic point of view, human activities (including entrepreneurship) are governed by inner intentions, drives and motives (Ahmed, 2011). The person with purity of intention is motivated to undertake entrepreneurship with the ultimate aim of seeking the pleasure of Allah rather than other ulterior motives such as seeking for wealth, fame, and name (Ahmad, 2011). He further adds that, the person without *ikhlas* may be egotistical and self centered. To show the significant relation to Islam,

"The acts depend on intentions. A man will get whatever he had intended for" (Al-Bukhari and Muslim 1:1).

Amin (2011) argued that, a spiritually guided person will perform all types of activities (be it productive or organizational work) with the basic intention of seeking the pleasure of Allah. Thus the entrepreneur's performance is not consequent upon the reward system (or the profit) but striving to gain Allah's pleasure and avoid His wrath (Ahmad, 2011).

Similarly, believing that work is part of worship will serve as a motivation for increased dedication and involvement (Kedah & Isa, 2011). Thus an entrepreneur with high level of spirituality will not only be bounded by intense feeling of responsibility and accountability before the Almighty, he will also perform his entrepreneurial tasks effectively irrespective of the difficulty of the task at hand, working condition or adequacy of returns (Ahmad, 1988). What guides the entrepreneur in this respect is his basic intention of seeking the pleasure of Allah.

## 2.7.3 *Taqwa* (*Piety*)

Taqwa is the all-encompassing, inner consciousness of one's duty toward Allah and the awareness of one's accountability towards Him as the spirit of taqwa lies in the attitude and mind rather than in an outward form (Maudoodi, 1991). Thus, a person's thoughts, emotions, and inclinations will reflect Islam when immerse in taqwa (Beekun & Badawi, 2009). As noted earlier, Islam recognise work (including entrepreneurship) as a form of worship. In line with this contention, Abeng (2003) observed that the Qur'an elevated al-'amal (productive work) to the level of religious duty and in addition mentioned it consistently in more than fifty verses in conjunction with iman (faith). He further added that, there seems to be symbiotic relationship between faith and work; one cannot exist without the other. According to Mohsen (2007), there are two conditions for good and happy life; one is Iman (belief), second is doing good deeds (amal salih) such as being honest, and helpful. Taqwa (piety or spirituality) represent both concepts and is the quality of fundamental nature that puts a person on the right track (Kedah & Isa, 2011). High level of taqwa will make a person be proactive and avoid any negative behaviour because of his awe and fear of Allah (Beekun & Badawi, 2009). Being the faculty of distinguishing between right and wrong, taqwa is also considered as the most precious gift of all to man (Ahmad, 2011). The Holy Qur'an succinctly put it in the following way:

"Then He showed what is wrong for him and what is right for him" (91:8).

"This is the book; in it is guidance sure without doubt to those who fear Allah (muttaqin), who believe in the unseen, are steadfast in prayer and spend out of what We have provided for them, and who believe in the Revelation sent to you and sent before your time and (in their heats) have the assurance of the hereafter. They are on (true) guidance from their Lord and it is these who will prosper". (2:2-5).

"Verily the most honorable of you with Allah is the one with the most tagwa". 49:13.

Relating this concept to entrepreneurship, it could be inferred that the performance of an entrepreneur (guided by spirituality) who considered his task as a religious and who believe in getting better reward in the hereafter can be enhanced in order to reap more in the hereafter (Kedah & Isa, 2011). In addition, Ali (2005) assert that, during time of difficulties and hardship (as sometimes experienced by entrepreneurs), Islamic spirituality helps in maintaining self confidence and assurance.

# 2.7.4 Contentment (qana'ah)

Another spiritual element that enhances the performance of the entrepreneur is contentment (qana'ah). The quality of contentment possess by a person determine to some extent the level of his consistency in terms of honesty, punctuality, and commitment to work (Ahmed, 2011). A contended person does his

own part of the task carefully and expeditiously, leave the rest to the will of Allah and be satisfied with the outcome (even where result did not match effort) on which he has no control (Kedah & Isa, 2011). As a result, the entrepreneur's energy and momentum is preserved, undue stress leading to frustration and depression is minimized. The Holy prophet in the following *Hadiths* emphasized the need for contentment:

"Successful is the person who embraces Islam, is given humble provision and who remains content with what Allah has given to him" (Muslim).

"Know that if the nations were to gather together to benefit you with anything, it will benefit you only with something that Allah had already prescribed for you, and if they gather to harm you with anything, they would harm you only with something Allah had already prescribed for you. The pens have been lifted and the pages dried" (Al-Tirmidhi 9:2440).

## 2.7.5 Patience (Sabr)

Patience is another dimension of spirituality that is related to entrepreneurial performance. The patience in Islam according to Ahmad (2011) is aimed at preventing the people from prohibited things and keeps them committed on obedience, tolerance and perseverance even in times of adverse circumstances. The Holy *Qur'an* vigorously stressed the virtue of patience in many places:

"And certainly, We shall test you with something of fear, hunger, loss of wealth, lives and fruits, but give glad tiding to the patient ones" (2:155).

"Therefore be patient as did the Messengers of strong will" (46: 35).

"Oye who believe! Seek help and patience in prayer. Truly! Allah is with the patient" (2: 153).

In much the same way, The Prophet (S.A.W) says:

"The Muslim who lives with the people and shows tolerance towards the people and shows tolerance for the harms received from them is better than the Muslim who does not meet them and does not show tolerance for the harms received from them" (Al-Tirmidhi 9:2431).

To think and behave rationally (a requirement for entrepreneurial success) one has to be in position to control his desires and emotions and such can only be achieved through patience (Ahmad, 2011). Similarly, the patience in a leader (in this case an entrepreneur) makes him to be forbearing and wise and also not to retaliate to injustice with injustice (Randeree, 2011). Thus the higher the quality of patience (*sabr*) possess by the entrepreneur, the higher would be the level of maturity, stability, perseverance and tolerance and consequently the better the ability to control his emotion in the workplace for better performance (Ahmad, 2011).

## 2.8 CONCEPTUAL FRAMEWORK

Based on the above discussed literature, Figure 1 illustrates the effects of spirituality on social entrepreneurship from Islamic perspective. Even though there could be other factors affecting entrepreneurial outcomes, spirituality in Islam is selected for this study since other antecedents of entrepreneurial motivation, performance and commitment to social responsibility had been studied and similar result could be expected.

Islamic Beliefs

Purity of Intention

Taqwa (Piety)

Contentment
(qana'ah)

Patience (Sabr)

Figure 1: Conceptual Framework of the Study

The above model suggests that, spirituality in Islam directly influence entrepreneurial performance and commitment to social responsibility.

#### 3. METHODOLOGY

This study uses qualitative research method, specifically personal interview, with the aim to understand the reality of Islamic spirituality and social entrepreneurship, which contributes to contribute to theory and practice specific to the context that is not generalizable to other contexts. The qualitative research method is contrary to the qualitative research method that uses positivism or empiricism to examine the existing theory in a new context for the purpose of confirming or updating it (Guba and Lincoln, 1994; Silverman, 2013). The main feature of the qualitative research method is that it enables the study to explore a context deeply, which is could not be done by the quantitative research method such as survey (Wainwright, 1997; Patton, 1990). Informants have more opportunities to deliberate various issues in depth, especially in the relation to the social and cultural contexts (Myers, 2000). In addition, this method allows the study to understand the thought of informants which is not very easy to obtain in a structured survey. The researchers also can probe and crosscheck the feedback with other pertinent issues raised during the interview. However, the results from qualitative research may not be applied to all situations, but they help generalizations and theories (Ezzy, 2002).

Each personal interview took an average of 30 to 40 minutes. The study recorded the interview by note-taking approach was due to honor the reluctance of the informants to capture their feedback using audio visual tape recording devices. After the interview process, the notes were typed and the hardcopy sent to the informants for verification. The informants were given 14 working days to verify. For the non-reply interview scripts, the study considered them as final. Due to the confidential nature of the information provided by the informants, their names and affiliated organizations are not disclosed.

This study aims to explore the perceptions of social entrepreneurs on the presence of Islamic spirituality in sustaining the social entrepreneurship. The informants came from several types of socially oriented entrepreneurial activities such as food & beverages, printing, catering, grocery, spa boutique, salon and haircut and food supplementary products in Klang Valley, Malaysia. Table 1 summarizes the informants 'background.

**Table 1: Informants' Profile** 

Informants Code	Location of Business	Business Type
SE 1	Wangsa Maju	Food & Beverages
SE 2	Lembah Pantai	Food & Beverages
SE 3	Lembah Pantai	Food & Beverages
SE 4	Seputeh	Food & Beverages
SE 5	Cheras	Printing & Photocopy
SE 6	Bandar Tun Razak	Printing & Photocopy
SE 7	Batu	Catering
SE 8	Kepong	Catering
SE 9	Kepong	Catering
SE 10	Setiawangsa	Grocery
SE 11	Setiawangsa	Grocery
SE 12	Seputeh	Spa Boutique
SE 13	Lembah Pantai	Spa Boutique
SE 14	Bukit Bintang	Spa Boutique
SE 15	Titiwangsa	Spa Boutique
SE 16	Bukit Bintang	Saloon & Hair Cut
SE 17	Bandar Tun Razak	Saloon & Hair Cut
SE 18	Cheras	Saloon & Hair Cut
SE 19	Batu	Food Supplementary Product
SE 20	Titiwangsa	Food Supplementary Product

## 4. FINDINGS

The study asked "What are the factors motivate you to involve in socially oriented enterprises?" There were various answers provided by informants. Interestingly, the significant factor was due to the dream and ambitions to be part of the society with an economic aim. SE 1 said:

"I have been helping my parent to do small business in food services in Wangsa Maju area. I like the way my parent conducting their business. They did a small business, just selling food, by back in their minds was to provide nutrition to the people and they can work diligently for the sake of the nation. Some of the working executives would have no time to prepare food for breakfast and lunch and they depend on us to provide them healthy food. When I realized how much I contribute to the nation and the people, from there onwards, I started to fall in love with this business just like my parents. I open a restaurant not far from my parents' stall, not to compete them; for sure I could never out compete them in terms of taste, but to complement them with more contemporary business atmosphere in my restaurant. I hope I can achieve my ambitions to gain the achievement same like my parent business."

Sometimes, social entrepreneurs have the sense of social obligation towards helping the society to be more productive and healthier. SE 2 argued:

"I been living in Lembah Pantai Since 1984, there are stalls there selling variety of food that they never miss to get the support from the loyal customers. People just love to eat food sold by many stalls. Perhaps they rotate on which stall they decided for their meals. I love to see them eating food in the morning and in the afternoon. That show their business has a good future value. So, I started my business running a restaurant cause I am very ambitious that my business can maintain and earns profit."

Sometimes, the individual ambitions could be the spiritual force to open a socially oriented enterprise. SE 3 explained:

"I ventures in this business because I loved to cook. For fulfill my ambitions to be a chef in pastry and bakery business, I go to Giatmara and studied about bakery and pastry. Alhamdullilah, my Bakery & Pastry stall already maintain for 6 years."

The sharing of previous experience and knowledge to the society is another source of spirituality for a social enterprise. SE 4 stated that:

"I was working with Blue Mineral Water for 5 years. I know how their operation and how to manage this business. After think twice, I decide to be entrepreneur in this field. I open business in producing n manufacturing RO water. For started I bit difficult, but right now I have several contract with government agency n private company to supple RO water.

The influence of family contributes to the desire to have a social enterprise. SE 5 said:

"My family has running this printing business about 11 years ago and them getting old. So I need to continue their business in order to make this business running as usual. And as we all now, right now it very tough to get job if fresh graduate, so I continue my parent business."

Likewise, SE 6 felt that her income as a clerk is insufficient to meet her financial need, particularly when the cost of living is increasing in big city like Kuala Lumpur. SE 6 contended:

"It very though life living in Kuala Lumpur, salary working as clerk in government agency is not enough to fulfill my cost of living in Kuala Lumpur. So, I decide to open the printing kiosk in Bandar Tun Razak area to gain some extra money not just for me but also my big family that need my financial support since all of my siblings and children are attending colleges and schools."

As for SE 7, the previous employment has motivated her to switch to social entrepreneur career. SE 7 uttered:

"Food services never end because human eat every day from morning till night. Experience working in this field as manager for two restaurant influences me to start catering business. Basically my client I get from my past job, it makes my business running smooth from starting till now."

The desire to fulfill personal and family expectations becomes the motivation spiritually for SE 8 to pursue her social entrepreneurship career. SE 8 said:

"I have friend that have restaurant and catering business, I always dreams that I can achieve what my friend achieve. Her passion conducting business stimuli me to venture into this field and lot of thing I learn from my friend."

SE 9 argued that her ambition is the pushing factor for her to be a social entrepreneur. SE 9 said:

"As we know, cook is synonym with women, since I lost my job; I start running small catering business from my house. I have to start this catering business to sustain my life."

As for SE 10, her desire to get more fortune became the reason to choose social entrepreneurship. SE 10 said:

"Before I working in Kuala Lumpur, I been working in Pahang for several years, when I migrate to Kuala Lumpur, my saving getting slim because the cost of living in Kuala Lumpur much higher than Pahang. So I open grocery shop at Setiawangsa to support my daily expanses."

SE 11 held that her 20 years observation contributes to her decision to be social entrepreneur. SE 11 said:

"My parent open a grocery shop at Setiawangsa nearby LRT station, it been 20 years ago. For the continuity those businesses I decide just want to continue my parent business."

SE 12 wanted to fulfill her ambition, in which she emphasized that:

"Since secondary school, I like to look beautiful, after finishing secondary school; I go to private college and studied diploma and degree in beautician field. After that, I start open my spa boutique. I love do what my favorite thing and it full my ambitions."

For SE 13, sharing is caring. With this principle, SE ventured into the business. SE 13 argued that:

"I was working as beautician consultant at Sendayu Tinggi for 2 years, after that I resign as beautician consultant and open my stockiest shop at Lembah Pantai to sell Sendayu Tinggi product. I believe this product has it own customer and I can pull over my customer to come to my stockiest shop."

The need for dynamic career has triggered SE 14 to have a thought:

"Since I get VSS from Maybank due to economy crisis in 1997, I open Spa & saloon Beutique Bukit Bintang to continuing my life. I choose to open in Bukit Bintang because it very suitable place and many tourist come here."

As for SE 15, her decision to venture into social enterprise was due to the desire to emulate some successful entrepreneurs in her age group. SE 15 alleged:

"In year 2003 above, Spa Boutique business is one of the new businesses that get recognize in Kuala Lumpur, many women open this business gets success. So I decide to open the same business and get some loan in the beginning. For that year my business get booming, high profit but it not like now."

Sometimes, after spending many years in the industry would make some people to change their career direction. As for SE 16, she has the desire to share experiences in the business ventures. SE 16 thought deeply:

"I open this salon business because I have been working with Spa Company; this is line product that suitable with my experience working."

SE has the desire to fulfill personal and social expectations. SE 17 said:

"I only cater for women customer, it necessary because the hijab wearing difficult to search salon and hair cut for women only. It because, hijab wearing women still need to cut their hair follows what design their want. So, went I give them this good service, I feel happy to because I fulfill my ambition."

The obligation to help the family has motivated SE 18 to venture into social entrepreneurship. SE 18 mentioned:

"For the first place, this business is my parent business. Due to economy crisis they decide to close the business because business loses is getting high and has to maintain very high debt. After I do a research,

and do a proposal to get loan from bank I reopen the business to continue my family business. Alhamdulillah it getting better and I get a lot experience through this business."

The desire to meet economic obligation is another reason for the social entrepreneurship. SE 19 contended that:

"Healthy is very important to human being, when I venture in this food supplement product business, I confident that I can sell this product because the market is too large. I do this business to support my family income. Since now, the Amway product is very well known and has its own regular customer."

Losing employment means unable to meet economic obligations. Thus, SE argued that she has to do something to meet her economic need. SE 20 said:

"Since I don't have high qualification in education, many times I change my job because I can't cater with that job. So I go to attend business course manage by government agency such as TEKUN and MARA, after attend course from MARA they giving my loan to start business and become mentee RX Water Sdn Bhd."

Table 2: Spiritual reasons for participating in social entrepreneurship

	Reasons	Key	Informants (who said this)
		Islamic	
		Spirituality	
1	Desire to fulfill personal and social expectations	IB, PI, PT	SE1, SE 2, SE 3, SE 12, SE
			17
2	Desire to share experiences in the business ventures	QC, PS, PI	SE 4, SE 7, SE 13, SE 16
3	Family obligation to continue family business	IB, PI, PS,	SE 5, SE 11, SE 18
		PT	
4	Economic obligations to get extra income for	PI, PT, QC	SE 6, SE 10, SE 19
	household		
5	Stimuli from other successful social entrepreneurs	IB, PS, PI	SE 8, SE 15
6	Job loss or don't have a proper job	IB, PI, PT	SE 9, SE 14, SE 20

Key: IB: Islamic beliefs (*iman*), PI: Purity of intentions (*ikhlas*), PT: Piety (*Taqwa*), QC: Contentment (*qana'ah*), PS: Patient (*sabr*)

#### 5. DISCUSSION

Based on the feedback of 20 women social entrepreneurs in Klang Valley, there are six reasons for them to venture into social entrepreneurship, namely the desire to fulfill personal and social expectations, the desire to share working experiences, the need to discharge family obligation to continue family business, the economic obligations for extra income, the stimuli from other successful social entrepreneurs, and loss of employment. These reasons are paired with the key Islamic spirituality for social entrepreneurship, namely, IB for Islamic beliefs (*iman*), PI stands for purity of intentions (*ikhlas*), PT for piety (*Taqwa*), QC for contentment (*qana'ah*), and PS for Patient (*sabr*). The feedback from the informants suggested three key Islamic spirituality elements, namely IB for Islamic beliefs (*iman*), PI stands for purity of intentions (*ikhlas*), and PT for piety (*Taqwa*) effect the social entrepreneurship from Islamic perspective. These three aspects are in line with the objective (*maqasid*) of the religion on the social responsibility. According to Chapra (1992), Islamic goals are based on Islamic concepts of human well-being and good life which stress brotherhood/sisterhood and socio economic justice and require a balanced satisfaction of both the material and spiritual needs of all humans (Rice, 1999). Similarly, Toor (2011) have also

recognised that, specific guidelines are available in Islamic ethical system for achieving the moral filter and for conducting business.

Indeed, the practice of social entrepreneurship enables Islamic spirituality to show case in action, which is a complementary to business entrepreneurship in social development (Salarzehi *et al.*, 2010). The nature of Social entrepreneurship is the cooperative activities such as charity, goodwill, and sense of responsibility for the problems of the vulnerable and deprived classes of the society (Gliedt & Parker, 2007). The necessity for social entrepreneurship in modern society is impasse of capitalist system which has emphasis on personal profitability and ignoring the rights and needs of susceptible classes, caused the added severity of poverty and deprivation and increase the gap between classes in the society (Salarzehi et al., 2010).

Al-Qaradawi (1996) further added that, from the Islamic point of view, business organisations are established to meet society's needs by providing goods and services in order to live good life rather than only making profits. Business organisations are therefore expected to serve the society and advance the cause of the community. Furthermore Khalifa (2003 p. 12) in defining business purpose from the Islamic point of view states as follows: "to create and deliver goods (*tayyibat*) needed and valued by the people, to provide opportunity for people to work and realise their mission in life, to develop themselves, to contribute to their societies and to live a good life".

The need for entrepreneurs to be socially responsible and ethical while engaging in business had been stressed by a number of Muslim writers in management (Ahmed, 2005; Khaliq, 2005). According to Fontaine (2011), entrepreneurs can demonstrate commitment to ethics and social responsibility in three ways; first dealing with stake holders (whether shareholders, employees customers or suppliers) in ethical manner. Secondly engaging in business ventures that are not Islamically immoral and thirdly re-investing part of the profit through *zakah* or charitable contribution.

According to Al-Attas (1995), the Islamic principle requires businesses and wealthy individuals to see themselves as caretakers of society's economic resources, holding their property in trust for the benefit of society as a whole and ultimately attaining the blessing of God (who is the ultimate owner of all the resources). Thus the God-consciousness paradigm inspires a firm always to operate in a good and socially responsible manner regardless of the financial consequences. Failure to do so is tantamount to an affront to God's will, with all the attendant consequences in this world and in the Hereafter (Dusuki, 2008).

#### 6. LIMITATIONS OF THE STUDY AND FUTURE DIRECTIONS

This study is based on personal interview method, an approach in the qualitative study. Naturally, it provides a few limitations. Firstly, the study did not interview policy makers that provide the incentives and encouragement for these social entrepreneurs to venture into the enterprises. The feedback from the informants was very personalized, but the encouragement from the regulators does play a role to intensify more people to be social entrepreneurs. Needless to say, the narrow scope of personal interview technique to obtain the feedback only from owners of the enterprises may not represent the entire population. Secondly, the use of note taking technique and subsequent transcription would not compensate for inadequacies of the contents despite the verification from the informants. Hence, may be inadequate to answer the research objective of the study.

Due to limited resources in this particular field of study, the insights from this study could provide some thought to Muslim scholars, policy makers and lawmakers to focus more the social entrepreneurship and also help to visualize the hidden effects of spirituality on the business outcomes. Similarly, it is our hope

that, the study will serve as a stimulant that will accelerate further thoughts and discussions on the potential prospects or promises spirituality in Islam hold for social entrepreneurship as well as other management outcomes. Since the present study only focused on entrepreneurs as leaders of their organisations, future research may consider spirituality in Islam from the perspectives of employees to see whether similar outcomes could be obtained. This study will also help the policy makers to adapt policies directed toward promoting religious values and practices in order to meet the ultimate goal define by Allah and to increase entrepreneurship in the society.

# 7. CONCLUSION

Islam is a way of life, not just a religion. As a result, business entrepreneurs cannot be separated from Islamic values in the other aspects of a Muslim's daily life. The Islamic ethical system is balanced, fair, just, and benevolent, and seeks to respect the rights of both primary and derivative stakeholders without allowing for exploitation, nepotism and other human ills. Islam advocates a tiered, multi-fiduciary stakeholder approach that calibrates what various stakeholders of a business receive in proportion to their inputs. Recent studies in management have dwelled into incorporation of spirituality in entrepreneurship from the Western perspective. In this study, we have attempted to explore the benefits of spirituality in Islam on entrepreneurship outcomes. It is argued that a Muslim entrepreneur that is charged with Islamic spirit is inspired from the heart and is guided in his entrepreneurial pursuit by seeking the pleasure of Allah and is motivated by rewards not only in this world (falah) but also in the life Hereafter (Jannah). Thus, the responsibility of each stakeholder is morally anchored since it is based on the concepts of trust (amana), equity, balance and fairness ('adl and qist), benevolence and excellence (Ihsaan). At all times, mankind must not forget his/her role as God's steward or vicegerent on earth. For Muslims that understand and practice this ethical system, it also contains its own enforcement mechanisms. It is a system that is divinely inspired, a temporal and tailored to fit the needs and rights of God's trustee, man.

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# PEMBANGUNAN USAHAWAN MUSLIM BERTERASKAN PARADIGMA AKHLAK: SATU PENDEKATAN

# ENTREPRENEUR DEVELOPMENT PARADIGM BASED MUSLIM CHARACTER: AN APPROACH

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## **ABSTRAK**

Islam begitu mendorong penganutnya untuk menjalankan perniagaan sehingga berniaga itu dikategorikan sebagai fardhu kifayah. Dengan keistimewaan kedudukan perniagaan dalam Islam, maka aspek pembangunan seorang usahawan memainkan peranan yang sangat penting dalam pertumbuhan ekonomi sesebuah negara. Kajian ini mencadangkan model pembangunan usahawan muslim berteraskan paradigma akhlak secara deskriptif. Ia meliputi empat komponen utama iaitu tawakal, sabar, syukur dan sedekah (infaq) yang menjadi prinsip kepada budaya kerja berencana dalam usaha membentuk peribadi usahawan muslim yang menbangun. Kajian mendapati bahawa model pembangunan usahawan berteraskan paradigma akhlak ini mempengaruhi secara signifikan serta berpotensi digunakan bagi melahirkan usahawan muslim yang aktif, produktif dan realistik.

**Katakunci:** Usahawan Muslim, Pembanguanan usahawanan dan Akhlak.

#### **ABSTRACT**

Islam so encourage followers to do business until business is categorized as fard Kifaya. With a special position in Islamic business, then an entrepreneur development aspect plays a very important role in the economic growth of a country. This study suggests a model for muslim entrepreneur development paradigm based on a descriptive character. It covers four main components trusts, patience, gratitude and charity (donation) that the principle of the work culture in an effort to develop a personal plan to muslim entrepreneurs. The study found that the model based development paradigm of moral entrepreneurs is the potential to significantly influence used to produce the active muslim entrepreneurs, productive and realistic.

**Keywords:** Muslim Entrepreneurs, development for entrepreneurs and Morals.

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## 1. PENDAHULUAN

Islam merupakan satu cara hidup yang lengkap lagi menyeluruh. Setiap perkara dalam kehidupan bermasyarakat telah disusun atur oleh Allah SWT tanpa sebarang kealpaan termasuk dalam keperluan lapangan keusahawanan. Islam menerima keusahawanan sebagai satu cabang ibadah sehingga mengiktiraf 9/10 daripada sumber rezeki datang dari aktiviti ini. Sehubungan dengan itu, keusahawanan merupakan salah satu bibang pekerjaan yang amat digalakkan dan dituntut dalam Islam. Seperti sabda Rasulullah SAW dalam sebuah hadith yang bermaksud:

"Peniaga yang sangat benar dan beramanah akan dibangkitkan bersama para Nabi, siddiqin dan para shuhada". (Hadith riwayat Hakim dan Tarmizi)

Aqidah, kaedah, idealisme, konsep dan pengajaran Islam mengenai keusahawanan telah lama wujud di dalam al-Quran, Sunnah dan Kitab-kitab fekah yang ditulis oleh ulama'-ulama' besar Islam. Namun demikian, pengajaran Islam dibidang ini tidak begitu menonjol sebagaimana bidang ibadah khusus lain seperti sembahyang, puasa, zakat, haji dan sebagainya (Adnan Alias, 2002). Sehubungan dengan itu, tujuan kajian ini adalah menjurus ke arah memberi sokongan ke atas galakan tersebut.

Usahawan ditakrifkan seorang individu yang berkeupayaan meneroka sesuatu yang baru dan peka terhadap ruang yang ada serta mengenalpasti peluang dimana orang lain melihatnya sebagai sesuatu kekeliruan (Kuratko, 2004). Berdasarkan takrifan tersebut, individu yang bergelar usahawan adalah seorang yang berusaha dengan gigih dan tekun menghadapi pelbagai cabaran serta mempunyai daya kreativiti dan inovasi yang tinggi untuk merebut dan mencipta peluang yang ada.

Keusahawanan pula merupakan sebahagian daripada aktiviti yang berkiatan dengan bidang perekonomian, ia dilihat sebagai orientasi pengembangan ekonomi dan perdagangan yang mempunyai objektif untuk kesejahteraan masyarakat dalam memenuhi kehendak dan keperluan manusia. Dengan kata lain, keusahawanan ialah mencipta perniagaan dengan mencari peluang, mengambil risiko, menterjemahkan idea kepada realiti dengan menggabungkan pelbagai perspektif dalam melahirkan individu usahawan itu sendiri (Haniza, 2008).

Usahawan muslim ditakrifkan sebagai individu yang mengambil tanggungjawab untuk memenuhi keperluan masyarakat dan mengharapkan dua keuntungan iaitu di dunia dan di akhirat dengan menghasilkan sesuatu barang dan perkhidmatan dengan cara yang halal dan tidak bertentangan dengan syariat Islam. Usahawan muslim juga ialah individu yang sentiasa taat dan patuh kepada arahan dan larangan Allah dengan tujuan meningkatkan kesejahteraan penghuni semesta alam (Aziz, 2010). Firman Allah yang bermaksud:

"Sesungguhnya orang-orang yang selalu membaca kitab Allah, mendirikan sembahyang dan mendermakan daripada apa yang Kami kurniakan kepada mereka, secara sembunyi atau secara berterang-terang. Mereka mengharapkan sejenis perniagaan yang tidak akan mengalami kerugian"

(Al-faatir: 29)

Manakala akhlak menurut Islam adalah salah satu dari cabang iman dan ibadat, karana iman dan ibadat manusia tidak sempurna melainkan lahir padanya akhlak yang mulia. Maka sumber akhlak dalam Islam adalah pada iman dan taqwa selain mempunyai tujuan yang jelas mencari redha Allah SWT. Akhlak menekankan tentang perangai, sikap dan etika dengannya seseorang usahawan muslim akan melakukan tindakan secara praktikal. Kerana seorang usahawan mempunyai etika tertentu yang harus dipatuhi, walaupun keuntungan menjadi antara objektif namun harus mengelakkan penipuan dan penindasan serta meningkatkan galakkan kepada kejujuran, kebenaran dan sifat ikhsan.

## 2. METODOLOGI KAJIAN

Kajian ini merupakan kajian jenis deskriptif iaitu membincangkan satu model pembangunan usahawan muslim berteraskan paradigma akhlak. Pengumpulan data dibuat melalui sumber yang diambil daripada buku, jurnal, artikel, maklumat daripada surat khabar dalam talian, majalah, dan laman sesawang yang berkaitan dengan tajuk kajian. Rujukan dibuat bagi mengkaji kepentingan pembinaan akhlak dalam usaha meningkatkan rangka kerja pembangunan usahawan muslim dalam perniagaan. Kajian mencadangkan empat kompenen penting dalam pembentukan akhlak, iaitu sifat tawakal, syukur, sabar dan sedekah (inhfaq) sebagai teras utama pembangunan usahawan muslim serta implikasi paradigma akhlak melalui empat sifat iaitu insaniah, wasatiah, istiqamah dan muhasabah dimana akhlak mempengaruhi secara signifikan dalam pembangunan usahawan muslim.

## 3. KONSEP AKHLAK

Konsep akhlak secara umumnya memainkan peranan yang penting dalam mencorakkan tingkah laku dan kehidupan seseorang. Setiap tingkah laku yang lahir daripada kehidupan manusia sebenarnya adalah cernaan daripada apa yang tersemat di dalam dirinya. Sebagaimana menurut imam Al-Ghazalli: "Setiap yang ada di dalam hati akan menzahirkan kesannya pada anggota badan sehinggalah setiap pergerakannya adalah berlandaskan kepadanya"

Akhlak adalah cerminan individu seseorang. Dengan erti kata lain, iman yang sempurna akan melahirkan akhlak yang mulia. Rasulullah SAW telah bersabda dalam sebuah hadith yang bermaksud:

"Dikalangan mukmin yang paling sempurna imannya ialah yang terbaik akhlaknya". (Hadith riwayat Tarmizi)

Aspek pembangunan keusahawanan berteraskkan akhlak haruslah diambil berat setiap kali ingin melakukan agenda perubahan. Kerana ia boleh dikira sebagai pemangkin perubahan seperti yang pernah disebut oleh Imam As Syahid Hassan Al-Banna sebagai "tongkat perubahan". Pandangan ini menurut beliau benar kerana sebuah krisis yang dihadapi oleh masyarakat khususnya dan dunia amnya adalah merupakan krisis kejiwaan dan kerohanian sebelum ianya menjadi krisis ekonomi, politik atau sebagainya.

Pada dasarnya, muamalah Islam mengandungi 3 doktrin asas yang menjadi pelengkap kepada kesempurnaan konseptual tersebut. Iaitu bersendikan tuntutan akidah, berkonsepkan ibadah dan implikasi dengan akhlak. Kombinasi ketiga-tiga asas ini merupakan adunan yang istimewa dalam merencana aktiviti perekonomian manusia. Refleksi daripada asas-asas pembentukan sistem tersebut mencerminkan kerangka nilai keusahawanan Islam yang diciptakan adalah untuk memenuhi obligasi sosial dan melaksanakan tuntutan umum masyarakat. Merujuk kepada adunan ketiga-tiga komponen tersebut, ia menjadi satu rumusan formula untuk membentuk keusahawanan Islam yang dinamik dan komprehensif, kerana ia mampu membentuk keperibadian individu usahawan muslim. Seperti pada rajah 2 di bawah:

Rajah 2: Kerangka Sistem Muamalah Islam



Sumber: Shuhairimi dan Ku Halim (2010)

## 3. DAPATAN KAJIAN

## 3.1 Model Pembangunan Usahawan Muslim Berteraskan Paradigma Akhlak

Rajah 3 menunjukkan cadangan model pembangunan usahawan muslim berteraskan paradigma akhlak dimana ia mempunyai hubungan yang signifikan. Empat momentum utama model ini ialah tawakal, yang bermaksud mewakilkan atau menyerahkan, dengan kata lain berserah diri sepenuhnya kepada Allah selepas berusaha, ikhtiar dan berdoa. Tawakal akan menjadikan usahawan muslim seorang yang tenang serta matang dalam tindakan kerana telah menyerahkan semua keputusan kepadaNya. Kedua, ialah sabar yang bermaksud menahan diri daripada melakukan sebarang tindakan yang dilarang dalam Islam, seperti marah dan perasaan hasad dengki. Islam menjanjikan kemenangan kepada golongan orang-orang yang sentiasa sabar serta akan memiliki kekuatan jiwa.

Elemen akhlak yang terdapat dalam model pembangunan usahawan Islam seterusnya ialah syukur yang bermaksud menggunakan pemberian Allah dengan menurut perintahNya dengan serta dizahirkan melalui perbuatan dan kata-kata. Dengan itu, Allah akan melipatgandakan ganjaran dengan menambahkan nikmat dalam kehidupan. Terakhir, sifat sedekah (infaq) yang bermaksud memberi dengan ikhlas kepada orang yang memerlukan dengan niat mendapatkan keredhaan Allah tanpa mengharap balasan. Antara kelebihan yang dijanjikan ialah mendapat rezeki yang lebih banyak dan sentiasa merasa cukup walaupun sedikit.

Berusaha Harmoni Tawakal Insaniah Ilmu Tenang Berkhemah Menang Wasatiahh Sabar Matang Kekuatan Akhlak Berpendirian Nikmat Syukur Istiqamah Berdayasaing Hargai Pembangunan Strategi Gandaan Infaq Muhasabah Usahawan Sistematik Muslim Berkat 512

Rajah 3: Kerangka Teori Model Usahawan Muslim

Nota: Adaptasi Daripada Muhammad Syukri (2009), Ab. Aziz (2010), Shuhairimi & Ku Halim (2010).

Jadual 1: Penerangan Pembolehubah Nyata Yang Digunakan Dalam Analisis Data Kajian Ini

Bil	Pembolehubah	Penerangan	
1	Tawakal:	Menyerah diri sepenuhnya kepada Allah	
	I. Berusaha	Sentiasa berusaha dan tidak pernah berputus asa	
	II. Tenang	Bersifat tenang dengan setiap keputusan atau hasil atas	
		usaha	
2	Sabar:	Menahan diri dari sifat mazmumah (negetif)	
	I. Menang	Sentiasa menang di sisi Allah	
	II. Kekuatan	Memberi kekuatan dalam jiwa	
3	Syukur:	Menggunakan pemberiaan Allah dengan patuh	
	T. NEL .	perintahNya	
	I. Nikmat	Ditambhkan nikmat dalam kehidupan	
	II. Hargai	Bersyukur melalui hati, perbuatan dan lidah (kata-kata)	
4	Infaq:	Pemberian kepada orang yang memerlukan dengan niat	
		mendapatkan keredhaan Allah	
	I. Gandaan	Mendapat rezeki lebih banyak	
	II. Berkat	Dikurniakan rezeki yang cukup walaupun sedikit	
5	Insaniah:	Ikhsan terhadap orang lain	
	I. Harmoni	Suasana aman	
	II. Ilmu	Mendidik masyarakat melalui aktiviti muamalah	
6	Wasatiah: Serdahana		
	I. Berkhemah	Mendidik jiwa agar tidak menurut hawa nafsu	
	II. Matang	Rasional dalam setiap tindakan	
7	Istiqamah:	Konsisten	
	I. Berpendirian	Tidak mudah terpengaruh atau terpedaya	
	II. Berdayasaing	Mampu mewujudkan persaingan dalam pasaran	
8	Muhasabah:	Menilai diri sendiri	
	I. Strategi	Tidak mengulangi kesilapan yang sama	
	II. Sitematik	Memudahkan perjalanan atau urusan perniagaan	

# 3.2 Implikasi Paradigma Akhlak Terhadap Pembangunan Usahawan Muslim

Akhlak dan tingkah laku usahawan Muslim yang disaduri dengan nilai-nilai Islam perlu dilihat sebahagian daripada komponen penting dalam kerangka pembangunan usahawan. Meskipun akhlak tersebut dilihat subjektif dan tidak bermotifkan keuntungan, namun mengabaikannya dalam amalan keusahawanan akan menjejaskan usaha untuk melahirkan usahawan muslim yang dinamik dan cemerlang.

Implikasi daripada paradigma akhlak yang mendasari pembangunan usahawan muslim dapat dilihat melalui empat aspek berikut:

# 1. Insaniah

Aspek insaniah ini apabila diserap kedalam sistem keusahawanan Islam, akan membentuk satu sistem yang bersifat harmoni dengan kepentingan umum manusia. Usahawan yang terdidik dengan nilai kemanusian akan sentiasa bersikap toleransi, berkasih sayang, saling bantu membantu, bersikap ikhsan terhadap orang lain dan pelbagai sifat makhmudah yang lain. Justeru itu, tidak akan timbul soal

mengambil kesempatan, menindas orang lain, sikap hasad dengki dan pelbagai sifat mazmumah yang lain. Ini kerana sifat insaniah yang telah sebati dalam jiwa pengusaha atau usahawan akan menjadi penghalang kepada pelakuan yang negatif dan tidak berakhlak.

## 2. Wasatiah (sederhana)

Tuntutan kepada nilai wasatiah (sederhana) amat ditekankan dalam membentuk peribadi usahawan muslim yang berjaya. Bersikap sederhana dalam apa sahaja tindakan mencerminkan sikap kematangan, tenang dan bijaksana. Dalam keadaan ini, ia dapat mengelakkan usahawan daripada bersikap sebaliknya seperti boros atau tidak berhemah ketika berbelanja, tabiat suka berhutang, berlebih-lebihan serta mengikut tuntutan hawa nafsu. Sikap wasatiah ini akan melahirkan ciri ketakwaan yang tinggi serta dapat mendekatkan diri dengan Allah ketika dalam kesenangan dan kesusahan. Menafikan sikap wasatiah ini akan menjurus usahawan tersebut kepada sikap sombong, bangga diri dan angkuh yang jelas bertentangan dengan nilai agama Islam dan norma kehidupan masyarakat.

## 3. Istiqamah

Implikasi sifat istiqamah dalam pendekatan pembangunan usahawan muslim melalui paradigma akhlak bertepatan dengan sabda Rasulullah SAW dalam sebuah hadith yang bermaksud:

"Tidak lurus (istiqomah) iman seseorang hamba itu sehingga hatinya lurus dan hatinya tidak akan lurus sehingga lurus lidahnya". (Hadith riwayat Ahmad)

Istiqamah ditakrifkan sebagai tetap dan teguh di atas jalan yang betul lurus serta membawa keredhaan Allah, istiqamah mendidik usahawan yang berpegang teguh pada pendirian, konsisten dan tidak mudah terpedaya. Melalui sifat ini maka akan lahirlah usahawan yang sentiasa berdaya saing kerana berjaya menetapkan strategi keberkesanan proses, penyelidikan dan pembangunan barangan atau perkhidmatan serta tidak berputus asa meyakinkan kelebihan produk atau perkhidmatan yang ditawarkan menerusi hebahan (pemasaran) yang berterusan.

#### 4. Muhasabah (Penilaian diri sendiri)

Muhasabah bermaksud menilai diri sendiri atas tindakan yang telah dilakukan, secara tidak lansung mampu merancang tindakan yang perlu diambil untuk masa hadapan. Dengan mengaplikasikan amalan ini, usahawan mampu merancang strategi perjalanan keusahawanan dan perniagaan dengan lebih sitematik agar kesilapan yang sama tidak berulang. Sifat ini bertepatan dengan sabda Rasulullah SAW dalam sebuah hadith yang bermaksud:

"Orang yang pintar ialah orang yang menghitung dirinya serta beramal untuk hari selepas kematian sementara orang yang lemah ialah orang yang mengikut hawa nafsunya serta beragan-angan terhadap Allah dengan angan-angan (yang banyak)". (Hadith riwayat Tarmizi)

Perkara-perkara telah disebutkan diatas amat berkait rapat dengan budaya kerja usahawan muslim berjaya. Dimana akhlak mulia yang dimiliki oleh usahawan muslim akan lebih disenangi oleh rakan, pekerja dan juga pelanggan. Melalui akhlak mulia yang mereka miliki akan membolehkan usahawan muslim mewujudkan suasana kerja yang bebas daripada perasaan hasad dengki, takabbur, mementingkan diri sendiri, nepotisme, kronisme dan merendah-rendahkan kemampuan orang lain. Usahawan muslim perlu menyedari disamping membangunkan kekayaan dan keuntungan, mereka juga berperanan sebagai pendidik. Mereka perlu mendidik setiap pihak yang mempunyai kepentingan dengan mereka agar memiliki akhlak yang mulia. Sabda Rasulullah SAW dalam sebuah hadith yang bermaksud:

"Sebaik-baik manusia diantara kamu ialah orang yang baik akhlaknya" (Hadith riwayat Bukhari).

## 4. KESIMPULAN

Bidang perniagaan atau keusahawanan adalah bidang yang sangat mencabar. Ia melibatkan aktiviti-aktiviti pengemblengan sumber pengeluaran, pengurusan organisasi dan pengambilan risiko. Ianya memerlukan iltizam dan daya juang yang tinggi. Oleh kerana itu, model ekonomi yang berpaksikan kepada akhlak tidak akan mengorbankan nilai-nilai murni demi mencapai keuntungan material semata-mata. Dari sudut dimensi Islam, usahawan yang berjaya bukan sahaja cemerlang dalam setiap aktiviti keusahawanannya, tetapi ia juga didominasi dengan nilai-nilai akhlak dan moral yang tinggi. Usahawan yang berjaya bukan sahaja memberi keuntungan kepada dirinya semata-mata tetapi memberi manfaat kepada keluarga, masyarakat, dan negara melalui sumbangan pemikiran dan tanaganya (Shuhairimi Abdullah, 2012). Pendekatan keusahawanan perlu dilakukan secara menyeluruh kerana ia turut memberi kesan kepada pembangunan sosial, ekonomi, ketenteraan, dan politik umat Islam. Justeru itu, kegiatan keusahawanan seperti perniagaan dan perdagangan, kewangan dan perbankan, pelancongan dan perindustrian, pertanian, penternakan dan perikanan perlu dirancang dengan teliti bagi memastikan ia mampu dibangunkan selari dengan tuntutan semasa kearah melahirkan usahawan yang kaya harta dan jiwa dengan akhlak yang mulia.

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## ISLAMIC ENTREPRENEURIAL MOTIVATION: AN ANALYTICAL REVIEW

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#### **ABSTRACT**

This paper is part of a study that discussed on the issues of entrepreneurship and motivation within the Islamic perspective. In analytically reviewing on how intention (niat) motivates entrepreneur toward their behavioral change and actions, the Theory of Planned and Behaviour (TPB) is used. The intention focused on three angles, which are; 1)to perform ibadah, 2)Al Falah and 3)wealth creation. The intention is moved ahead into action by Islamic intrinsic and extrinsic motivation factors and the performance will be analyzed base on the behaviour of the muslim entrepreneur. Thus, this research can help to contribute in the knowledge development of Islamic entrepreneurial motivation which will be useful particularly to the muslim entrepreneurs in Malaysia.

**Keywords**: Islamic entrepreneurship, Islamic motivation and Intention

#### 1. INTRODUCTION

Economic growth is undeniably crucial for any country's development, and entrepreneurship is one of the strategies to help accelerate a country's economic development. Entrepreneurship contributes to economic development through job creation, increasing of wealth and incomes, and linkaging the local economy to the global arena (Henderson, 2002:63). The effect of entrepreneurship to the economic growth is not straightforward and the effect different between countries (Stel *et al.* 2005:16). Thus, entrepreneurship is pertinent.

Entrepreneurship is a process (Shane & Venkataraman's, 2000: 218) and entrepreneurs are the actors either be it individual or group who established businesses with the existence of risk and uncertainty. In facing all the challenges, motivation play a role as a driving force to achieve the needs and expectation (Mullins, 1996: 480 & Ryan & Edward, 1999: 1). There is a rich discussion of conventional literatures in recognizing the essential characteristics and factors contributing to the development of entrepreurship and motivation and Religion is one of them. Within all the famous known religions, Islam is identified as encouraging entrepreneurship (Audretsch *et al.*, 2007:13).

The relationship between religion and enterprise is complex, interdependent, and unclear. Religion affects believer's entrepreneurial activities, influencing their decision to become entrepreneur, enterprise management styles, and the entrepreneur's contact network (Dodd, 1998:71). Weber (1978) (as cited from Urgur, 2009:216) stated that religion has certain effects or plays essential role in shaping the economic. However, the discussion on Islamic entrepreneurship is under-presented and overlooked in the literatures and according to Kayed et al., (2010:380) there is a huge gap addressing on Islamic entrepreneurship in all Arab and Islamic countries. This paper therefore is part of the literature study on the the Islamic entrepreneurial motivation focusing on the intention (*niat*).

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#### 2. LITERATURE REVIEW

## 2.1 Islam and Entrepreneurship

Islam is a holistic religion (*syumul*<sup>f</sup>) as it is a way of life (*Addin*) encomposing aspects of economic, social, political and moral aspect of human life (Ataul Huq Pramanik, 2002: 40 & Ahamad Asmadi Sakat et al, 2012: 3251). In Islam, all aspect of live are blended together or not isolated from each other and hence, Islam and business is interrelated. The Prophet SAW is infact, an entrepreneur before he became a prophet and His way of doing business becomes a pertinent reference. To be a good Muslim entrepreneur, one must first be a religious person, and a religious practitioner (religious person who also practice what he learn) (Jose Vargas-Hernandez *et al.*, 2010:125).

Islamic believer or muslim is guided by the Islamic Law or known as *Shari'ah*. *Sharia'ah* is a set of Islamic regulations and principles to guide human actions and interaction with Allah SWT and within human. It's genrated from Allah SWT as stated in Al-Quran, Prophet's act and *Ijma* (accepted under the syariah laws by consensus of opinion) (Ateeq-ur-Rehman et *al.*, 2010:63). In related with business, the culture and principle is include under the *Fiqh muamalat*. *Fiqh muamalat* refer to the *Shari'ah* ruling related to the social relationship between a person and others which among others its cover on business (Abdullaah *et al.* 2011:6 & Surtahman, 2001:12). The association between *Shari'ah*, *Fiqh* and *muamalat* is shown as in **Figure 1**.

Shariah
Fiqh

Muamalat

Figure 1: The Relation between Shari'ah, Fiqh and Muamalat Terms

Source: Abdullaah et al. 2011. p.9

As the creation of Allah SWT, muslims are asked to perform all the instructions of Allah SWT to prove of his/her obedience (Verse Adz Dzhariyat, 51:56<sup>ii</sup>, Verse Al-An'aam 6:162<sup>iii</sup>). In Islam, man are created as the best moulds (Verse Al-Tin, 95:4<sup>iv</sup>), great creation than other creation (Verse Al-Isra', 17:70<sup>v</sup>) and appointed as a *Khalifah* or care taker of the world (Verse Al-An'aam, 6:165<sup>vi</sup>). Muslims believed that the wealth is the risqué own by Allah SWT and man is only a manager or trustee of the wealth (Yusuf Al-Qaradawi, 1988: 39 & Umer Chapra, 2000:30).

"And ye have no good thing but is from Allah..." (Al-Qur'an. Verse An-Nahl 16:53).

Man holds three main duties which are responsible to Allah SWT (*Hablumminal' Allah*), between man (*Hablumminan nas*) and earth (*Hablummin alam*). As a *Khalifah*, man are responsible to Allah SWT and they were ask to work for searching the *halal risque'* (*permited income*) as stated below,

"And when the Prayer is finished, then may ye disperse through the land, and seek of the Bounty of Allah. And celebrate the Praises of Allah often (and without stint): that ye may prosper" (Verse Al-Jumu'ah, 62:10).

Islam asks his believer to work and not depending on other person. Therefore, man would be able equip their needs and Allah SWT had created the resources (Verse Al Baqarah, 2:22 vii). Through resources, man not only would able to equip their survival and physical need but also creating wealth (Kriger & Seng, 2005:778). History shows that the previous Prophet were also working in their life such as Prophet Adam AS was a farmer; while Prophet Nuh AS was a carpenter and the Prophet Muhammad SAW was an entrepreneur and herdsman (Mohd Nasir *et al.*, 2010: 5-6).

## 2.1.1 Intention to become Muslim Enterpreneur

Theory of Planned and Behaviour (TPB) highlighted that intention (*niat*) is the main factor motivating human behavior. The intention indicates how hard individual tried and how much efforts put to perform the behavior Intention is determined by three key elements which are; the attitude toward the behavior, subjective norm, and perceived behavioural control (Ajzen, 1991:181). The diagram of TPB shown as **Figure 2**.

Attitude toward the behavior
(overall individual evaluation of the behaviour)

Subjective Norm
(individual's perception of social norative pressures, or relevant others' beliefs that he or she should or should not perform such behavior)

Perceive behavioral control (people's perception of their ability (ease or difficult) to perform their behaviours of interest)

Figure 2: Theory of Planned Behaviour (Ajzen, 1985, 1988)

In relation with religion, Safiek Moklis recognized that religion is one of the most universal and influential that has significant influence on people's attitudes, values and behaviors at both the individual and societal levels (2009:75). From the Islamic perspective, intention is very important more important than the outcomes (Syed & Ali, 2010:5). The reward will be based on the intention as stated in *Hadith*, "the reward of deed depends upon the intention (*niat*) and every person will get the reward according to what he has intended" Shahih Bukhari. In conjunction, the intention of a muslim entrepreneur to become as an entrepreneur is to perform *ibadah*, to achieve *Al Falah* (success) and for his/her wealth creation.

## a) Ibadah

The philosophy of muslim entrepreneurs involving themselves doing business is part of his/her *ibadah* to portray obedient and subservient to the Creator, Allah SWT and getting His blessing (Allah's SWT Redha or *Mardhotillah*). As stated in the Holy Al-Qu'ran in Verse Adz-Dzhariat, 51:56, "I have only created Jinns and men, that they may serve Me". Therefore to a muslim, every single action and doing of Muslims to improve their life for a better living and for the goodness of mankind and the environment and following Islamic syariat with the sincere intention for Allah SWT will be considered as his/her good-deed or *ibadah*. All the good or bad deed will be measured in the Here-after as stated below,

"Nay! When the earth is pounded to powder, And thy Lord cometh, and His angels, rank upon rank, And Hell, that Day, is brought (face to face),- on that Day will man remember, but how will

that remembrance profit him?, He will say: "Ah! Would that I had sent forth (good deeds) for (this) my (Future) Life!" . (Al-Qur'an. Verse Al-Fajar, 89: 21-23).

Besides doing business as an *ibadah*, it is also a *fardu kifayah* for Muslims (Amran et *al.* 2011:487) and according to Siddiqi (1996: 49), *fardu kifayah* is a collective responsibility which means it must be done by at least someone in the community, or if not, the whole community will be in sin (Jose' G. Vargas Hernandez er *al.*, 2010: 125 & Mohamad Yusuf, 2003: 169). By becoming as an entrepreneur, muslim could apply the Islamic syariat in their activity and Allah SWT will give His help for those who are working for Islam and Allah SWT as stated below,

"O ye who believe! If ye will aid (the cause of) Allah, He will aid you, and plant your feet firmly" (Al-Quran. Verse Muhammad, 47:7).

## b) Al-Falah (Successful)

As an entrepreneur, their goal is to be successful in their business. In the conventional perspective, successful is strongly related with the economic performance such as growth of turnover, profit, investment, personnel, and personal income since the start of the company (Gelderan *et al.*, 2000:172). However, to a muslim the success is measured beyond that. The true muslim believes that all of their action will be evaluated by Allah SWT regardless the deed's size (*Al Zalzalah*, 99:7-8).

"Then shall anyone who has done an atom's weight of good, see it!. And anyone who has done an atom's weight of evil, shall see it".

Verse Az Zalzalah, 99: 7-8

In Islam, *Al-Falah* is not measured in materials or profit (Yazilmiwati et al., 2012:1) but the mean and the way of achieving it (Mohammad Reza *et al.*, 2010:126). Muslim do believe that they are uncounted of all their activity good or bad will be rewarded as stated below,

"Those who persecute (or draw into temptation) the Believers, men and women, and do not turn in repentance, will have the Penalty of Hell: They will have the Penalty of the Burning Fire. For those who believe and do righteous deeds, will be Gardens; beneath which rivers flow: That is the great Salvation, (the fulfillment of all desires)"

Verse Al Buruuj, 85: 10-11

## c) Wealth Creation

In nature, man is created to be very loving on wealth as stated below,

"And violent is he in his love of wealth". Al-Qur'an Verse Al'Aadiyaat (100:8)

In realizing this, the Prophet SAW warned Muslim by saying "The Muslim will not a truly Muslim until he love others as same as like he love himself" (narrated by Anas Ibnu Malik). Imam Al-Ghazali another famous Islamic thinker (year born – death) urged muslims to live moderately in their standard of living or in other word does not encourage muslim to be extreme in gaining materialism. In addition, he suggested that any income over and above the basic necessities of live for oneself and family (eg. food, clothing, and shelter) may be surrounded for the expenditure on the poor (S. Mohammad Ghazanfar et al., 1997:9). Thus, on the basis of a caring religion, every Muslim has the responsibility to help his family, relatives, and others as stated in the Al-Qur'an:

"... Help ye one another in righteousness and piety, but help ye not one another in sin and rancour: fear Allah. For Allah is strict in punishment" (Al-Qur'an. Verse Al Maa'idah 5:2).

Another verse related to this is stated in Verse Al Anfal (8:24)<sup>viii</sup>, Verse Al Baqarah (2:245)<sup>ix</sup> Verse An-Nisaa' (4:36)<sup>x</sup> and Verse Al Imran (3:92)<sup>xi</sup>.

Beside creating wealth for their own good, man are asked to share their profit in order to help prosper the community. It had been mentioned at the number forth in the five pillars of Islam which is "pay zakat". This is parallel with the spirit of Islam which stressed on the development on *ummah* (*community*) in collective (Kriger & Seng, 2005:777). Doing charity through is also a part of muslim responsibility as a *khalifah*. Among the ways to help other people and development of Islam can be through *waqaf*, *sadaqah*, donation, and *zakah*.

## 2.2 Islamic Entrepreneurial Motivation

Wlodkowski, a psychologist and a scholar described motivation with the process of (a) arouse and instigate behaviour; (b) give direction and purpose to behaviour; (c) continue to allow the behaviour to persist; and (d) lead to choosing or preferring a particular behavior (1978:12). There are two type of motivation either intrinsic or extrinsic. The distinct is base on the reason of engagement. The intrinsic motivation means the individual are motivated from within or internal command according to their belief system such as the desire to get power, independence, acceptance, and social status. Meanwhile, extrinsic motivation mean, the individual is inspiring to act in response to the outside factor such as award, money, and benefit (Weiner, 1992: 42).

In Islam, the muslim entrepreneurs are inspired by extrinsic and intrinsic motivation. Muslims are asked to get both, in life and Here-after.

"But seek, with the (wealth) which Allah has bestowed on thee, the Home of the Hereafter, nor forget thy portion in this world: but do thou good, as Allah has been good to thee, and seek not (occasions for) mischief in the land: for Allah loves not those who do mischief." (Al-Quran. Verse Al Qashash, 28:77).

The ultimate goal of extrinsic and intrinsic motivation of muslim is to get blessing from the Mighty Creator Allah SWT, on the Day of judgement. In motivating His creation, Allah SWT promise rewards in order to encourage a man to be an obedient creation and on the other hand goaded strong punishment if he doesn't (Alawneh, 1998: 20). Allah SWT encourages by good recompenses to those who follows His laws and a bad reciprocation for those rebellious, through His strong 'firman' in the Al-Qur'an which are clearly stated in several Verse such as,

"And their Lord hath accepted of them, and answered them: "Never will I suffer to be lost the work of any of you, be he male or female: Ye are members, one of another: Those who have left their homes, or been driven out therefrom, or suffered harm in My Cause, or fought or been slain, verily, I will blot out from them their iniquities, and admit them into Gardens with rivers flowing beneath; A reward from the presence of Allah, and from His presence is the best of rewards" (Al-Ouran Verse Al-Imran (3:195)

"Whoever works righteousness, man or woman, and has Faith, verily, to him will We give a new Life, a life that is good and pure and We will bestow on such their reward according to the best of their actions". (Al-Quran. Verse Al-Nahl, 16:97)

"He who for sakes his home in the cause of Allah, finds in the earth Many a refuge, wide and spacious: Should he die as a refugee from home for Allah and His Messenger, His reward becomes due and sure with Allah. And Allah is Oft-forgiving, Most Merciful". (Al-Qur'an. Verse An Nisaa' 4:100).

As a motivation and for the justice, Allah SWT mentioned that a good Muslim will receive a reward, with the finally seek *Jannah* or heaven are waiting for them. Meanwhile for those who don't, hell is ready as stated below:

"For those who believe and do righteous deeds, will be Gardens; beneath which rivers flow: That is the great Salvation, (the fulfilment of all desires)".

(Al-Quran . Verse Al-Buruuj (85: 11),

The above discussions and evidences showed that the motivational elements are stated in Al-Qur'an in which the up-most motivation is given by the Mighty Creator Himselve that is Allah SWT who inspired His subjects to believe and to hold and works toward His encouragement of the do's and His forbidden of the don'ts.

# 2.3 The Performance of Muslim Entrepreneur

The successful entrepreneur is "the individual who fully committed in Islamic requirements and perform work activities meeting the requirement of it" (Shuhairimi, 2013:334). In this contact, the performance is measured base on intention (*niat*) to perform *ibadah*, getting *Al Falah* (success) and wealth creation in this short life of the earthly world and the effort of pleasing Allah and getting His blessing (Mardhotillah) so to be rewarded by Allah with Jannah in the everlasting life in the Hereafter.

## 2.4 Conceptual framework

Base on the literature, the suggesting model of Islamic entrepreneurial motivation is as below.



# 3. METHODOLOGY

The research will be conducted in qualitative method. Respondent will consist of muslim entrepreneurs in Malaysia.

#### 4. CONCLUSION

Entrepreneurship is part and parcel of the complete way of life of Islam. Islam have their own way of doing business as stated in the *Shari'ah*. As a muslim entrepreneur, the intention (*niat*) is important to justify the reward. The Intention of becoming an entrepreneur is part of the task of performing the fardhu kifayah of *ibadah*, achieving *Al falah* and wealth creation becomes the foundation in understanding the scenario of muslim entrepreneur. The findings of this study is hopes to help in the understanding of Islamic entrepreneurial concept and practices among muslim entrepreneurs and further helps the development of suitable motivational modules to develop new muslim entrepreneurs.

- Verse Al-Israa', 17:70, "We have honored the sons of Adam; provided them with transport on land and sea; given them for sustenance things good and pure; and conferred on them special favours, above a great part of our creation".
- Verse Al-An'aam, 6:165, "It is He Who hath made you (His) agents, inheritors of the earth: He hath raised you in ranks, some above others: that He may try you in the gifts He hath given you: for thy Lord is quick in punishment: yet He is indeed Oft-forgiving, Most Merciful".
- Verse Al-Baqarah, 2:22, "Who has made the earth your couch, and the heavens your canopy; and sent down rain from the heavens; and brought forth therewith Fruits for your sustenance; then set not up rivals unto Allah when ye know (the truth)".
- Verse Al-Anfal 8:24 "O you who believe! Answer Allah and (His) Messenger when he (the Messenger) calls you to that which will give you life, and know that Allah comes between a person and his heart. And verily to Him you shall (all) be gathered".
- Verse Al Baqarah 2:245 "Who is he that will lend to Allah a goodly loan so that He may multiply it to him many times And it is Allah that decreases or increases (your provisions), and unto Him you shall return".
- Verse An Nisaa', 4:36 "Serve Allah, and join not any partners with Him; and do good- to parents, kinsfolk, orphans, those in need, neighbours who are near, neighbours who are strangers, the companion by your side, the wayfarer (ye meet), and what your right hands possess: For Allah loveth not the arrogant, the vainglorious".
- vi Verse Al-Imran, 3:92 "By no means shall ye attain righteousness unless ye give (freely) of that which ye love; and whatever ye give, of a truth Allah knoweth it well".

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Verse Al-Maa'idah, 5:3, "... This day have I perfected your religion for you, completed My favour upon you, and have chosen for you Islam as your religion. But if any is forced by hunger, with no inclination to transgression, Allah is indeed Oft-forgiving, Most Merciful".

ii Verse Adz-Dzhariyat 51:56 "I have only created Jinns and men, that they may serve Me".

Verse Al-An'aam, 6:162, "Truly, my prayer and my service of sacrifice, my life and my death, are (all) for Allah, the Cherisher of the Worlds".

iv Verse Al-Tin, 95:4, "We have indeed created man in the best of moulds"

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# AN EXPLORATORY THE FACTORS AFFECTING THE INTERNET BANKING ADOPTION: A QUALITATIVE STUDY AMONG POSTGRADUATE STUDENTS

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#### **ABSTRACT**

This paper aims to explore and understand the factors that affect the internet banking adoption among postgraduate' students in International Islamic University Malaysia (IIUM). Approach- Semi-structured interviews with eight informants; four adopters and four non-adopters on postgraduate' students were conducted to explore this issue. The results revealed that adopters and non-adopters realized that internet banking (IB) has several benefits and conveniences. However, non adopters were concerned about some factors like trust, ease of use, awareness and security. The results also showed that adopters had positive influence on use of online banking and they did not have problems with these factors because they had sufficient knowledge and experience in using online banking. This study has several limitations such as the sample used for the study was from a specific group of respondents in Malaysia (postgraduate' students at IIUM). The second limitation was that informants were postgraduate 'students who had limitation on banking transactions. The findings are important to enable bank executives to have a better understanding of clients' perception to adopt internet banking. This will help banks' managers and owners formulate strategies that could significantly affect IBA among their customers.

**Keywords:** (IBA) Internet Banking Service, Explore, adopters and non-adopters, postgraduate's students, IIUM

#### 1. INTRODUCTION

Over the past few decades, the world has been an unprecedented evolution of Information Technology (IT) which affected life as we know it. All industrial sectors have been affected especially the services sector. In recent years, the banking industry has undergone rapid technological changes and development. Therefore, banks have launched several service access methods via new delivery channels like ATM technology and Internet Banking Service (hereafter called as IBS). The growing importance of Information Systems (IS) in banks was the establishment of fully-fledged IBS by Security first Network bank in USA in 1995 (Grandy, 1995). IBS is a new type of information system that uses the innovative resources of the internet and allows customers to engage in financial activities through virtual spaces and environments (Al-Majali, 2011).

Furthermore, IBS is extremely beneficial to both banks and clients. The main benefits to banks are cost savings, time saved, reaching new segments of the population, efficiency enhanced reputation and better customers' service satisfaction. Foley and Jayawardhena (2000) suggest that IBS offers new values to

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clients such as reduced costs in accessing and using bank services, increased comfort and time-saving transactions that can be made seven days a week and twenty four hours a day without requiring physical interaction with the bank speed of transaction and better administration of funds (Tuchila, 2000). IBS also offers a competitive advantage to banks by providing an unlimited distribution network. Through this technology, banks are able to provide services electronically such as lowering transaction costs and adding value to the customers' banker relationship. Moreover, a comprehensive online banking service strategy is essential for success in the increasingly competitive financial services market. Competition and changes in technology and lifestyles have changed making it more competitive and innovative. Due to the speed of technological change, bank are forced to continuously search for alternative and innovation services and products to keep with the rapidly change world (Jeevan, 2000). As Booz and Hamilto (1997) predicted that approximately 20% of retail and 30 % of businessmen will use some form of Internet banking within the next five years.

## 1.1 Objective of the study

There are past literatures studies on the adoption of internet banking, several of these studies have tended to focus on developed countries such as USA and UK (Pikkarainen et. al, 2004). However, still not predictable in some developing countries (Kaled, 2008; Zolait et. al, 2010; Al Nahian and Shahriar, 2009; Mohammad and Anton, 2010). Since the success or failure of internet banking is contingent upon the degree of its adoption.

This study attempts to explore and better understand these factors through the sampling (postgraduate' students) customers point of view. The IBS literature suggests five success factors or constructs for IBSA (convenience, ease of use, trust, security and awareness) for this study. The research question for this research can be formulated as: (i) What are main factors which influence the adoption of internet banking services?. In this context the factors that affect the adoption rate of internet banking which were considered in this study are listed as follows: convenience or benefits; ease of use; trust; security and awareness.

#### 2. LITERATURE REVIEW

#### 2.1 Internet Banking

Internet banking or online banking has been defined as "the service that allows consumers to perform banking transactions using a computer with an internet connection" (Lloyd, 2007). Lloyd explains that these transactions include checking the balance in one's bank account transferring funds between accounts and bill paying. Pikkarainen et. al (2004) defined internet banking as "an internet portal used by clients for different types of banking services ranging from bill payment to investments". According to Enu (2000) defined online banking " the use of the internet as a remote delivery channel for banking services and an internet bank is defined as a bank that offers transactional services via the internet. Rahmath and Hema (2011) propose that IB is the latest initiative in the spectrum of innovative banking services, Tele banking, ATM and debit cards. Internet banking has emerged as effective delivery channels for traditional banking products.

With The exception of cash withdrawals internet banking gives customers access to almost any type of banking transaction at the click of the mouse (De, 2001). Electronic banking technologies refer to financial activities that involve use of electronic technology (Lee, 2009) ranging from the now ubiquitous automatic teller machines to other services such as direct deposit, e-fund transfer, e-bill payment, telephone banking and internet banking. Dube et. al (2009) identify that there are three functional levels/

types of internet banking that are currently employed in the market place and these are: Informational, Communicational and Transactional

# 2.2 The adoption of electronic banking

Sathye (1999) defines adoption as" the acceptance and continued use of a product, service and idea. "The critical question is whether customers will accept the electronic form of receiving information and performing transaction. Khaled (2010) explained that individual attitude toward accepting and adopting newly introduced technologies determine the success or failure of such technologies. As Zeithaml and Gilly (1987) found that the main reason for consumers not adoption ATMs was the lack of access, rather than their avoidance of the technology at its introductory stage

Another related study Enu (2000) reported that having access to e-banking technologies is related to whether the consumer is affiliated with a bank that offers a variety of service options including computer banking. He also mentioned that perception of socioeconomic characteristics and innovation characteristics have proposed to influence consumers' adoption technological innovation. Therefore, internet banking adoption is defined as "The customer's usage of multiple services represented in inquiring about account balance applying for a loan, remitting money from one count to another and many other services that are basically carried out online Shih and Fang (2004).

Another author described e-banking as internet banking that involves the provision of banking services such as accessing account transaction funds between accounts and offering internet financial services. Tan and Teo (2000) explained that the challenge to expand and maintain banking market share has influenced several banks to invest more in making better use of the internet.

# 2.3 Theoretical underpinning theory of Internet banking adoption

# 2.3.1 Technology Acceptance Model (TAM)

The Technology Acceptance Model (TAM) is one of a number of studies that have helped in providing theoretical framework for research in the adoption of information technology over the last few decades. TAM has been used extensively as the basis of a range of empirical studies (Muhammad, and Khalil, 2011). Introduced by Davis in 1986 TAM was specially designed to explain and predict the behavior technology acceptance at work by specifying the determinants in belief, attitude, intention-IT usage relationships (Davis, 1989).

Moreover, Moon and Kim (2001) reported that, it is necessary to further explore the nature of technology and using —context factors that may alter the adopter's acceptance. For example, recent research has illustrated that "trust" has a striking affect on users' willingness to engage in internet exchange of money and sensitive personal information. Another example is the perceived risk, Muniruddenn (2007) illustrated that perceived risk is a main determinant of adoption behavior business to consumers (B2C) e-commerce environment. Since the introduction of TAM in 1986, a number of studies have applied it in a broad variety of IT applications to predict user acceptance behaviors of computer technologies such as wireless email, voice mail and online shopping (Gefen and Straub, 2003). As Hamza et. al (2011) mentioned that the TAM posits a user's adoption of new information system is determined by that user's intention to use the system which in turn is determined by the user's beliefs about the system.

Furthermore, Davis (1989) noted that technology acceptance research must address how other variables influence ease of use, usefulness and user acceptance. Therefore, perceived ease of use and perceived usefulness may not explain behavior intentions towards the use of internet banking, necessitating a search for additional factors that can better predict the acceptance of internet banking. Additionally,

Muniruddenn (2007) stated that TAM examines the mediating role of perceived usefulness and perceived ease of use in their relation between external variables and the probability of system use. The use of an extended TAM as a theoretical framework is adopted to test the effect of external variable such as, security, risk, trust and awareness on the intention to use IB.

# 2.4 Factors influencing adoption of Internet Banking

Previous studies will show that altitudinal factors (also referred to as perceptions, characteristics, or experiences) affecting internet banking adoption. Some factors have most frequently demonstrated statistically significant relationship with internet banking adoption such as convenience, perceived ease of use, trust, security and awareness (Lloyd, 2007). These factors demonstrated statistically significant relationship in studies performed in the developing countries such as Norazah (2010) in Malaysia; Emad (2005) and Al-Majali (2011) in Jordan; Salim (2008) in Oman; Naris (2011) in Tunis; Salim (2010) in Labia; Naoufel and Elissar (2007) in Lebanon; Padaachi and Seetanah (2010) in Mauritius; Al Nahian and Shahriar (2009) in Bangladesh.

#### 2.4.1 Convenience

Padaachi and Seetanah (2010) pointed out that banks benefits from lower operating by offering online banking services which require less employees and fewer physical branches and also customers will benefit, around-the-clock availability and speed of IBSs. He also added customers can pay their bills at any place and any time when they access internet because of the versatility of e-payment method. As Pikkarainen et. al (2004) found that internet banking one the cheapest and more efficient delivery channels. He also added that benefits of the end adopters are numerous and include mainly convenience of service (time saved and globally accessible service) lower cost of transaction and more frequent monitoring of accounts among others. Furthermore, Ramsay and Smith (1999) explained that the main motivator for internet banking to be convenience in term 24 a day and 7 days a week access and time saved. Accessibility, which may be related to convenience, has been found important Fang He (2009).

## 2.4.2 Perceived ease of use

According to Muhammad and Khalil (2011) perceived ease of use is defined as: "the extent to which a person believes that using the system will be free of effort". In order to prevent the under-used useful system problem, online banking systems need to be both easy to use and easy to learn Emad (2005). The reason is that effort saved by improved perceived ease of use can enable people to do a better job or accomplish more at work, thus enhancing their job performance (Muhammad and Khalil, 2011).

In addition, Padaachi and Seetanah (2010) reported that perceived ease of use is postulated to have a positive direct effect on attitude toward using IT. Therefore, the higher perceived ease of utilizing a particular IT makes it more likely that the individual will have a positive attitude toward using it. Another related a study in Bangladesh on 400 banks' clients have been revealed positively affects the attitude toward using the technology and the findings imply that banks need to make internet banking ease of use Jannatul (2010). In the same field Kesseven and Boopen (2007) tested the impact of the some factors upon the attitudes of retail users of banking services in Mauritius, he found that the most significant factors are ease of use and trust to adopt of IB. Another study have done by Emad (2005) found that the research threw up three main issues related to perceived ease of use in Oman' banks, easy to manage and easy to learn. The researcher also inferred the difficulty of navigating on internet was highlight by Oman bank managers.

On the other hand, not all studies found that perceived ease of use has a positive effect on the adoption of online banking. For example, in developed counties such as Grandy (1995) reported that, the relationship between ease of use and attitude to use online banking no significant and it has not been added to the model. Another related study in Fenland Pikkarainen et. al (2004) found that the perceived use of use does not influence the adoption of online banking.

### 2.4.3 Perceived trust

Trust can be defined as "generalized expectancy ...that the word, promise, oral or written statement of another individual, or group can relied upon" (Samsudin and Nor Azila, 2009). While Patrick and Andrew (2002) defined trust as "users thought, feeling, emotions, or behavior that occur when they feel that an agent can be relied upon to act in their best interest when they give up direct control". Mohammad and Anton (2010) defined trust in manufacturer distributor as a belief that the partner company will not take unanticipated action that may result in negative outcomes for the firm.

Zakaria (2009) explained that, trust is needed not only in the pre-transaction and transaction phases, but also in post-transaction phase in the form of warranties and reimbursements. He also illustrated that trust in online banking addresses several different aspects of information system, including technical, reliability, and security information quality. Several studies have proved the significant relationship between internet banking and trust or any e-commerce. For instance, Michael (2008) tested on 1,500 banks' clients from the three banks in Jamaica, the findings indicated that trust is indeed a significant factor impacting both perceived usefulness and ease of use to adopt online banking. Moreover, Al-Shukkar and Hasan (2005) pointed out that the online services need the trust element, since trust is one of the main additions influencing the electronic setting.

Furthermore (Nor and Pearson, 2007) in Malaysia, this study has been shown that the relationship between trust and the attitudes of a number of college students towards the IBSA was positive. In the same field, Mohammad and Anton (2010) tested the impact of trust factor on corporate' clients who use internet for banking in Jordan, this study indicated that trust has a significant positive effect on ease of use to adopt IB. The study also showed that, the more a user trusted the bank and its website, the higher their belief that online banking was easy.

#### 2.4.4 Security

Security perceptions are defined as "the subjective probability with which consumers believe that their private information will not be viewed consistent with their confident expectations" (Naha and Saroj, 2010). Security of transactions over the internet is a burning issue and it is an important factor that clients consider before adopting internet banking. Some customers avoid electronic banking as they perceive it as being easily susceptible to fraud (Al Somali and Roya, 2009). Another related study by Sathye (1999) found that 73% avoided the adoption internet banking because they are concerned about security and safety of transactions over the internet. Moreover, he also inferred that clients will not be ready to change from present familiar ways of banking to online banking unless their specific need is satisfied.

#### 2.4.5 Awareness

Rogers (1983) defined awareness of innovation as "innovation's existed and gain some understanding of how function". While Sathye (1999) has defined awareness of innovation as" understanding whether the customer is aware or not aware of service itself and its benefits". He also shows that low level of IBS awareness is a critical factor in causing customers not to adopt internet banking. In this field Al-Majali (2011) indicates that the importance of awareness for the adoption of any innovation and increasing the

awareness levels of innovation of e-commerce among users has been identified as a major catalyst to encourage the adoption of electronic technologies.

Additionally, Kaled (2008) explained that, the banking leader swishing to develop an Internet solution must educate customers on the security measures that awareness behavior is to build a trust relationship between the bank and the customer. He also illustrated that banking leaders then need to offer preferred products based on concepts such as knowing the customer and the customer's history stored within the bank's database. Furthermore, Tan and Teo (2000) suggested that if the banks provide their customers with sufficient information regarding the IBS, the customers will be more aware of these services. He also added that the banks can enlighten their customers on these services via brochures and any promotional campaigns.

#### 3. METHODOLOGY

The qualitative method was used to gain insight into how postgraduate students value online banking by interviewing both adopters and non-adopters of Internet banking. Eight informants were conducted with postgraduate' students who study PhD and master in IIUM and they have accounts in banks. The researcher chose this sample because it was mainly very well educated. Another reason is that, postgraduate's students have knowledge, awareness and several skills on usage of technology, in particular, computer and internet. The sample also contained two groups, the first of which consists of four of internet banking adopters and the second group consists of four non-internet banking adopters. This approach allowed us to understand the perception of postgraduate's students. For the purpose of this study, the convenience sampling technique was employed. It is defined as consisting of participants who are readily available and easy to contact. In spite of, this is considered as the least rigorous technique that involves the selection of the most accessible subjects, but is the least costly to the researcher, in terms of time, effort and money (Marshall, 1996).

Standard semi- structured interview was used not only for the purpose of answering the study questions, but also to explore other additional and related information that may help meet the objective of this study. All interviews were conducted in person. They lasted 14-18 minutes with an average 16 minutes for adopters. However, non-adopters lasted 10-14 minutes an average 12 minutes because they did not have much information about online banking. Furthermore, transactions of adopters were limited with banks just fund transfer because they are not business' students.

A set of interviews topics guided the interviews, with a list of probing questions to draw out informant opinions. Topics were discussed as perceptions to identify the major factors which influence the adoption of online banking service from postgraduates' perception in IIUM. Five factors were discussed with informants; these factors include convenience, perceived ease of use, trust, security and awareness. All eight interviews were audio-taped and transcription process yielded 18 pages.

### 4. FINDINGS AND ANALYSIS

The content analysis determined five affecting factors to internet banking. The interviews among postgraduate' students indicated that some students have adopted internet banking and the others did not have adopted internet banking. Adopters and non-adopters were contrasted to determine possible difference.

### 4.1 Convenience

From the first interview question for most of informants adopters and non- adopters mentioned that internet banking has several benefits and convenience. Mostly, convenience and the benefits were described in terms of lifestyle, workplace use and housebound use, not having to travel, personal safety, not having to wait and also as found in the study, saved time 24/7 access. This has been viewed by the third informant as:

"I found banking online very well because of not having to travel to local branch or anything like that. I can do it twenty four hours a day. "(Adopter 3)

Another informant also has stressed convenience as one the factors. He stated that:

"people want rapidness and fastness, these the main two factors in order to adopt online banking, If you are in your business or in your home, you do not need to go bank and spend time for everything" (Adopter 1). The view of the second adopter informants is supported by the first adopter:

"Many factors to lead to adopt online banking first, reduce the time, pay the bills and if you are in your home or your office you can pay the electricity bill, and water bill instead of going to the office." (Adopter 2)

Another informant adopter said "technology plays vital role especially in financial sector, taking about the facilities to provide holders by using of online banking" (Adopter 4).

Adopters and non-adopters made similar comments related to the issue of convenience, the first non-adopter sated: And another informant indicated that:

"Of course, online banking has too much benefit; first of all, minimize cost, for example, no need to travel from area to another area when you transfer money." (Non-adopter2). The fourth informant also shared the same view with the rest informants (Non-adopters 4). He further elaborated that:

"It is easy and save your time and you do not got to bank if you need or send money just you can transfer from your room."

The findings of the this study reveal that convenience is the most important factor in making the decision to bank using the internet both adopters and non-adopters. Most informants agreed that internet banking has several benefits and convenience. Adopters also felt more comfortable and enjoyable to deal with on this technology.

## 4.2 Perceived ease of use

Ease of use or usability was frequently cited and found linked to students' perceptions of complexity. Although most non-adopters already had experience using computers and internet, they felt that using online banking was difficult. Interestingly non adopters had formed views of complexity. The following was comments about this issue:

"I think one time I try to use and access to online banking, how I do it, I have confuse for using the transaction because it has a lot things inside the website and some people are not good enough in English in these facilities so they do not understand some terms in the bank' website." (Non-adopter 2)

Through this comment, we can see that English language plays essential role to adopt online banking because English' language is computer language.

Other informants mentioned that online banking is new technology and it has several complexes in the first time when the people use it.

"It is difficult for me. I think why it is difficult, I do not use it like hand phone. Any technology is difficult the first time but when I use it, it will become easily." (Non adopter 4)

Another informant is supported this issue:

"people cannot be use the IT; they are not familiar in modern IT system. It will be difficult for them to use modern technology compared to organizations and companies who have information and can use this technology. "(Non-adopter1)

Some customers do not understand technology and they need to guide them to go the bank' website and how to inter to their accounts and open the website? They need to explain and learn using of online banking:

"There is problem even they know online banking; they do not know to use it because many technical terms that has been used. "(Adopter 4)

On the other hand, adopters stated that internet banking is ease of use and they do not face difficulties when they use it and also others mentioned that online banking is easy way to conduct banking transactions. The first informant reported:

"All customers of banks are adopting to find the entrance to online banking is free, it is easy for me to use online banking and I have knowledge in the internet banking." (Adopter 1)

Another adopter said:

"I expect to be easy to do something that, online banking is easy way to conduct banking transactions and I perform my bank transaction on web easily." (Adopter 3)

In this factor, it is observed that most adopters did not face difficulties when they use this technology and they are familiar with using internet banking. However, non-adopters felt that ease of use or the difficulty in using online banking was problem for them. They also felt that using internet banking was complicated to understand and not easy because it is new technology. Therefore, banks should educate their customers to adopt this technology specially students' segment.

#### 4.3 Trust

This statement highlights how the trust was often perceived by informants. Some adopters informants believed that customers' trust depend on the bank:

"The customers' trust depends on the bank because I deposit my money in the bank and I trust in my transactions in the bank so, I also have to trust online banking." (Adopter 1)

The second adopter also shared the same view. He elaborated that:

"The banks have to make a high trust for their customers and they encourage non users to use this technology because it saves time and effort too and non users should use this technology specially universities' students because they have more education compared to other people."

Distrust of technology was also revealed by various comments made about the security and privacy of internet technologies. Some informants did not use online banking because they did not have confidence with small banks in order to achieve their transactions by online banking:

"There is a major factors which is very important in the banking industry so a big bank is trusted because the customers trust to deposit their money in a big bank but small banks have some problems for trusting, I like to deposit my money in a strong bank to use online banking later." (Non-adopter 1)

The third non-adopter informant had another feeling about trust. He said:

"In my case, I do not trust for using of online banking because the hackers and someone access to my account. So, if the bank has risk without online banking no doubt for me, I cannot put money in this bank sometimes".

The view of the fourth informant (non-adopter) is supported by the third informant by stating:

"I do not trust because I will be afraid if my money is lost or any hacker to access to my account, this is important issue and criminal."

To summaries this, trust is one the most critical issues. According to informants, some of them had this concern but non adopters had greater levels of worry, they did not have confidence to make any financial transactions via the Website. Moreover, trust is related to experience with the bank and bank policy, which contributes to customers' trust in bank business practices.

# 4.4 Security

Security is the main challenge because customers are doing the financial transaction through banking web site and they are not sure about the successful transaction or hacking of important personal information. So, the greatest concern expressed by most non-adopters was security. Many non-adopters commented on this:

"I do not like using online banking system because I hear about high hacking people and even though there are a lot of facilities, it has high risk because after I lose my money nobody can be responsibility, I do not have any evidence." (Non-adopter 2)

Additionally, another non-adopter shared the same view, as he stated that:

"I will be afraid if my money is lost or anyone hacker to access my account this is important issue for example, if I send money by internet to my friend and he does not receive, who is responsible for that" (Non adopter 4). From the above statement, there is strong indication, the fear of hackers, lack of trust and privacy are the core of customer's security concerns in internet banking transactions. Furthermore, another informant reported that:

"Security is the major factor and privacy for online banking system because nowadays, banking sector is a big dealing especially for companies, they have many transactions. So, banks have to give reality and security of customers." (Non adopter 1)

Most non-adopters informants had the similar feeling about security. They were afraid from hackers or someone accesses to their accounts when they use online banking.

In contrast, some adopters had a positive feeling for usage of internet banking they mentioned that their faith in banks having strong security measures such as virus checkers and recovery from system failure. For example the second informant explained that:

"Bank seeks to achieve and realize the safety for customers in the use of internet banking for example, my account was closed twice because one hacker entered to my account and bank informed me, I tried the second time but I cannot enter to my account. As well as, he added "banks have a high level of modern virus to protect money and personal information, so that one cannot penetrate this information or have access to personal account or banking transactions." (Adopter 2)

Moreover, another adopter stressed that banks have modern systems to protect their customers' transactions by internet. He said:

"I did not this find problem, some of the banks have following new policies like that change identity or kinds of internet security coders very frequently like mobile phone number, if you have wrong or any mistake through entrance to use online banking for example, transfer money the system will lock directly." (Adopter 1)

The fourth adopter is supported the others, he mentioned that:

"in this regard, banks has technical department, when the customers do their transactions by online, there are many details to protect privacy and security. Bank is serious in particular in terms of protection customers' information, it does not give any information for other."

From the above statement, it can be observed that adopters did not have concern regarding security due to they have sufficient knowledge and experience for using it. However, non-adopters did not deal with this technology and they did not have enough information to use online banking and they also had concern about security. It is observed that Adopter who had a technical background and understood security technology, they had higher levels of confidence in internet security than others.

#### 4.5 Awareness

According to the findings of the interviews, some non-adopters had low awareness of online banking services and they also had little information about online banking. Due to this reason they did not want to know what are advantages and disadvantages on using it. Moreover, they said banks did not provide their customers much information about using this technology. This can be seen that the following informants' statements regarding the awareness:

"I have little information about online banking, I think this phenomena is new I do not know completely about transaction of online banking and he said also banks have to educate their customers and give them information to use online banking and advertising is very important from the banks to customers." (Non adopter 1)" I do not have information about transaction and how to access, how to use just my bank gives me little information for check balance. If the banks provide these services and they have to explain their people how to use, how to do their transactions." (Non-adopter 3)

The fourth non-adopter also supported the previous argument. He mentioned that: "Just I lessen my friend who use internet to send his money from online banking and he buys air plane ticket and he said the bank must gives aware to people to use internet banking." (Non adopter 4) The above comments from non-adopters mentioned that they did not have enough information and they also are not much aware about use internet banking.

In contrast, adopters had a positive feeling regarding the awareness and they have enough information for using online banking. He explained about his information towards using online banking:

"I got information about using internet banking from my bank and my friend tell me about use and banks gives me information to use online banking but just users and when you use this service, bank will guide you what are the next steps." (Adopter 2)

Another adopter has stressed that: "Nowadays, bank gives this option another bank must at least that kinds of options. If you go to the bank or you open online banking service, you have so many advertisements and you will get some discount" (Adopter 1).

As the third adopter mentioned that banks have to educate and aware their clients:

"I think to take about the awareness we can see clients of banks, bank must aware their clients and they have educate adopt online banking and also the society how be developed."

In summary, it can be observed that most non adopter had less awareness of internet banking applications and they had little information about using of online banking because they did not deal with this technology. On the other hand, adopters had more awareness of online banking and they got sufficient information from their knowledge and experience on use it. Table 1 shows summary of informants 'perception between adopters and non–adopters of IB.

**Table 1: Perceptions of interviewees** 

Easters Internet healing adentors Non-Internet healing adentors			
<u>Factors</u>	Internet banking adopters	Non-Internet banking adopters	
Convenience	It is rapidness and fastness, save the	of course online banking has too much	
	time; 24 hours a day and 7 a week.	benefits. First of all, minimize cost, it is easy	
	Reduce the cost	to transfer money and time saved;	
Ease of use	It is easy to use and easy to learn for me;		
	it is free and easy way to conduct	For me, It is difficult to use and access,	
	banking transaction	It has many technical terms inside web side;	
	· ·	•	
	I do not face any difficulty.	computer language is difficult.	
Tmist	the austomore' trust depend on the healt	I do not trust for using online healting: I will	
Trust	*	I do not trust for using online banking; I will	
	because I deposit my money in the bank	• • • • • • • • • • • • • • • • • • • •	
	and I trust in my transactions in bank;	have problem for trust.	
	Banks have to make a high trust for their		
	customers,		
	I did not find problem; Banks have a		
Security	high level of modern virus to protect	It has high risk, I hear high hacking; I will be	
-	money and personal information; There	afraid anyone accesses my account; It is a	
	are many details to protect privacy and	major factor for online banking system.	
=	are many actums to protect privacy and	major factor for offine bunking system.	

	security.	
		I do not have information about transaction
	I have got information from my bank	by IB; I do not completely about transaction
Awareness	and my friend; I have aware abut use it;	of IB; I lessen my friend how to use; I think
	my bank guides me to use IB	this phenomena is new.

#### 5. CONCLUSION

The main objective of this study is to explore and understand the factors affecting the adoption of internet banking by (adopters and non- adopters) students in IIUM. From the analysis, we can come up with the conclusion that there are several factors that need to be considered and it is the duty of banks to make sure that customers start using the internet banking services.

Convenience, twenty four hours availability, time savings and ease of conduction transactions at home were important benefits for internet banking mentioned by adopters. This study showed that students (adopters and non-adopters) realized that online banking will provide them with many benefits in the future.

According to study's findings, security and lack of trust have become a concern to non-adopters. In spite of, online banking provides flexibility in performing financial transactions and banks also have the means strong protection for security of information, non-adopters are reluctant to use the system due to the risk associated with it. Security also is element in the risk and clients are not ready to face any risk on using online banking. Non-adopters also did not believe that banks could protect their transactions when they used it. However, adopters trusted the ability of the banks to protect their transaction and privacy. In this case, banks need to build confidence about internet banking. The objective of the banks on the trust and security issues must be clear and their first priority.

Another issue raised by the non-adopters e-banking was difficult for them to conduct transactions online. They found difficult to understand and not easy while it was found easy for the adopters.

Eventually, the hindrance about awareness of online banking services is that, adopters were more aware and they have enough information on using internet banking. However, non-adopters were less aware of e-banking application and they did not have enough information how to use it. Therefore, , they did not know sufficient information about the advantages of doing transactions online and even banks are not providing much information so that customers can become well aware of online banking services.

#### 6. **RECOMMENDATIONS**

- a. Banks must inform their clients about its security policy through all available media such as their websites or newsletters.
- b. Banks must consider training and education programs that will help clients and non-adopters, in particular, overcome the difficulty of using online banking.
- c. Banks should make an awareness campaign of security aspects of their internet services to encourage the use on internet banking.

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# THE OBSTACLES FACING CONVERSION PROCESS FROM CONVENTIONAL BANKS TO ISLAMIC BANKING: A REVIEW OF LITERATURE

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#### **ABSTRACT**

The main purpose of this paper is to review, theoretically, the obstacles that will be faced by the conversion process. However, a considerable demand for shari'ah compliant products has been created by increasing knowledge about Islamic banking. In particular, conventional banks (CBs) are trying to capture the market by opening Islamic branches/windows or converting themselves into full-fledge Islamic banking. For example, some conventional banks opened Islamic units such as HSBC in 1996, BNP Paribas, CIMB Malaysia in 2003, and Banque de Misr in Egypt in 1980. In turn, some CBs decided to convert to Islamic banking model after the significant growth of Islamic banking such Al-Jaseera Bank in Saudia Arabia, Bank of Sharjah in UAE and so on. Then, the conversion from CBs to Islamic banking is not easy. It is change from the dept-system to equity-system (Garas, 2006). Hence, the practical application indicated that there are a range of obstacles in the process of converting from CBs to Islamic banking. These obstacles are various from bank to bank and country to country based on the situation of each CB and its economic and social environment. This paper will address these obstacles and provide a conceptual framework of solutions.

**Keywords**: conversion process, conventional banking, Islamic banking, motives of converting.

#### 1. INTRODUCTION

The significant growth of Islamic banking in developed and developing economies contributes to its considerable extension and enhances acceptability especially in Muslim countries. However, this movement has attracted many conventional banks in Muslim and non-Muslim countries responded to this growth by establishing Islamic units such as Islamic windows/branches and providing Islamic services and products to their customers such as HSBC, Deutshe Bank, Citibank, Banque De Misr in Egypt (1980), Saudi Hollandi Bank in Saudi Arabia, CIMB in Malaysia (2003), and so on. In turn, there are several conventional banks in Muslim countries, especially in Gulf Cooperation Council (GCC), converted to Islamic banking system such as Aljaseera Bank in Saudi Arabia in 1998, International Kuwait Bank in Kuwait state in 2003, Bank Muamalat in Malaysia which established as a result of merger between Bank Bumiputra and Bank of Commerce in 1999 (Sole 2007).

However, converting from conventional banking to Islamic banking is not easy. It is converting from system to another system. This conversion is from system based on dept-based system to equity-based system (Garas, 2006). Hence, the practical application indicated that there are a range of obstacles in the process of converting from CBs to Islamic banking. These obstacles are various from bank to bank and country to country based on the situation of each CB and its economic and social environment. Duo to the importance of converting process, the Accounting and auditing Organization of Islamic Financial Institutions (AAOIFI) issued the Shari'ah Standard No. 6 to converting from conventional bank to Islamic banking.

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The main purpose of this standard is to explain procedures, mechanisms, treatments which are required for converting from a conventional bank to an Islamic bank.

The previous studies, Alani & Yaacob, 2012; Al-Atyat, 2007; Mustafa, 2006, Al-Martan, 1999), which have addressed this phenomenon indicate that are a range of obstacles and challenges in process of converting from conventional banks to Islamic banking. These obstacles divided into six categories, namely; (a) administrative obstacles, (b) Human resources obstacles, (c) Regulations and policies obstacles, (d) Shari'ah obstacles, (f) the development of Islamic banking products, (e) the legislative vacuum of control system appropriate to the nature of Islamic banking.

In this contest, the desire of converting from conventional banking to Islamic banking whether by opining Islamic windows/branches or by converting themselves into a full-fledge, are prompted by several motivations. These motivations are varied based on several factors. For example, religious scruple controls conventional banks' customers to prompt the conventional bank's administration to converting to Islamic banking system or offer Islamic banking products. This factor is observable in most Muslim countries. Some CBs are prompted by other factors such as higher profitability, to maintain existing customers, and attract new customers to compete with Islamic banks (Mustafa, 2006).

However, the paper will be divided into four parts. First part will explain the conception of conversion; explain the factor behind the motivations prompted CBs to converting into Islamic banking. Secondly, it will present the sources of converting, the mechanism of converting, the principals (controls) of converting, and the perspectives of supporters and opponents of establishing Islamic branches/windows in conventional banks. Thirdly, the paper will show the main obstacles and challenges will be faced CBs in converting to Islamic banking. Finally, this part will provide some recommendations that can be implemented to facilitate the process of conversion from CBs to Islamic banking.

## 2. THE CONCEPT OF CONVERSION PROCESS

The remarkable growth of Islamic banking system in developed and developing economies in the Muslim world contributes to its significant expansion and enhanced acceptability. This movement has attracted many international conventional institutions such as Standard Chartered Bank, Citibank, HSBC and Deutshe Bank, to respond to this growth by establishing separate Windows/branches and providing Islamic financial services to their customers (Haque & Tariq, 2012).

The increasing knowledge of Islamic banking and finance has created a huge demand for shari'ah based or shari'ah compliant products. Therefore, banks are trying to capture this considerable market by either converting into full-fledge Islamic banks or opening a window/branch for the Islamic based transactions (Alani & Yaacob, 2012).

Recently, converting from conventional banks to Islamic banks becomes the most important event especially in Muslim countries. According to Alani & Yaacob (2012), the converting process from conventional banks into Islamic banking has been happened in the Middle East region. Over one decade, many banks turned from conventional model into Islamic form in countries such as Kuwait, Saudi Arabia and UAE. In addition, they opened Islamic banking branches/windows side by side with conventional system. Also, there are many conventional banks decided to convert to Islamic banking in Muslim countries.

However, this paper address the conception of conversion, some authors use transformation term. Therefore, in this paper converting, switching, and transformation are given the same meaning.

"Convert" in English language means "to change (something) into a different form or properties; transmute or transform." On the other words, "to turn from original or intended use to another or a particular use or purpose (Cambridge Dictionary, second edition, 2013).

In contrast, transformation in English language as defined in Business Dictionary is "In an organizational context, a process of profound and radical change that orients an organization in a new direction and takes it to an entirely different level of effectiveness". Unlike 'turnaround' (which implies incremental progress on the same plane), transformation implies a basic change of character and little or no resemblance with the past configuration or structure (business dictionary, 2013).

According to Rbaia (1989), in terminological meaning, conversion is converting from corrupt situation to favor religiously. Then, converting means "transformation and change from certain situation to another situation. The new situation made by converting must be better than last situation. As it mentioned, the corrupt position in the conventional banks is dealing with transactions that incompatible with shari'ah law (Haram). In fact, favor religiously is avoiding from dealing with interest (Riba).

However, the converting process from conventional bank into Islamic banking differs from conventional bank to another based on different motivations. Thus, it is important to identify the most important motivations that prompting the conventional banks to convert to Islamic banking.

## 3. MOTIVATIONS OF CONVERSION

In this section, the important motivations that inspire conventional banks to converting to Islamic banking are discussed. According to Al-Atyat (2007), the main motivation for converting from conventional banking to Islamic banking is the desire to maximize profits. In fact, in financial management this aim is the main objective for any institute. Since the Islamic banking represents a rich source of profits, hence, it is natural to see conventional banks to resort taking advantage of this field.

In this context, Mustafa (2006) who assessed the phenomenon of transformation from conventional banks to Islamic banking, investigate this research in the Saudi Arabia. In this research, personal interviews are used with officials in the banks which converted to Islamic banking. Furthermore, a questionnaire is designed and distributed among a selected sample of workers in departments of Islamic banking services in conventional banks.

However, Mustafa (2006) argue that the motivation of 82% of conventional banks in Saudi Arabia which converted to Islamic banking was to maintain existing customers of the bank. The results also show that the motivation of 47% of conventional banks was to compete with Islamic banks and attract new customers. Furthermore, the motivation of 24% of conventional banks was increasing the rate of return on investments that comply with Shari'a law compared by the rate of return in conventional formulas.

Following Mustafa (2006), Mamun (2011) investigates the characteristic variables of the Islamic banks in Bangladesh from the bankers' point of view. They answer the questions in a 5 point likert scale from 2 (strongly agree) to -2 (strongly disagree). The results reveal that the most important variable perceived by the respondents is the high growth in net income of the sector (1.05). The findings of this research also show that the Islamic banking is more profitable (0.84).

In addition, Mamun (2011) also explores the main reasons for adopting Islamic banking system in Bangladesh. In this study which titled "prospects and problems of Islamic banking

from banker's perspective: A study of Bangladesh", he tries to find the factors which motivate the adoption of Islamic banking system using a 5 point likert scale from 2 (strongly agree) to – 2 (strongly disagree). The findings indicate that the most important factor which motivates the adoption of Islamic banking is the religious belief of customers (1.27). Furthermore, He argue that the segment of religious people among banking customers feel a strong need to adhere to Islamic principles and rules in every aspect of their lives. Consequently, conventional banks are motivated to convert to this system. According to Mamun (2011), the second reason to adapt Islamic banking system in Bangladesh is higher profitability of Islamic banking system with the rate 0.35.

Alani and Yaacob (2012) also examine the factors motivated conventional banks to converting into Islamic banks in the Middle East. They use the descriptive analytical approach in order to survey senior's directory in Islamic banks and traditional banks that offer Islamic services. This study conclude that risks and profits are the main factors motivated conventional banks in Kuwait to adopt Islamic model and move away from traditional model. Also, religious scruples motivate conventional bank's customers to create Islamic services to meet their needs and convert to Islamic banking system. The results indicate that almost 95% of total customers accepted the Islamic shari'a laws which make conventional banks to offer Islamic services or switch to Islamic banking.

Moreover, the results of Alani and Yaacob (2012) reveal that the success of several conventional banks which converted to Islamic banking model is a reason to encourage other conventional banks to convert to Islamic banking system.

After reviewing the previous studies which interested in the main reasons or motivations to adopt Islamic banking or converting from conventional banks to Islamic banking, in the next section, the sources of converting will be explained.

# 4. THE SOURCES OF CONVERSION

The authority seeking to convert from conventional banks to Islamic banking indicates the source of conversion. This authority may arise from inside or outside of the conventional bank. Moreover, this authority divided into two groups; public-authority or private-authority.

According to Al-Atyat (2007), there are three sources of conversion; first, decision to converting is made by the stockholders or the owners of conventional bank. This source motivated them to repent to Allah (God), and get rid of the businesses and activities contrary to Shari 'ah rules especially Riba (Usury). In addition, sometimes the owners of conventional bank, who thinking to convert to Islamic banking, are influenced by motivations which already explained in previous section. Secondly, another source of conversion is external factors such as new investor(s) who are looking for purchasing the conventional bank and converting it into Islamic banking. They also may have one of the previous mentioned motivations. Thirdly, the source of conversion may originate from the Legal authority (the state) which decided to convert the conventional financial and banking system to comply with shari'a law, namely; Iran, Sudan, and Pakistan.

# 5. THE MECHANISM OF CONVERTING FROM CONVENTIONAL BANKING TO ISLAMIC BANKING

According to Alani & Yaacob (2012); Al-Atyat (2007); and Al-Martan (2005) there are several formulas applied by conventional banks for converting to Islamic banking system. According to the experience of conventional banks converted to Islamic banking, there are two main types of converting process, namely:

- a. Macro Conversion (full-fledge): Macro conversion is the decision which is made by monetary and political authorities happened in Sudan, Pakistan, and Iran. In turn, the full-fledged conversion process also occurred in conventional banks which decided to convert to Islamic banking accordance with the principle of gradual application (step by step). In this process, the bank's management announces its intention to convert according to a declared plan and specific time.
- b. Micro Conversion: In this conversion process, the conventional bank converts one or more of its branches in order to provide only Islamic banking products compliant with Islamic Shari'a. In this method, the conventional bank establishes independent management to oversee the converted branches (Mustafa, 2006).

Accordingly, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued the standard No. 6 to regulate the process of converting from conventional bank to Islamic banking. This standard determines the process of converting from conventional banks to Islamic banking (Accounting and Auditting Organization for Islamic Financial Institutions, 2012). However, based on prior studies and literature, there are many routes/methods of converting as follows:

## I. Fully converting to Islamic banking

According to Alani & Yaacob (2012), conventional banks believe that this method is the best way to gain customers confidence in the integrity of the application. This method helps conventional banks to achieve their objectives in the relative small size of Islamic market. This method also is the easy way rehabilitated employee to operate their work in the new form.

Al-Atyat (2007) argues that the conventional banks which decided to converting to Islamic banking should stop to deal with any transactions and businesses that is not compatible with Islamic shari'ah especially Riba (usury). In addition, this method is considered as one of the most credible forms of transformation. The examples for the banks which have already completed the process of transformation are National Bank of Sharjah, United Arab Emirates, and Al-Jazerah Bank in Saudi Arabia.

## II. Islamic financing instruments:

Alani & Yaacob (2012) explain that in this case, the conventional banks offer some instruments/transactions such as Murabaha, Musharka, Mudarabah, and so on. In this model, conventional banks offer Islamic instruments and transactions side by side with traditional instruments and transactions (Mustafa, 2006). This method is used in Arab Gulf countries practically Saudi Arabia such as EL-Riad Bank. There are also several foreign conventional banks which offered Islamic instruments side by side with traditional instruments such as HSBC and Citibank Group. The main problem of this method is that the conventional banks may do not separate the Islamic funds from the traditional funds.

#### III. Islamic windows:

In this method, conventional banks allocate some parts or spaces in conventional branches to offer Islamic banking services as well as conventional services (Alani & Yaacob, 2012). In other words, an Islamic window is a simple window within a conventional bank. In fact, Islamic windows conduct business activities only based on shari'ah compatible instruments for customers (Sole, 2008).

Nowadays, the increasing numbers of conventional banks around the world are concerned about the possibility of offering Islamic financial products. According to Sole (2008), in many countries, this interest is a respond to the banks' desire for offering services to a growing Muslim population. However, it is also motivated by the desire of taking advantages from the growing numbers of international investors attracted to shari'ah compliant products.

Regarding this method, Al-Martan (1999) states that the bank is intended primarily to meet the needs of some customers who desire to deal with Islamic banking system. Therefore, in the converting process to Islamic banking system, banks are specialized in the sale of Islamic banking services as well as conventional services. Consequently, a conventional bank may only wants to search the potential of this market, and may be interested in launching a pilot project (Sole, 2008).

Sole (2008) also argues that opining an Islamic window is required the conventional banks to establish the appropriate firewalls to keep away from the commingling of Islamic and conventional funds. He mentions that the expanding of activities in the Islamic windows may prompt the conventional banks to segregate the window into a separate subsidiary.

However, this method does not have necessary administrative and financial autonomy but follow the conventional banks (parent bank) management roles and this is the problem of this method. The examples for this category of banks are Citibank, HSBC, and New Zealand and Australia ANZ group.

### IV. The conversion of some conventional branches into Islamic branches:

In this method, the conventional branches converting into Islamic branches or establish new Islamic branches. This method is opposite to the other methods which are motivated commercially. There are some conventional banks that their organizers decided to converting to Islamic banks by passing the purely commercial objectives. They also decided to inter in Islamic market by engaging in the process of gradual converting through the creation a separate department of Islamic banking. To achieve their goals, they have hired experts and specialist in Islamic banking as a main management department of conventional bank (Al-Matran, 1999). In addition, for further guarantee for the safety of the application and gain more customers' confidence, the department of Islamic banking in conventional banks is arranged by the independence Shari'ah Supervisory Board including a number of shari'a scholars and experts and specialists in Law and Economy (Alani & Yaacob, 2012).

According to Mustafa (2006), the conversion of conventional branches to Islamic branches is more common in the practical application of converting issue. In this regards, the conventional banks are adopting Islamic services in one of two ways;

- a. By establishing the new Islamic branch and this branch is independent to deal with Islamic transactions.
- b. By converting one or more of conventional branches into Islamic branches which are specialized in offering Islamic banking transactions.

Moreover, there are several elements that conventional banks are required to consider in converting a conventional bank to Islamic banking system such as;

- a. The sincere desire of the chief board and the managers of conventional banks which decided to convert to Islamic banking.
- b. Achieving the approval of the monetary authorities such as the central bank and the relevant ministries.
- c. Establishing a legitimate regulator body.
- d. Financial and administrative independence of the branches and units which are converted to Islamic banks.
- e. Training human resources of conventional banks and explaining Islamic banking system for them.
- f. Making contact with customers and preparing media campaigns and announcing the date of conversion.
- g. Gradient (Tadaroj) in the application (Mustafa, 2006).

According to Sole (2007) the advantage of opening a subsidiary than full conversion is that, in full conversion method, the parent bank may continue servicing to its conventional customers, while the subsidiary expands its Islamic activities in clear separation from the conventional business. In this regard, it is important to mention that some Shari'ah scholars have raised concerns regarding legitimacy of stabling Islamic branches subsidiaries of banks using capital form conventional banks. Due to this fact that there is not guaranteed that the funds provided by the parent bank will originate from Islamic compliant sources, the subsidiary's initial capital is not acceptable based on Islamic laws.

The examples for this category of banks are Saudi National Commercial Bank, which is one of the largest banks in Arabian Gulf and Middle East, Banque Misr which opened Islamic banking branches in Egypt, and National bank of Kuwait which bought Boubyan Bank. This bank is considered as an Islamic window of the National Bank (Alani & Yaacob, 2012).

### V. Islamic investment funds:

In this method, the conventional banks establish investment funds based on the Islamic investment methods and laws. In general, these funds are money pots which seek to collect people's savings and invested these funds in portfolio through a specialized expertise and efficiency in the management of portfolio (Alani & Yaacob, 2012). It should be noted that Islamic investment funds method is considered as one of the simplest and fastest way to convert to Islamic banking which resorted by conventional banks as a purely commercial basis. In addition, this method is used to attract and maintain some customers who desire to deal with the provisions of Islamic shari'a (Al-Martan, 1999).

According to Mustafa (2006), there are some conventional banks considered this entrance as a first step towards conversion to Islamic banking such as the National Commercial Bank. National commercial bank creates the National Fund for the global trade goods in 1987 before establishing its first Islamic branch in 1990. Although, there are some conventional banks applied this entrance but they have not established any Islamic branches. These conventional banks include Saudi Hollandi Bank (SHB), and Banque Saudi Fransi (BSF).

#### 6. THE PRINCIPALS (CONTROLS) OF CONVERSION

To manage the converting process successfully, the conventional banks should follow certain principles to guarantee a successful converting process. The principles that the conventional banks should follow in converting process to Islamic banking are as follows:

#### I. Scientific planning for conversion process:

Al-Martan (1999) argues that the success of converting process should be supported by many researches and studies based on scientific planning. These researches should study the market and identify the components of the market, and the size and quality of existing and potential competitors. Moreover, he mentions that most of the conventional banks which are decided to convert to Islamic banking system provide independent research centers to conduct marketing researches and inform the public and potential customers of Islamic banking.

However, Mustafa (2006) suggests that there are six steps for a successful transformation based on scientific planning.

- a. Establishing a specific timetable and declaring it to specialists. This timetable should be officially approved by specialists and experts who specialized in the bank sectors to finish dealing with interest (Riba) or any transactions that do not comply with Shari'ah laws.
- b. Full commitment of implementing the declared schedule. The process of converting should not get longer than the established timetable of converting. Therefore, customers will not lose their confidence about the credibility of the bank conversion.
- c. Complete separation between the funds and activities of the branches and Islamic funds on the one hand, and the main activities of the parent conventional bank on the other hand
- d. Establishing an independent administration to support and manage Islamic branches.
- e. Developing and extending bank's products to become compatible with the rules of the Islamic shari'ah.
- f. Evoke and reward the pure and sincere intention to Allah in the conversion process, and also in the practice of banking activities in according to the rules of Islamic shari'a.

# II. Co-ordination of the Units Converted to Islamic Banking System and other Conventional Units inside the CB:

This principle is used to ensure about the complementarities of converting process and understand the nature of the work to put mechanisms and achieve the coexistence between them and resolve any disputes may arise.

## III. Preparation of Plans for Training the Employees:

As mentioned in previous sections, there is a fundamental difference between conventional banks and Islamic banking system. This difference required training staffs to extend their knowledge and legitimacy about Islamic banking system which is based on the Islamic Shari'a laws.

For appointing the legitimacy of Islamic banking system, the conventional banks are trusted on leading scholars' knowledge and their experience in the field of Islamic banking. They verify the legitimacy of contracts and formulas of investments based on the system of Islamic branches converted. In addition, it is important to make sure that all the activities and operations of these branches are implemented according to the provisions of Islamic Shari'a (Iqbal & Mirakhori, 1999).

## IV. Gradient (step by step) in the Application

Practical experiences have shown that the implement of the conversion from conventional bank to Islamic banking does not happen overnight. Furthermore, the immediate decision of the converting is ineffective due to this fact that business banking is inherently intertwined, complicated and multilateral agreements between individuals, internal and external

institutions, regulators, and so on. Administrating the different legal relationships is an interlocking process that cannot be dealt with at once (Al-Atyat, 2007).

Generally, adapting and applying the principle of gradient gives sufficient time to individuals who lead the conversion process in conventional bank and train employees to know about the nature of Islamic banking system. Furthermore, this principle will allow the conventional banks to contact with customers and the relevant authorities to prepare them for this conversion (Al-Martan, 2005).

# V. Continuity and not Retreat

The decision of converting from conventional to Islamic banking system is made by officials in the conventional bank and announced to the community. This decision requires officials to continue in this direction according to the announced plans. In this regard, based on Al-Sharif (2005), it is not acceptable from the society and customers to fail to complete or retreat the program and return to the conventional system. In Quran, in Ayah 92 of Surah Al-Nahal, Allah said that:

"And not be like a woman who breaks into untwisted strands and the thread which she has spun, after it has become strong. Nor take your oaths to practice deception between yourselves, lest one party should be more numerous than another: for Allah will test you by this; and on the Day of Judgment He will certainly make clear to you (the truth of) that wherein you disagree or used to differ."

### 7. CONVERSION REQUIREMENTS

The converting process from conventional banks to Islamic banking which is based on Islamic shari'ah requires committing to the philosophy of Islamic banking and Islamic banking foundations and activities. Therefore, the nature of the fundamental difference between both systems enforces the converting process to achieve different requirements such as legal requirements, legitimacy, administrative, and general requirements. According to several researchers who investigated the issue of converting process, there are many requirements should be followed to complete the converting process successfully. In next section, the most important requirements will be explained as follows:

## I. Scientific Planning:

Al-Martan (1999) argues that the scientific planning is the essential step to do the converting process successfully by conducting the required studies and benefit from the expertise and research centers.

# II. Complete segregation of funds:

The complete segregation of funds is necessary for conventional banks which are planning to open Islamic windows or Islamic branches. Yaquby (2012) investigates this issue and concludes that the funds of the Islamic investment products and the funds of the financial institution in which shari'a laws are not observed must be completely segregated. In fact, the funds of investors who are very diligent and anxious about earning lawful income should not be merged with the funds of conventional investors who are not observant about the shari'a

laws. Thus, it is important to separate accounts, books, and computer systems for evidencing the complete segregation of funds (Mustafa, 2006).

# III. Shari'ah Supervisory Board:

A shari'ah supervisory board should be created in any conventional bank that decided to open Islamic windows/branches or decided to conduct fully-fledged converting process. This board should consist of trustworthy scholars who are highly qualified and able to issue Fatwa (religious rules) on financial transactions. Furthermore, they should have considerable experience about the knowledge of modern dealings and transactions. Admittedly, the Articles of Association, prospectuses and statues should provide a shari'ah board who's Fatwa and resolutions should be required the financial institution's management to follow shari'a rules (Iqbal et al. 1998). In other words, the Shari'ah board should be independent and free to give opinions on proposed contracts and transactions. Finally, this requirement is considered as one of the most important requirements for the success of any converting process. Moreover, it is important to convince the customers and dealers about the legitimacy of Islamic transactions (Yaquby, 1990).

## IV. Management commitment:

The management of financial institutions which are undertaking such business activities should be fully convinced about the legitimacy of Islamic transactions and fully committed to the converting process. The executive senior management in the conventional bank should be anxious to implement the converting process and obey the rules which are governed it. Regardless of whether fatwa and rules are strict and severe, the sound practices may not happen if the managers are not sufficiently sincere and committed to implement the principles of converting process. In this regard, Mohiuddin (2001) argues that it is important to use the conviction media and advertising campaign. The media and advertising campaign indicate that converting to Islamic banking emerge from the importance of Islamic transactions and meet the desire of a large segment of customers in the deal with Islamic banking mechanisms.

# V. Muslim investors' funds protection:

There is an established standard in Islamic rules about Muslim investors' fund protection. Based on this principle, the mudarib does not warranty the mudaraba funds for the funds provider. Therefore, investment accounts in Islamic financial institutions are not guaranteed by the mudarib. However, this principle does not prevent the parent conventional financial institutions (the original company) from laying down on a required condition. This principle also does not guarantee Muslim investors' funds against trespass, negligence, and fraud. Many financial institutions may sometimes keep away from their responsibility by claiming that their Islamic windows, branches, or sections are privately incorporated based on other reasons and excuses. This is completely unacceptable and precautions should be taken about that. In fact, a similar policy should be particularly set in the Articles of Association or the prospectus of the financial institution (Al-Omar & Igbal, 1999).

# VI. Compliance with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Standards:

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued a number of accounting and auditing standards that all Islamic financial institutions should implement and comply with shari;ah laws. The AAOIFI's standards are considered a fundamental groundwork that supports Islamic banking activities by keeping them away from individual and personal reasoning. The collective personal reasoning (ijtihad) of the AAOIFI is an important aspect of Islamic economic life. Therefore, these standards deserve strict adherence. A number of government authorities and central banks in certain countries have

circulated these standards and obliged other financial institutions to comply with them (Al-Martan, 1999). Therefore, any party wish to incorporate or set up an Islamic financial institution that required them to comply with these standards in order to avoid confusion, misunderstanding, and ambiguity, and to seek clarity and sound business activities (Yaquby, 1990).

# VII. Considering the criteria for Evaluating the Efficiency and performance of the employees:

Before converting process, conventional banks consider the employee's efficiency through technical ability and superiority in their field regardless the nature of their belief, their faith, and the extent of their commitment to the provisions of Halal and Haram (legitimate & illegitimate). After converting process, this matter is completely different for the banks. Because, the employees commitment to the provisions of Halal and Haram as well as their mastery and excellence in the field of banking work is very important to the success of the idea of conversion. Thus, the bank's management should terminate the contracts of all staff that their faith or believes are considered as barriers to accommodate the idea of conversion to work in accordance with Islamic Shari'ah. This law should apply in Muslim and non-Muslim economies which are not accepting the idea of conversion (Abu-Hmera, 2009; Al-Atyat, 2007).

# VIII. Teaching, training, research and development:

As mentioned in prior sections, the nature of Islamic banking is greatly different from the nature of conventional banking. Therefore, the conventional bank which is decided to convert to Islamic bank should teach and train the staff in various departments to make them qualified based on the nature of the new system. In this regard, Iqbal et al. (1998) believes that there is a serious lack of scholars who have even a working knowledge about the Islamic fiqh or modern economics and finance. Similarly, many managers of Islamic banks are not very well trained in the use of Islamic finance methods. Unfortunately, very little effort has been made to meet these requirements. In addition, Mohiuddin (2001) argues that it is important for converted banks to select the staffs who believe in privacy of Islamic banking, and it is distinguished through conventional banks.

#### IX. Administrative independence:

According to previous discussion, the Islamic branch is not independent from the parent conventional bank. Al-Sarhi (2010) argues that conventional bank should provide administrative independence for Islamic branch through establish an independent department or independent sector, separate accounts, and independent budget from the parent bank.

Obstacles associated with human resources

Obstacles related to development of islamic banking products

Obstacles related to regulations and policies

the obstacles

facing the

conversion

procees

the legislative

vacuum of control

systems appropriate to the nature of

islamic banking activety

Figure 1: the different obstacles faced in the conversion process

# 8. THE OBSTACLES FACED BY CONVENTIONAL BANKS IN THE CONVERTING PROCESS TO ISLAMIC BANKING.

Although there are not enough studies on this topic, some researchers are interested on this phenomenon and investigate the obstacles faced in the process of converting. According to Mustafa (2006); Al-Atyat (2007); Al-Martan (1999); Abdulkader and Mohammed (2009); Al-Sarhi (2010); and Alani and Yaacob (2012), there are six obstacles or challenges faced in the process of converting from conventional banks to Islamic banking.

Alani and Yaacob (2012) argue that the obstacles are different according to the situation of the bank. They are also different based on their importance among banks that choose to open Islamic window and banks that choose full-fledged converting from conventional bank to private Islamic bank. These obstacles are as follows;

- a. Obstacles related to administration.
- b. Human resources obstacles.
- c. Technical obstacles.

Shari'a obstacles

- d. Obstacles related to the development of products.
- e. Market development obstacles.
- f. Obstacles related to the legitimate control.

In general, these obstacles will be addresses in detail in next section.

#### I. Administrative Obstacles:

The conversion process needs some requirements to reach the successful implementation of the bank's converting plan. Al-Atyat (2007) argues that all administrative obstacles and problems faced by conventional banks in converting process are according to provisions of Islamic shari'ah. These obstacles include lack of seriousness of the effects of bank management that does not respond to the developments of conversion process in the appropriate time or making decisions that do not meet all dimensions of the problem faced in the process of converting. In both cases, the results may influence negatively on the converting process and will impede the process of converting to continue. The conventional banks which are decided to convert to Islamic banking try to find wise leadership with distinct experience and high efficiency to lead the conversion process. For example, the results of the emergence sections and new departments change functions in most of departments and divisions, and methods of flow lines of authority and responsibility between departments and functions. This change requires restructuring of the organizational structure of the bank. Additionally, this change requires a call for experts' regulation to participate in the restructuring of the organizational structure. They fit in the new situation by re-organizing governing dependency of the functions and supervisory responsibility. In addition, they re-compilation of jobs in the organizational units to achieve a constant flow of work (the least possible friction between the authorities and responsibilities), re-define the centers of decision-making and responsibility for results centers (centers of flow of information necessary for decision-making, whether in planning or follow-up).

In this regard, Al-Martan (1999) mentions that there is a main problem faced in the process of converting which is related to blurred vision at the whole level of the bank's management with regard to the desire of offering Islamic banking, especially in case of the desire of gradually expanding in this direction. According to Al-Sarhi (2010), this situation will lead to the following negative effects such as:

- a. Personal humility of conviction with credibility of the dual system approach in the bank.
- b. Emergence conflict between Islamic windows/brunches on the one hand, and conventional branches/departments on the other hand which leads to unhealthy competition.
- c. Lake of willing of rest departments (conventional departments) to support Islamic alternatives. Finally, some conventional departments in CB are concerned about losing conventional customers to Islamic unties.

## II. Obstacles Associated with Human Resources

The obstacles related to human resources are appeared increasingly in the converting process from conventional bank to Islamic banking when the same employees continue to work in these banks. Iqbal et al. (1998) argue that teaching, training, and researches are the resources for the development of the authorities. This is more than a discipline like Islamic banking and finance which is still in the beginning stage. In fact, there is a serious shortage of scholars who have even a working knowledge of both Islamic Fiqh and modern economics and finance. Similarly, many managers of Islamic banks are not very well trained in the use of Islamic banking laws.

According to Al-Oqool (2011), human resources are an essential element to the success of any economic institution. Therefore, conventional banks which will be succeed in reaching the goals and objectives of conversion to Islamic banking, need to use the appropriate staffs that are legitimately qualified and have good experiences in banking sector. Due to the different nature and system of Islamic banking and conventional banks, the preparation and rehabilitation of human resources to fit with the new banking situation is a main concern that

should take great interest from conventional bank's leaders who are going to convert to Islamic system (Al-Martan, 1999).

Accordingly, Karbhari et al. (2004) argue that the professional and training courses in banking sector tend to be geared toward conventional banking rather than Islamic banking. They mention that lack of professional training courses for Islamic banking system lead to the lack of qualified staff. In addition, the absence of the required trained staff make Islamic banks resort to the next alternative-recruiting staff from conventional banks.

Following Karbhari et al. (2004), Garbi (2008) states that there is a main difference between working in conventional banks and working in Islamic banking. He points out that the staffs who are working in Islamic banking required to have the qualifications as follows:

- a. Technical qualification: This group includes conventional banking operations with exclusion of all the consequences of interests and Riba.
- b. Legitimate qualification: This group includes accommodate which formats legitimate finance and investment such as Murabaha, Bai' Salam, Ijarah, all kinds of Musharakah, and so on. It should be mentioned that Islamic banking is based on these contracts.
- c. Moral occupational qualification: This group includes self-behaviors which influence the job performance, the rules of behavior with ownership holders and investment owners in the bank, and also the rules of behavior with customers and all dealing with Islamic bank. In addition, Al-Matran (1999) states that, besides the lack of human resources that have expertise in management of treasury instruments, investment and financing services, there is also lack of financial resources that are allocated for training programs of staffs in bank depend on the nature and instruments of Islamic banking.

However, Iqbal et al. (1997) conclude that the absence of trained staff contributes to the slow innovation of Islamic bank's products and instruments. In this regard, Karbhari et al. (2004) mention that according to Kahf (1999) the lack of trained staff affects the relationships with central banks due to the inability to clarify and explain various issues for them.

## III. Obstacles Related to the Regulations and Policies

Al-Matran (1999) stated that based on prior experience, most of the conventional banks that converted to Islamic banking by opening Islamic windows/branches have not considered the following elements:

- a. Inadequacy of accounting system. In fact, the accounting system is based on traditional methods, but Islamic banking needs the new accounting system.
- b. The delay in meeting the needs of the Islamic banking application, technical systems and procedures.

Consequently, these obstacles will be reflected as the weakness of conventional bank's performance converted to Islamic banking such as prolonging and complicated procedures. In addition, they will also be reflected as the weakness of the level of customer service and the relationship between the converted banks and the customers (Mustafa, 2006). For example, most of the tax systems that are appropriate for conventional banks compared to Islamic banks, allow to have interest for tax-deductible. However, the profit which is an alternative to interest under the Islamic banking system is not tax-deductible (Karbhari et al. 2004).

#### IV. Shari'ah Obstacles

Islamic banking and Islamic finance is based on the principles established by the shari'ah rules as well as jurisprudence or rulings (Fatwa) issued by qualified Muslim scholars. However, the main problem or obstacle faced in the converting process from conventional

bank to Islamic banking is shari'ah compliance. In other words, these obstacles include these questions:

- How to treat with the receivables and liabilities which are received or paid before conversion?
- How to deal with the prohibited assets that are in possession of the bank before conversion and the appropriate ways of disposing them?

According to this situation, the bank which decided to convert to Islamic bank needs to deal with following issues:

- a. Exerting possible efforts to adapt the ways of dealing with central bank's deposits, liquidity needs or otherwise in a way that does not conflict with the rules of shari'a, especially rules that govern riba transactions.
- b. Renovating the transactions with conventional banks on the riba free transactions and the application of instruments accepted by Shari'a.
- c. Increasing the transactions with Islamic financial institutions trough bilateral exchange of current or investment accounts and considerable cooperation in the areas of remittances, documentary credits and syndicated financing.
- d. All conventional transactions must be liquidated by the bank which are originated from monetary assets and are liable to pay interest for them.
- e. Dealing with the bank's non-permissible receivables before the decision to convert.
- f. Dealing with the non-permissible liabilities before the decision to convert, whether the conversion is internal or external.
- g. Disposal of impermissible earnings (Accounting and Auditting Organization for Islamic Financial Institutions, 2012).

Moreover, Hassan (2012) argues that the shari'ah controls of conversion process are:

- a. Addressing the shareholders equity which is formed by the difference between the debtor and creditor interest in order to take the possession of the bank before the converting process.
- b. Addressing the interest of deposits which received by conventional banks before converting process.
- c. Addressing the interest of loans which granted by the bank to its clients before the date of converting, and re-preparation of contracts needed to be settled.
- d. Addressing overdraft process.

Ultimately, compliance with Islamic Shari'ah distinguishes between Islamic bank and conventional bank and gives confidence in dealing with the converted bank by customers. Admittedly, these issues are quite complex and dealing with these challenges will convince the bank's customers with the converting process in conventional banks.

In spite of the Shari'a standard No. 6 which is issued by AAOIFI to lead conventional banks to succeed in the process of conversion, there are many jurisprudence and legitimacy challenges that appear during the conversion process. These challenges are not recognized before applying the practical application of the conversion process.

## V. Obstacles Related to the Development of Islamic Banking Products

It is not surprising that the speed of new financial products development within the Islamic banking industry is very slow (Al-Omar & Iqbal, 1999). According to Mustafa (2006), the limitation of Islamic banking products is considered as one of the main challenges faced by Islamic banking in general and conventional banks decided to convert to Islamic banking or offer Islamic products in particular. This shortage appears clearly in the treasury products. Although, Islamic banking market has witnessed a significant development in order to

develop the banking products compliant with Islamic Shari'a, the Islamic banking system is still in the beginning of the development process.

Following the success of the conventional products, it is observed that much of the Islamic products are introduced into the market by adapting and reengineering the conventional products. Islamic products are innovated and value-added products that put by the Islamic financial institutions. But, these products may bring skepticism on the substance of the products and criticism on the institutions and system if the reengineering process is substantially practiced (Muda & Jalil, 2007).

In this regard, Mustafa (2006) argues that Islamic banks follow conventional banks system. However, most of the Islamic banking products are just conventional products modified to match with shari'ah laws. He also mentions that this shortcoming will limit the ability of Islamic banks to compete with conventional banks.

# VI. The Legislative Vacuum of Control Systems Appropriate for the Nature of Islamic Banking

This obstacle illustrates the lack of clarity or perhaps the lack of relationship between Islamic banks or practice of Islamic banking on the one hand, and central banks which organized and observed the banking industry on other hand. In many cases, we find that the central banks have a single system to deal with banks which operate in their countries without discrimination between Islamic banking and conventional banking such as Saudi Arabia and Bangladesh. Sarker (2004) investigates Islamic banking in Bangladesh. He mentions that inspection and supervision of the Islamic banking operations are conducted in Bangladesh based on per general guideline framed for the conventional banks. In fact, some of these countries are not allowed to issue Islamic bank license and they are not called Islamic bank (Mustafa, 2006).

In addition, the supervisory framework is an important part in both Islamic banks and conventional banks. According to Iqbal et al. (1998), the absence of effective supervisory framework is one of the weaknesses of the prevailing system and needs a serious attention. The role of both Shari'ah advisory boards and Central banks needs to be streamlined and strengthened.

However, there are three reasons to explain why regulations and supervision of banking industry are important:

- To increase the accessibility of the information for investors (transparency),
- To ensure the soundness of the financial system
- To improve the control of monetary policy.

In case of Islamic banks, there is an additional dimension of supervision. This dimension is related to shari'ah supervision of their activities (Iqbal, et al., 1998).

### 9. CONCLUSIONS

The conversion from conventional banks to Islamic banking is converting from corrupt situation to favor religiously. Then, the conversion became one of the most important events recently. However, a considerable demand for shari'ah compliant products has been prompted conventional banks around the world to respond to this considerable demand by opening Islamic branches/windows or convert full-fledge to Islamic banking system. Actually, the desire of converting from conventional banks to Islamic banking is prompted by several motivations. These motivations are varied based on several factors, in the name only a few;

religious scruple, higher profitability, to maintain existing customers or attract new customers, and compete with Islamic banks.

In fact, converting from conventional bank to work as Islamic bank is not easy. It is converting from system to system. From system is based on dept-based to system is based on equity-based. Then, duo to the importance of converting process, the AAOIFI has responded to these developments by issued the shari'ah standard No. 6. The main purpose of this standard is to explain procedures, mechanisms and treatments which are required for converting from CB to IB. However, the practical application of converting from CB to IB is illustrated several obstacles and challenges. These obstacles divided into six categories, namely, (a) administrative obstacles, (b) Human resources obstacles, (c) Regulations and policies obstacles, (d) Shari'ah obstacles, (f) the development of Islamic banking products, (e) the legislative vacuum of control system appropriate to the nature of Islamic banking. In general, these obstacles and challenges are varied from bank to bank and country to country depend on the situation of CB, the economic and social factors in the bank environment, and the desire of the employees and managers of the CB. Also, there are several requirements should be followed to complete the converting process successfully such as scientific planning, shari'a supervisory board.

Finally, there are some recommendations to help the conventional bank which is thanking to converting to Islamic banking system successfully. These recommendations are including;

- a) The scientific planning is the essential step to do the converting process successfully.
- b) Complete segregation of funds is necessary for conventional banks which are planning to open Islamic units. This will be gained more customers' confidence.
- c) Developing the conversion timeline and determining the target deadline date.
- d) Conventional bank should be treating the rights of shareholders, which consist of the difference between the interest owed by the bank and the interest owed to it that the bank has taken possession of prior to conversion.
- e) CB should be treating the Interest-Based loans given to clients by CB before the conversion date. Also treating with overdrafts and all transactions are not compatible with Shari'ah rules.
- f) Tackling all necessary human resource and concerns, including training on Islamic banking products and services.
- g) Undertaking conversion of IT systems.
- h) Establish the shari'ah board. This is important to convince the customers and dealers about the legitimacy of Islamic transactions.

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# DEVELOPMENTS OF ISLAMIC BANKING SYSTEM IN MALAYSIA AND NIGERIA: AN ANALYTICAL REVIEW

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#### **ABSTRACT**

Banking system inclusive of Islamic banks plays crucial and important roles in development of economy of a nation; it is a system that must not be neglected. It requires sufficient efforts from different segments of the society especially the regulator, in order for the nation to be moving forward. Therefore, the objective of the current study is to examine the Malaysian and Nigerian approaches towards the implementation of Islamic banking system in their respective countries. This paper is both descriptive and exploratory with aims to contribute to the understanding of the process of Islamization of banking in these countries. The study will have policy implication to the policy makers and the practitioners. It will also be a source of reference for the academicians, students, and other countries in developing Islamic banking system. In the case of Nigerian, the study recognizes a need for more commitment and long-term planning. The study recommends that Nigerian Regulatory Authority should follow the footsteps of Malaysian in developing its Islamic banking system.

**Keywords:** Islamic banking system, Islamic banks, Bank Negara Malaysia (BNM), Central Bank of Nigeria (CBN)

# 1. INTRODUCTION

The increasing globalization of banking and finance mandate a broad, cross-country perspective on banking issues. Indeed, cross-country comparisons can add insight into basic issues in banking that may not emerge, or are only partially discernible, from single-country analyses Barth et. al. (2004). With this in mind, the authors try to review the development of Islamic banking system of Malaysia and Nigeria. Although Nigeria is at a cradle level started Islamic banking system just one year ago compare to Malaysia which is at most advanced, comprehensive and successful level for over thirty (30) years' experience in the industry and system. But there could be some similarities between the two systems based on the premise that Nigerian government through the Central Bank of Nigeria (CBN) has been aligning Nigerian Islamic banking system with that of Malaysia. Evidences of this are found in the CBN governor's speech: Sanusi (2011), Malaysia is arguably one of the major global hubs in Islamic finance and home to a number of operating, regulatory and educational institutions on Islamic finance. Consequently, it is envisaged that a strategic linkage with Malaysia would energize and give the needed momentum to CBN's efforts to facilitate the growth and development of Islamic finance in Nigeria. This also evidenced in the already established relationship between the two countries in the area of Islamic banking and finance. For instance: CBN in 2008 undertook a study tour of Malaysia to understand its regulatory and operating practices. The CBN in May 2009 joined the Council of the Islamic Financial Services Board (IFSB) which is based in Malaysia, as a full member. CBN recently signed a Memorandum of Understanding with the Bank Negara Malaysia

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(BNM) covering a broad spectrum of issues on regulatory cooperation and collaboration including Islamic Banking.

In addition, based on the pioneer achievements and success recorded by Malaysia in terms of Islamic financial system, education, economy, business environmental friendly, Malaysia is the best country to use as a pacesetter in terms of Islamic banking system for Nigeria and other developing countries. Apart from Malaysian success, there are a lot of similarities between the two countries, Malaysia and Nigeria. Basically, the same system of government aside, there are certain similarities between Malaysia and Nigeria. For instance, both countries have not only democratic nations but belong to the same Colonial Master. Having obtained their independent just three (3) years a part, like Nigeria (1960), Malaysia (1957) is a state with Muslims majority (53%) and accommodate people of different religious believes, such as Islam, Hindu, Buddha, Christian. According to MIFC (2012), Malaysian population comprises of 53% Muslim. 17% Buddhist, 12% Taoist, 8% Christian, 8% Hindu, and 2% Tribal. Same as in Nigeria context, Muslims constitute about 55% of 150 million of Nigerian population, Dogarawa (2012). Aside from these, both countries are also multi-racial societies. Therefore, the objective of the current study is to examine the Malaysian and Nigerian approaches towards the implementation of Islamic banking system in their respective countries. This paper is both descriptive and exploratory and aims to contribute to the understanding of the process of Islamization of banking in these countries. The study will have policy implication to the policy makers and the practitioners. It will also be a source of reference for the academicians, students, and other countries in developing Islamic banking system. This paper is organized as follows. Section two explores the origin/history of Islamic banking system in Malaysia and Nigeria after introduction. This is followed by the initiatives taken in Malaysia to develop Islamic banking system and initiatives taken in Nigeria to promote the effective regulation of Islamic banking system. In section four is the current scenario of Islamic banking system in Malaysia and Nigeria and recommendation to Nigerian regulatory authority regarding Islamic banking system. The last section concludes.

### 2. ORIGIN OF ISLAMIC BANKING SYSTEM IN MALAYSIA AND NIGERIA

# 2.1. ORIGIN OF ISLAMIC BANKING SYSTEM IN MALAYSIA

According to INCEIF chair of Islamic finance, Professor Dr. Abbas Mirakhor (2012), Malaysia is seen to be in the driver's seat when it comes to Islamic banking. Malaysian's model of Islamic banking system, today, is one of the most advanced Islamic banking systems in the world, Marimuthum et. al. (2010). According to Tahir et. al (2009), Both Islamic banks and Islamic Insurance (Takaful) has contributed to the development in Islamic finance in Malaysia since the early 70s. There were two (2) primary factors namely: External and Internal, that facilitated the establishment of Islamic banking system in Malaysia in the 1980s, Marimuthum et. al. (2010). The first and internal factor was the establishment of the first Islamic institution by the name, Perbadanan Wang Simpanan Bakal-Bakal Haji (PWSBH), in August 1963 by statute. It was an institution for Muslims to save for their Haj (pilgrimage to Mecca) expense. In 1969, PWSBH (Malayan Muslim Pilgrims Savings Corporation) merged with Pejabat Urusan Haji (the Pilgrims Affairs Department of the government) to form Lembaga Urusan dan Tabung Haji, Pilgrim's Management and Fund Board {now known as Lembaga Tabung Haji (LTH)}. Khir et. al. (2008). The second internal factor was a more formal demand from the Bumiputera Economic Congress in 1980 which passed a resolution urging the government to allow the LTH to establish an Islamic bank in Malaysia to mobilize the savings of the Muslims and to invest them in productive manner in accordance with Islamic law and practices. The third internal factor was the National Steering Committee of Islamic bank which was set up on 30<sup>th</sup> July 1981. The committee submitted its report on 5<sup>th</sup> July 1982, in this report was a recommendation that Islamic Banking Act among others should be legislated to facilitate the establishment of an Islamic Bank. This recommendation was accepted and Islamic Banking Act was legislated towards the end of 1982, and gazette in 1983, which is known as the Islamic Banking Act 1983. With the enacted of this Islamic Banking Act 1983, the first Islamic bank in Malaysian history, Bank Islam Malaysia Berhad (BIMB) was established in 1983. Bank Islam Malaysia Berhad (BIMB) which represents a full-fledged Islamic (commercial) bank in Malaysia. Bank Islam Malaysia Berhad (BIMB) was setup in July 1983 with paid-up capital of RM 80million. The bank commenced its operations on 1 July, 1983. On March 4, 1993, Bank Negara Malaysia introduced a scheme known as Skim Perbankan Tanpa Faedah, SPTF (Interest-free banking scheme). On a pilot basis the scheme involved the three biggest commercial banks in Malaysia, namely: Maybank, Bank Bumiputra Malaysia and United Malayan Banking Corporation. During the pilot period the scheme was successful. Thereafter, Bank Negara Malaysia issued three sets of guidelines on July 5, 1993, one each for the commercial banks, finance companies and merchant banks. With this scheme, commercial banks, merchant banks and finance companies were allowed to offer Islamic banking products and services. Almost all the conventional financial institutions in Malaysia quickly began to offer Islamic banking services. But these institutions are required to separate the funds and activities of Islamic banking transactions from that of the conventional banking business to ensure that there would not be any co-mingling of funds. (Mohamad, 2007).

Bank Muamalat Malaysia Berhad, the second Islamic bank, was established in 1999, Muhammad Ridhwan (2012). On October, 1999, Bank Muamalat Malaysia Berhad (BMMB) commenced operations. The establishment of BMMB was the spin-off effect of the merger between Bank Bumiputra Malaysia Berhad (BBMB) and Bank of Commerce (Malaysia) Berhad (BOCB). Under the merger arrangement, the Islamic banking assets and liabilities of BBMB, BOCB and BBMB Kewangan Berhad (BBMBK) were transferred to BBMB, while the conventional operations of BBMB, BOCB and BBMBK were transferred to BOCB accordingly. In addition, BMMB was given 40 branches of BBMB and BBMBK in various locations throughout Malaysia and a staff workforce of 1,000, migrated from BBMB, BOCB and BBMBK. In Malaysia the Islamic Interbank Money Market (IIMM) was introduced on 4<sup>th</sup> January 1994. In terms of products and services, there are more than 40 Islamic financial products and services that are offered by the banks using various Islamic concept s such as Mudarabah, Musharakah, Bai' Bithaman Ajil (Bai' Muajjal), Ijarah, Ijarah Thumma Al-Bai', Istisna', Qardhul Hassan, and others, (Jamal 2006). According to Marimuthu et. al. (2010), the two external factors were the establishment of Islamic banks in the Middle East (such as in Saudi Arabia, Bahrain, Egypt among others) and the establishment of Islamic Development Bank (IDB) in 1974.

### 2.2. ORIGIN OF ISLAMIC BANKING IN NIGERIA

The first recorded effort to provide Islamic banking services in the history of Nigeria was made by Muslim Bank West Africa Limited in Lagos around 1961. The effort was short lived and the bank was closed down by the then minister of finance, chief Obafemi Awolowo (Orisankoko, 2010). In the late 1980s, conferences and seminars were organized by University based Islamic centers and various Islamic groups among Nigerians, particularly on the evils of interest and the need to adopt interestfree banking (Adebayo, 2010). Bank and other financial institutions decree (BOFIA) was issued in 1991 by the military administration headed by General Ibrahim Badamasi (Retired) to recognize and facilitate the emergence of Islamic banking in Nigeria. The evolution of modern Islamic banking in Nigeria dated back to 1991 with the enactment of the banks and other financial institutions decrees (BOFIA). The decree recognized banks based on profit and loss sharing (sec. 23 and 61 of decree BOFIA). The decree also recognized specialized banks. The designation of non-interest banks as specialized banks in 2010 was based on this provision as Islamic banks are a form of non-interest banks. Between 1993 and 1995 investors started applying for banking license to operate Islamic banks but the initiatives did not materialize due to non-compliance with CBN requirements by the investors (Sanusi, 2011). In 1996, Habib Bank plc opened a non-interest banking window offering a limited number of Shariah compliant products but it was not successful as there was no framework for noninterest banking in the country. Around same period, few microfinance banks especially in the North and South-West parts of the country tried to blend some of their products to look like Shariah compliant but without much success (Dogarawa, 2012). In 2004, demands for the establishment of full-fledged non-interest banks continued from interested investors. An approval-in-principle (AIP) was granted to Jaiz international plc to establish Jaiz bank upon meeting mandatory capital requirement. In 2005, the financial system strategy (FSS) 20:20:20 was launched and among its aims was to create non-interest banking instruments to capture huge unbanked segments. In January 2009, the CBN joined the Islamic Financial Services Board (IFSB) as a full-council member. March 2009, the CBN issued the draft framework for the regulation and supervision of non-interest banks in Nigeria for comments and suggestions by stakeholders. August 2010, the CBN released the new banking model which designated non interest banks among the specialized. In October 2010, the CBN joined 11 other central banks and two multilateral organizations to form the International Islamic Liquidity Management Corporation (IILM) to be based in Malaysia. The aim of the IILM was to provide treasury instruments that are Shariah compliant to address the liquidity management issue of Islamic banks and serve as instruments for open market operations involving Islamic financial institutions. On Monday 20th June 2011, Jaiz bank was granted approval-in-principle by the CBN to operate as a regional interest free bank. An international bank, Stanbic IBTC was also granted license to operate a window of Islamic banking around the same time (Dogarawa, 2011c). Jaiz Islamic bank commenced operations in January 2012.

# 3. INITIATIVES TAKEN IN MALAYSIA AND NIGERIA TO DEVELOP ISLAMIC BANKING SYSTEM

### 3.1. INITIATIVES TAKEN IN MALAYSIA TO DEVELOP ISLAMIC BANKING SYSTEM

Malaysia adopted the approach of gradually implementing a dual financial system, where Islamic financial system is in parallel with the conventional system. Bank Negara Malaysia (BNM) is empowered to regulate and supervise Islamic banking operations in Malaysia. It constantly monitors the operations of Islamic banks through off-site and on-site supervision. Regulatory tools include the minimum requirement for Islamic capital funds, the statutory reserve ratio and other prudential guidelines.

The evolution of Islamic banking and finance in Malaysia can be categorized in to three phases (Yakcop, 2003), namely: (1) Familiarization phase I (1983-1992); (2) Mainstream acceptance and pervasiveness phase II (1993-2002); and (3) Moving forward- the next phase, phase III, beginning 2003, to be used as a strategic developmental tool.

First Phase: In Malaysia, the development of Islamic banking and finance began with a period of discovery, that is, initial period of familiarization (1983-1992). It was an exploratory or experimental stage, where the first Islamic bank, Bank Islam Malaysia, was set up in 1983 under a new Islamic banking Act. With the establishment of public confidence, Bank Islam Malaysia grew from strength to strength to extent that non-Muslims started patronizing Bank Islam Malaysia.

The second phase, which is mainstream acceptance and pervasiveness phase (1993-2002), the entire financial system began to use and apply Islamic financial principles. Both the Islamic and conventional systems are equally comprehensive and viable.

Third Phase, beginning in 2003, Islamic financial principles is needed to be used as a tool of competitive advantage. Both domestically and internationally, the ultimate objective of the Islamic financial system will be to design and put in place an economic system supportive of economic justice. A radical altering of the dominant culture and the restructuring of many important institutions will be required in order to achieve this objective. (Yakcop, 2003).

Malaysia's Overall Strategy in the Development of Islamic Banking: There are four main strategic approaches applied in development of Islamic banking in Malaysia, they are as follows:

- 1. Dual banking system, the objective was a full-fledged Islamic banking system operating on a parallel basis with a full-fledged conventional system.
- 2. A step-by-step approach with three basic elements, in the context of an overall long term strategy, namely: (a.) A large number of instruments, efforts was focusing on creating a large number of different types of Islamic financial instruments, during the first phase. (b.) during phase II, the creation of a large number of institutions that offering Islamic financial services, the Interest-free Banking Scheme, known as Skim Perbankan Tanpa Faedah (SPTF) was chosen because setting up new Islamic banks, even as subsidiaries of existing banks, in terms of logistics and infrastructure are expensive. For instance, in 1993, the cost of setting up one branch of a financial institution in Malaysia was about US Dollar \$200,000, (Yakcop, 2003). (c.) An Islamic Interbank Money Market (IIMM) was set up in January 1994, thus the process of creating an Islamic banking system in Malaysia with all the three (3) maim ingredients in place was completed.
- 3. A comprehensive set of Islamic banking legislation and a common *Shariah* Supervising Council for all Islamic banking institutions: there was in place a comprehensive set of Islamic financial institutions in Malaysia, an important feature of the Malaysian model. In 1993, when Islamic banking was extended to the other financial institutions, the *Shariah* Supervisory Council was transferred to the Bank Negara Malaysia, to be the sole source of interpretation for all Islamic financial institutions in the country.
- 4. A practical and open-minded approach in developing Islamic financial interest: the founding fathers of the system adopted a practical and open-minded approach from the beginning, and this is one of the key factors in Malaysia's success in the implementation of Islamic banking and finance, (Yakcop, 2003). This approach laid emphasize on these three main elements:
- (i) the need for a great deal of research and development work to be done. (ii) realization from the beginning that an Islamic financial system cannot be implemented only on the basis of profit and loss sharing. And (iii) in the implementation of the Islamic financial system emphasis was always placed on substance rather than label.

# 3.2. INITIATIVES TAKEN IN NIGERIA TO PROMOTE THE EFFECTIVE REGULATION OF ISLAMIC BANKING SYSTEM

According to Sanusi (2011 pp. 14-17), in line with its facilitating role, the CBN has undertaken a number of initiatives to promote the effective regulation of Islamic banking and finance in Nigeria. These include:

### 1. Capacity Development

Given the dearth of knowledge, skills and regulatory experience on Islamic banking, capacity development has been an on-going endeavour at the CBN. As part of the learning process towards the development of a robust regulatory framework that meets international standards, the CBN in 2008 undertook a study tour of Malaysia to understand its regulatory and operating practices. The experience provided vital learning points that contributed immensely to the development of the framework issued in January 2011 and on-going implementation efforts. CBN's capacity development efforts got a further boost following the approval in January 2010 of a technical assistance (TA) grant towards capacity development on Islamic banking by the Islamic Development Bank (IDB). Under the TA framework, a team of CBN officials visited Bahrain in May 2011 for two weeks to study the regulatory and operating practices in that country. In addition, the CBN has organized and sponsored several training programs and other initiatives aimed at developing capacity towards the effective regulation and supervision of Islamic banking in Nigeria. These efforts would be sustained in the months and years ahead.

# 2. CBN Membership of the Islamic Financial Services Board (IFSB)

The CBN in May 2009 joined the Council of the Islamic Financial Services Board (IFSB) as a Full member. This decision was hinged on the strategic need to be part of the mainstream global Islamic

financial services industry and leverage the opportunities provided for capacity development. Following its membership of the standards-setting body, the CBN has participated actively in a number of IFSB activities at both council and working group/technical committee levels, which have provided veritable opportunities for learning, experience-sharing and capacity development. The CBN has also benefited from a few training events organized by the IFSB, which have further exposed CBN officials to current developments and best practices on Islamic banking.

### 3. Establishment of the International Islamic Liquidity Management Corporation (IILM)

The CBN in October 2010 joined 11 other Central Banks and 2 multilateral organisations to sign the Articles of Agreement (AA) and Memorandum of Participation (MOP) establishing the International Islamic Liqudity Management Corporation (IILM), based in Kuala Lumpur, Malaysia. The CBN's membership and participation in the IILM initiative provides a veritable platform for addressing the anticipated liquidity management challenge for Islamic banks in Nigeria. The over-arching objective of the CBN is to enable newly licensed Islamic banks 'hit the ground running' devoid of any operational obstacles, thus enhancing their safety and soundness as well as facilitating the orderly growth and development of the nascent Islamic banking sector in Nigeria.

### 4. Inter-agency Collaboration and Cooperation

Given the multi-sector dimension of Islamic banking, the CBN has commenced the process of engaging with critical stakeholders that may have important roles to play in the successful implementation of Islamic banking in Nigeria such as the Federal Inland Revenue Service (FIRS), Securities & Exchange Commission (SEC), National Insurance Commission (NAICOM), Nigeria Deposit Insurance Corporation (NDIC), the Debt Management Office (DMO), Nigeria Accounting Standards Board (NASB) etc. In this regard, the CBN has begun preliminary contacts with the DMO towards the development and issuance of an Islamic bond (Sukuk) in Nigeria. There is also a concurrent effort to engage with the fiscal authorities in Nigeria with a view to addressing the tax neutrality and other level playing field issues that would foster the successful operation of Islamic banks in Nigeria.

### 5. Awareness Creation

As part of efforts to create mass awareness and having regard to Nigeria's diversity, the CBN intends to organize an international conference on Islamic banking which is expected to draw participants cutting across the broad spectrum of the Nigerian society including operators and regulators in the Nigerian financial services industry, religious organizations, the media and academia with support from the IDB.

### 6. Cross-border Linkages and Bridges

As a member and integral part of the global financial community, it is in Nigeria's strategic interest to establish and maintain linkages and bridges with other countries/regions across the world particularly as it seeks to develop the nascent Islamic financial services industry in Nigeria. In this regard, the CBN recently signed a Memorandum of Understanding with the Bank Negara Malaysia (BNM) covering a broad spectrum of issues on regulatory cooperation and collaboration including Islamic Banking. As you are aware, Malaysia is arguably one of the major global hubs in Islamic finance and home to a number of operating, regulatory and educational institutions on Islamic finance. Consequently, it is envisaged that a strategic linkage with Malaysia would energize and give the needed momentum to CBN's efforts to facilitate the growth and development of Islamic finance in Nigeria.

### 7. Non-interest Banking and the New Banking Model

As part of the on-going reforms in the Nigerian banking industry, the CBN undertook a comprehensive review and reversal of the universal banking model hitherto practiced in Nigeria. Under the new regime, Islamic banks were categorized as specialized institutions and may operate as national or regional banks. It is expected that the new arrangement would incentivize prospective investors who might wish to set up Islamic banks in Nigeria. Indeed, the first Approval-in-Principle

(AIP) under the new dispensation was granted on June 3, 2011 to one of the promoters that applied for CBN license to establish an Islamic bank with regional authorization.

# 4. CURRENT SCENARIO OF ISLAMIC BANKING SYSTEM IN MALAYSIA AND NIGERIA

### 4.1. CURRENT SCENARIO OF ISLAMIC BANKING SYSTEM IN MALAYSIA

Today, Malaysia's Islamic banking and finance continues to grow rapidly. A diversity of financial institutions from across the world, supported by a conducive environment that is renowned for continuous product innovation, a broad range of innovative Islamic investment instruments, a comprehensive financial infrastructure and adopting global regulatory and legal practices. The country also placed a strong emphasize on human capital development of the Islamic financial industry to ensure the availability of Islamic finance talent. In turn, all these value propositions have transformed Malaysia into one of the most developed Islamic banking markets in the world, BNM, (2012). Malaysia continues to progress and to build on the industry by inviting foreign financial institutions to establish international Islamic banking business in Malaysia to conduct foreign currency business. Currently, there are about sixty-two (62) Islamic Financial products and services offered by the Islamic banks in Malaysia, using various Islamic concepts as can be seen in Appendix A. According to Muhammad Ridhwan (2012), the main products and services can be categorized into seven (7) major types as follows: Deposit (general), Deposit (other deposits), Investment (investment account), Financing (fund based), Investment (fee based), Trade finance and Card services.

Due to the supportive environment from both the Malaysian government and individuals, now, the country boasts a vibrant Islamic banking and financial institutions with seventeen (17) Islamic banks, five (5) International Islamic bank. Bank Negara Malaysia had issued licenses to many of conventional and international banks to operate special tellers for handling Islamic transactions, participating banks in Islamic banking scheme are: a. six (6) development financial institutions (DFIs) offering Islamic banking services, b. seven (7) investment banks, and c. two (2) commercial banks. Currently, there are Twelve (12) Takaful companies, one (1) International Takaful Operator (ITO) and ten (10) Re-Takaful companies in the country.

The Malaysian Islamic banking industry grew at a compound annual growth rate (CAGR) of 20.2% during 2005-2009 to reach RM233.7bln or 16.4% of total assets of the banking sector. In the same period, total Islamic banking deposits reached RM188.8bln to constitute 17.8% of total deposits in the banking system. On the financing segment, total Islamic financing amounted to RM135.0bln to represent 17.2% of the banking system's total loans and financing, as shown above. In quarter one 2010 (1Q10), the industry continued to illustrate strong performance, as witnessed by

In quarter one 2010 (1Q10), the industry continued to illustrate strong performance, as witnessed by the following:

- Growth in financing. Financing continued to grow by 28.1% y-o-y to RM141.3bln as at end-1Q10, supported by strong growth in the education & health and mining & quarrying segments.
- Healthy deposit growth and ample liquidity. Deposit growth grew by 22.7% y-o-y to RM192.1bln as at end-1Q10 vs. RM156.6bln in 1Q09. The banking system's financing-to-deposit ratio stood at 73.5% in 1Q10 (1Q09: 70.4%), which translates into an excess liquidity of RM50.9bln.
- Firm asset quality. The gross 3-month non-performing financing (NPF) amount reached RM5.8bln as at end-1Q10 vs. RM5.3bln in 1Q09. Net NPF ratio edged down to 2.1% from 2.5% during the same period.
- Strong capitalisation. In 1Q10, the Islamic banking system capitalisation remained strong, with risk-weighted capital ratio (RWCR) of 14.8% (1Q09: 14.7%) and core capital ratio (CCR) of 12.3% (1Q09:12.4%).

In year 2011, the total assets of Islamic banking increased by 24.1 per cent to RM436.1 billion. Representing 23.7 per cent of the total assets of banking system in the country.

Year 2012: Islamic banking business have continued to expand in the first seven months of year 2012, total assets increasing 20.6 per cent to RM469.5 billion, reflecting 24.2 per cent of the country's banking system's assets, the Ministry of finance in the Economic report 2012/2013.

Furthermore, the Economist intelligence unit (2009) described Malaysian achievements and milestones /steps taken as follows:

### 1. The recent financial crisis: Learning from the Malaysian experience:

The experience of the Asian currency crisis in Malaysia suggested that there could be lessons for other regions in the way that the country handled that situation.

### 2. Islamic finance in Malaysia:

There are two important factors that distinguish the Islamic finance sector in Malaysia: first, that it is comprehensive and second, that it liberalised, which gives it good prospects for building links with other parts of the world.

### 3. A shift in underlying assets:

In Malaysia, there had been a move away from real estate towards financing infrastructure and other long-term investments. The experience in Malaysia had been one of looking at developing Islamic finance in its broadest sense across financial markets, the banking sector, *takaful*, equity and debt capital markets, as well as other types of services.

In the world arena, this is the quotation from the global an international organizations which used to describe Malaysia. *Today, Malaysia is among the best countries in the world with the ability to provide good and ready access capital for businesses. How can we use this to progress?*, "The Global Competitiveness Report 2012-2013, World Economic Forum.

### 4.2. CURRENT SCENARIO OF ISLAMIC BANKING SYSTEM IN NIGERIA

Jaiz bank was the first Islamic bank in Nigeria. It was granted Approval in Principle (AiP) by the CBN, for it to operate as a regional interest-free bank. The bank, which was originally billed to commence operation in September 2011 with offices in Abuja, Kaduna and Kano, could not start banking business until January 2012. An international bank, Stanbic IBTC was also granted license to operate a window of Islamic banking around the same time (Dogarawa, 2011c). Jaiz bank plc was created out of the ashes of the former Jaiz International Plc which was set up in 2003/2004 as a special purpose vehicle (SPV) to establish Nigeria's first full-Pledged Non-Interest Bank. It is an unquoted public company owned by over 3000 shareholders spread over the six geographical zones of Nigeria. Jaiz bank plc. obtained a regional operating license to operate as a Non-Interest Bank from the Central Bank of Nigeria on the 11th of November 2011 and begun full operations as the first Non-Interest Bank in Nigeria on the 6th of January, 2012 with 3 branches located in Abuja FCT, Kaduna and Kano. The Regional license allows the Bank to operate geographically in a third of the country. Also, based on recommendations from Islamic Development Bank (IDB), who is also a shareholder of the bank, Jaiz bank plc has partnered with Islamic Bank Bangladesh (IBBL) for technical and management assistance. Jaiz bank plc plans to upgrade to a national operating license by 2013. Consequently, it will increase its current share capital base from N6 billion (USD\$39 million) to N12 billion (USD\$78 million). This upgrade will enable the bank operate in all 36 states of the federation including the Federal Capital Territory. Thus, position it to compete effectively in one of the most thriving sectors of the Nigerian economy. The bank plans to establish 16 branches in 2012 and 100 by 2017. In this regard, the IDB membership of the board is expected to provide a lot technical input. The business potential for a Non-Interest Bank in Nigeria is enormous as such an institution has been long awaited by a population of over 78 million Nigerians representing over 50% of the country's population of 155 million. Jaiz Bank is focusing mainly on retail banking, but promises to offer corporate and commercial banking services.

# 4.3. RECOMMENDATIONS TO NIGERIA REGULATORY AUTHORITY REGARDING DEVELOPMENT OF ISLAMIC BANKING SYSTEM

In general, the findings of the review revealed that in the case of Nigeria, a lots of necessary actions need to be taken with the following recommendations to Nigerian Regulatory Authority regarding development of Islamic banking system. Nigeria should follow the footsteps of Malaysia as follows:

- I. To be more committed and develop long-term planning by embracing Malaysia's overall strategy in the development of Islamic banking system. Malaysian four main strategic approaches:
- 1. Dual banking system, where a full-fledged Islamic banking system will be operating on a parallel basis with a full-fledged conventional system.
- 2. A step-by-step approach with three basic elements, in the context of an overall long term strategy, namely: (a.) A large number of instruments, the efforts should be focusing on creating a large number of different types of Islamic financial instruments, during the first phase. (b.) during phase II, the creation of a large number of institutions that offering Islamic financial services, the Interest-free Banking Scheme, known as Skim Perbankan Tanpa Faedah (SPTF) should be chosen because setting up new Islamic banks, even as subsidiaries of existing banks, in terms of logistics and infrastructure will be expensive. (c.) An Islamic Interbank Money Market (IIMM) should be set up, thus the process of creating an Islamic banking system in Nigeria with all the three (3) maim ingredients in place will be completed like that of Malaysia.
- 3. A comprehensive set of Islamic banking legislation and a common *Shariah* Supervising Council for all Islamic banking institutions should be put in place.
- 4. A practical and open-minded approach in developing Islamic financial interest: Nigeria should adopted a practical and open-minded approach from the beginning, as this was one of the key factors in Malaysia's success in the implementation of Islamic banking and finance, (Yakcop, 2003). This approach laid emphasize on these three main elements:
- (i) the need for a great deal of research and development work to be done. (ii) realization from the beginning that an Islamic financial system cannot be implemented only on the basis of profit and loss sharing. And (iii) in the implementation of the Islamic financial system emphasis was always placed on substance rather than label.
- II. To follow the case of Bank Muamalat in establishing more Islamic banks. The establishment of Bank Muamalat Malaysia Berhad,(BMMB) was the spin-off effect of the merger between Bank Bumiputra Malaysia Berhad (BBMB) and Bank of Commerce (Malaysia) Berhad (BOCB). Under the merger arrangement, the Islamic banking assets and liabilities of BBMB, BOCB and BBMB Kewangan Berhad (BBMBK) were transferred to BBMB, while the conventional operations of BBMB, BOCB and BBMBK were transferred to BOCB accordingly. In addition, BMMB was given 40 branches of BBMB and BBMBK in various locations throughout Malaysia and a staff workforce of 1,000, migrated from BBMB, BOCB and BBMBK. This type of merger arrangement is recommended by the study for existing conventional banks in Nigeria to create rooms for establishment of more Islamic banks in the country.

### 5. CONCLUSION

The study has examined the Malaysian and Nigerian approaches towards the implementation of Islamic banking system in their respective countries. This paper is both descriptive and exploratory with the aims to contribute to the understanding of the process of Islamization of banking in these countries. Based on the pioneer achievements and success recorded by Malaysia in terms of Islamic financial system, education, economy, business environmental friendly, Malaysia is the best country to use as a *pacesetter* in terms of Islamic banking system for Nigeria and other developing countries. The study will have policy implication to the policy makers and the practitioners. It will also be a source of reference for the academicians, students, and other countries in developing Islamic banking system. In the case of Nigerian, the study recognizes a need for more commitment and long-term planning. The study recommends that Nigerian Regulatory Authority should follow the footsteps of Malaysian in developing its Islamic banking system.

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# THE CHALLENGE OF SUKUK TRADING IN SECONDARY CAPITAL MARKET BASED ON SHARIA COMPLIANT

Hanandewa<sup>1</sup> Mohamad Heykal<sup>2</sup>

Sukuk instrument and trading mechanisms, especially in the secondary market around the globe are somehow depart from the shariah law. It happens because some sukuk instrument is issued just follow conventional system for making easy to the potential investor. The trading mechanisms for example are basis usually are dominated by bai' al dayn concept, the concept that is against the Islamic law. Much of the motives to adopt this concept are to cater conventional investors demand for familiarity in trading mechanism with conventional bond. The fact, a trading mechanism that fully complies with the shariah law would probably cause anxiety to conventional investors that comprise much of the investors profile in this contemporary financial environment. This is the challenge for Sukuk as one Islamic financial instrument in the word. With the literature study that we used in this research, the author try to proposes the new trading mechanism to minimize the trade-off between conventional and Muslim-devoted investors needs in their sukuk trading in exchange-based secondary market.

**Keywords**: Sukuk, trading, mechanism, Islamic, investors, financial, environment

### 1. INTRODUCTION

With the strong growth of the Islamic banking industry in the world, not only in the Islamic country but also in the western country, make the Islamic capital market, or capital market that relevant with the sharia compliant became the critical and also important component in the Islamic financial system. One of investment instruments in Islamic capital market is sukuk. In accordance with sukuk thus it is necessary to see at first the meaning of sukuk. There is numerous significance of sukuk. However the significance shall see word derivation from sukuk itself. Word derivation of sukuk is *sakk*, or sometime *sakik* as well. Those words are customary to use international trade event taking places in various area governable by Moslem government in the past Midde Age. Various existing facts show that sukuk at hand is most used by various Moslem societies in the Middle Age in forms of bond papers representing financing obligation that comes from trade and also variety of other comercial activities. Nonetheless, the most appropriate meaning of sukuk is investment certificate. This definition is not very different from the definition from AAOIFI that stated in May 2003. It stated that sukuk are "certificate of equal value represent the full ownership of tangible asset. In other word, the issuer of sukuk should have the tangible asset as an underlying asset for that instrument. There are also some characteristic from sukuk, such as:

- -Sukuk is the instrument of Islamic capital market that can be traded. Sukuk can be traded in the stock exchange because of sukuk represent parties who have a clear asset. Also the investor can get benefit from these assets and can also be traded at market prices.
- -Sukuk can be rated. As securities in the capital market, sukuk can be rated by international rating agencies such as Moody's and Standard & Poor's
- -Sukuk can be added. In addition to the major assets and business activities, sukuk can be secured by other assets Islamic compliance

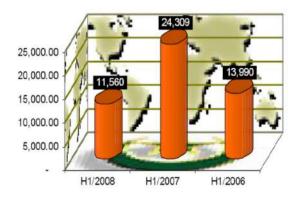
based on that definition, sukuk can be categorized as an Islamic financial instrument that are asset backed, tradable and also compatible with the trust certificates ( Tariq,2004 ). The investor from sukuk will get

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the gain advantages as portion inseparable from asset taking foundation of that sukuk. As consequence and effect of that significance, advantages obtained by investor of sukuk shall be divided and distributed to co-investors of the sukuk. In some recent periods of times sukuk has achieved its popularity as one of alternatives of financing instrument instead of conventional bond. In some countries, there knows that sukuk has been important instrument of state budget financing. Recently, some countries have become regular issuers from sukuk instrument for instance Malaysia, Bahrain, Brunei Darussalam, Uni Emirat Arab, Qatar, Pakistan dan States of Saxony Anhalt - Germany. In Europe, the state of Saxony Anhalt is the pioneer state that issued sukuk in Europe and it can raised 100 million Euro. The Publication of sovereign sukuk is commonly designated to necessaries of state financing in general or is aimed at financing particular projects, such as dam building, electical generation unit, harbor, airport, hospital, and toll road. Besides sukuk in addition can be utilized for financing needs (cash-mismach), namely by using sukuk with short period of time (Islamic Treasury Bills) and also can be used as cash market instrument. During just periods of 2004-2007, sukuk issuance globally has increased significantly from USD 7,2 billions in 2004 to USD 39 billions in the end of 2007 (Jobs et al, 2008). In light of trend of 2004-2007 Jobs et al (2008) estimated a number of sukuk globally in circulation will achieve over USD 200 billions in the end 2010. According to projection done by S&P, in next five years, world market of sukuk can penetrate at level of USD 100 billions. The latter depends on credit market stability condition. Meanwhile, Moody party estimated that market of sukuk will increase to 35% per year. In 2010, global market of sukuk would be expected to penetrate up to USD 200 billions, mainly sustained by countries in Gulf area joining GCC, England, Japan, and Thailand (MIFC, 2009). This very bulky volume potency definitely is necessary to be balanced with secondary market availability of sukuk intact for facilitating investor's needs. The below graph shows world development of sukuk:

## TOTAL PUBLICATION OF SUKUK (USD MILLIONS) COMPARISON OF SEMESTER I 2006, 2007, 2008 (A POSSIBLE IMPACT OF SUB-PRIME CRISIS)



Source: Beard, Charles. "Sukuk in H1-2008 – Key Trends and Market Hightlights", Sukuk Research, IFIS, in Ali (2008)

Secondary market in capital market will much assist investors in need of liquidity in order to be capable to sell bond letters or bond papers that they belongs to. Likewise with investor of sukuk can do presentation of sukuk in secondary market in the end will increase observation of the would-be buyers of sukuk. As with the otherwise, secondary market in addition helps investors having excess of liquidity to afford to buy sukuk in way of exposing their interests on observation of the would-be buyers of sukuk. In this regard, secondary market helps provide liquidity for sukuk and afterward will attrack more investor due to facilities for investors to enter market or leave from market. Therefore, higher market activities of sukuk in secondary market will finally increase as well the issuance of sukuk volume.

Based on the previous research that has been done by Tariq, AA (2004) that stated about the accordance and also tradability in financial instrument, there are two types of Islamic financial instrument, there are tradable and also non tradable in the secondary market. For the Islamic financial instrument that classify

as tradable, it should be:

- a. Based on mudharabah certificates: The certificates that show the permanent ownership in a company without control and also management rights
- b. Based on musharakah certificates: the certificates that show permanent ownership in the company that follow with control and also management rights
- c. Redeemable musharakah certificates: The certificates with temporary ownership in the company with or without the management rights
- d. Fixed rate ijara certificates: the ownership of durable assets that given or rent and also or the ownership of usufructs durable assets. Rent is fixed for the period of the contract.
- e. Floating rate of the ijara certificates: The ownership of the durable assets that given or rent or the ownership of usufructs of durable assets

Based on the AAOIFI, the sharia compliant ruling that related to the trading of sukuk are usually influenced by the sukuk assets. The most important rules and also principles of the sharia that considered in the sukuk trade are included:

- -It is permissible for an issuer to undertake that the investor will buy some sukuk at the market value after completing the deal, or at a price to be determined at the time of purchase.
- -It is permissible to trade in securities of ownership of usufructs of tangible assets, subject to forward lease, prior to contract for sub-leasing assets.
- -It is not permissible to trade in certificates of ownerships of usufruct of assets before the assets from which the usufructs is to be made available is defined, except by observing the rules for disposal of receivables.
- -The certificates may be traded through any known means that do not contravene the rules of the shariah such as registration, electronic means, or actual transmission by the bearer to the purchaser.
- It is not permissible to trade in certificates of ownership of usufructs of a described asset before the asset from which usufructs is to be made available is defined, except by observing the rules of disposal of receivables.
- -It is not permissible to trade in murabahah certificates after delivery of murabahah commodity to the buyer ( Thomas,et,al. 2009 )

Unfortunately the trade practices of sukuk currently in exchange of secondary market almost around the world have a problem in their trade mechanism. This trade mechanism of sukuk looks to deviate from the sharia compliant. Adoption to bai' al dayn concept, and instead of hawalah concept in trade mechanism of sukuk has taken causes of this deviation; where the latter is motivated by request to serve demands from conventional investors toward familiarity of trade mechanism with conventional bond. Although the latter can either impede Moslem investor compliant to trade their sukuk due to disobedience with sharia compliant law. On other hand, a trade mechanism fully compliant to Islamic law is likely to cause worry for conventional investors who are most of investor profile in modern finance environment. A new trade mechanism is needed for these both investor profile, namely conventional investor and moslem investor in compliance, to afford to trade their sukuk in exchange of secondary market. The objective of this paper—is to give the opportunity and also the new idea about the best mechanism trade for sukuk as an Islamic capital market instrument. Through this new trade mechanism it can afford to huddle up both investor profile, hopefully can help achieve objective of an exchange of secondary market namely by providing liquidity more appropriate and increasing volume of sukuk.

### 2. RESEARCH METHODOLOGY

The research in this study is categorized as an applied research and also was done based on the literature study. It can be happened based on the condition there are few research about sukuk as an Islamic financial instrument that can be traded in the secondary market. It means that this research is an innovation. According to the viewpoints of several Islamic finance scientist, an instrument of Islamic investment can be traded in secondary market, so far that instrument fulfills three rules of sharia (Ayub, 2007). Firstly, instrument representing ownership of real physical asset or rights of its utilization (usufruct) can be traded at market price. Secondly, instruments representing ownership of debt and cash (money) can be traded yet bound to concepts hawalah and bai' al sarf. And thirdly, instruments represents the ownership of collection of instruments with different classes is bound to rule of dominant instrument class. Based on these three rules, thus sukuk can truly be traded in secondary market.

However, attention in particular is necessary to give in translation of concept *hawalah*. There is significant difference between concept *hawalah* (debt transfer) and *bai'* al dayn (debt sale). In case of purchase and sale of debenture in secondary market follows concept *hawalah*, justified in the syariah, buyer party of debenture holds rights of *recourse* to seller party of debenture in condition the issuer party of debenture does not pay his or her debt by any cause as well. On the other hand, in an equal case it follows concept *bai'* al dayn, not justified in the syariah, buyer or purchaser party of debenture does not hold rights of *recourse* to seller party of debenture.

Although sukuk can be traded, however up to present the sukuk trade in exchange of secondary market global is very minimal, mainly in states of GCC (Gulf Cooperation Council). Based on Wilson (2007) it states that in Europe there are no sukuk that trade in the secondary market. The latter is most probably due to demand is still a bit over in comparison to its supply and most of investors in those states (GCC) in general withhold up to expiry time (Abbas, 2005). At global level, sukuk listed in exchange only contained 14,3% from the whole values of sukuk revolving in periods of time 2001-2007 (Papazian, 2007). Based on similar source, suku that listed in the Indonesian Stock Exchange are led in terms of record quantity (15,3% from a number of sukuk listed in exchange globally), followed by exchange of UEA (14,2%). As a matter of fact, exchange of IndonIndonesian Stock Exchanges leads in term of record quantity of sukuk and it is a bit interesting, apart from Indonesian presence in market of sukuk still relatively new based on the condition that Indonesia implement dual capital market system almost 10 years and it started from 2003. And it only takes small fraction in whole values of sukuk revolving globally. While UEA themselves have been actively consolidating trade of its secondary market in Dubai International Financial Exchange (DIFX), so that making country to have market value of sukuk to be listed highest in the world (Jobst et al, 2008). On other hand, Malaysia as leader in issuance of sukuk globally with contribution of 65,7% upon market share in 2005, seemed to necessarily develop again exchange of secondary market for its sukuk. Although recently secondary market of Malaysian sukuk can be assumed to be most liquid, yet most traded in market of OTC (over-the-counter) is not exchange. One of characteristics on trade in market of OTC is usually marked with a bit great margin for broker. Therefore this regard grants reluctance for brokers to develop exchange based- market transparence and liquid since it can lessen their margin through available competition (Marek, 2007). Besides, once an investor getting involved in trade in market of OTC thus he or she is supposed to conduct again the trade in future, most possibly she or he will choose to return to same broker due to reason of ease of documentation, this is again a luck for the pertinent broker. All those things probably can explain slow growth in secondary exchange based-market of sukuk. But then, in logics, lesser margin that the broker obtains due to the emergence of exchange based-secondary market transparence can be compensated by growth of business volume and trade opportunities.

### VALUATION MODEL OF TODAY'S SUKUK

Most recent development of sukuk trade in secondary market has reaped some criticisms due to variety of comprehension on sharia compliant rules. For instance in Malaysia, in its domination of the sukukissuing value globally, most of sukuk issued is based on concept bai' al 'inah and tabarru', while its trade in secondary market is based on concept bai' al dayn (Ayub, 2007). These three concepts principally are in opposition to sharia compliant. If we want to see again the prohibition in the Islamic contract finance, there are several, and include riba or usury, that defined as the increase in a loan transaction or also the concept exchange of commodity. Beside that there are also concept of gharar and maisir that defined as an element of deception either through ignorance of the essential element of the goods, price and also faulty description of the object of trade, and maisir concept, the activity that are very close to the speculation. And finally bai 'al 'inah concept. Concept bai' al 'inah is almost equal to transaction repo in terminology of conventional finance, namely double sale where there are sales and resale of an instrument between buyer party and seller party by themselves in which its final outcome will be equal to loan with interest. Many Islamic scholars had defined that bai 'al'inah is the way to get the leg al excuse from the riba concept. As we know that in this concept, it involves the sale and buy back assets by the seller. The asset is sold in the cash basis, but on the other hand, it buys with the deferred payment with the price is higher than before. While tabarru' is promising return with certainty or particularity toward sukuk investor, apart from cash flow of project turned to be underlying on that sukuk. Practice abarru' includes regular distribution to sukuk holder and it guarantees return of its capital. Some syariah

experts from Malaysia argue that purchase and sale of debenture in secondary market are justified based on rules from Syafii belief that it can be sold and purchased on its nominal value (Ayub, 2007). Other criticism refers to practices anchoring outcome return of sukuk to LIBOR (London Interbank Offered Rate) or other equivalent local interest rates. Although some parties argue that the later can be used in pricing (price calculation), however payment of outcome return of sukuk related to conventional interest rate can be assumed usury or riba (Usmani, 2002).

All recent development regarding this sukuk is probably based on problems that the financial institution face to arouse sukuk as a thing identical with conventional bond, since it will alleviate in term of risk assessment by investor. Investor will feel more self- conviction to invest on bond letters holding structures not alien for them rather than bond letter with foreign structures and also with term probably assumed to be new. Therefore, innovation toward sukuk is more in side of law in order to abide sharia compliant law however there is no yet innovation financially (Wilson 2008). The latter can be observed on the market price making of sukuk in secondary market. If there is no new innovation financially on sukuk, then market price of sukuk will be equally sensitive like conventional bond on variable of market interest rate. Based on conventional bond valuation, it states that bond price will be higher than its nominal value when interest rate of market corresponding with it is lower than coupon rate and reversely bond price will be lower than its nominal value when interest rate of market corresponding with it is higher than its coupon rate; or expressed through the following equation (Brigham et al., 1999):

of rate, of expressed through the following equation (Brigham et 
$$V = \sum_{t=1}^{n} \frac{C}{(1+Y)^{t}} + \frac{P}{(1+Y)^{n}}$$
 (1)

where: V is market value of bond,

C is coupon payment in periodics,

P is standard payment in due,

Y is interest rate of market in proportion, and

*n* is a number of period of coupon payment.

That valuation will determine decision of investor to conduct purchase of sukuk or not. If valuation process of sukuk follows valuation model of conventional bond then process of making sukuk price in secondary market seems that it is not fully sucject to sharia compliant law. The latter is due to the valuation model of conventional bond does not count interest effect of compound on cash (money) not justified in the syariah. In the syariah, cash must be used as parameter unit and not as an asset affording to produce income by itself and also not as asset traded. Thus, when investor calculates sukuk price by using valuation model of conventional bond thus this has breached the prohition of riba or usury.

In response of this, Papazian (2007) proposed a valuation model equal with equation (1), but he argued that outcome return used is supposed to reflect outcome return on productive activities or real outcome return, and not on interest rate of market. The latter is expressed as follows:

$$V = \sum_{t=1}^{n} \frac{C}{(1+Y_r)^t} + \frac{P}{(1+Y_r)^n}$$
 (2)

dimana: V is market value of bond,

C is coupon payment in periodics,

*P* is standar payment in due,

 $Y_r$  is real outcome return, and

*n* is number of period of coupon payment.

According to Papazian (2007), real outcome return is different with interest rate used in valuation model of conventional bond, where interest rate only reflects compensation on capital and time. Real outcome return is outcome return yielded by an investment calculating not only capital and time. Specifically, real outcome return reflects compensation on capital and resource rather than time. In this regard, a

comparator (*benchmark*) on real outcome return is needed to replace interest rate of market as used in equation (1). Idea of establishing comparator on real outcome return in fact will be supported by a number of syariah expert to replace LIBOR or interest reate of comparator recently mostly used all around the world in calculation of outcome return for instrument of sharia finance.

Yet, a valuation model of sukuk firmly following the sharia compliant law is a model usually yielding market price of sukuk on value of nominal value (pari) all the time. In this regard, anticipation of coupon allotment in the future will not be reckoned in determining market value of sukuk, therefore there is no effect for the cash (money). In fact, valuation like these such things taking places in sukuk trade in Arab Saudi (Marek, 2007). Nevertheless, some parties probably think that valuation model tightly like this is hard to apply since not calculating default risk and opportunity cost upon sukuk by itself. Default risk is a risk where instrument issuer of default risk pays back his or her capital. In comprehension of traditional investor, a purchaser or buyer will bargain at discount price when he or she has perception that sukuk issuer holds probability of default risk or when outcome return of comparator is higher than outcome return of sukuk. Reversely, a seller will ask for premium price when outcome return of comparator is lower than outcome return of sukuk. All the things entirely follow a process of equation (1). But then, sukuk trade getting discount and premium like these involved will be against with sharia compliant—law when sukuk is traded to follow rule of hawalah (debt transfer).

Recently, probably some investors will be reluctant to trade their sukuk due to perception that trade mechanism of sukuk today does not follow terms of syariah, as in effect they will be more likely to choose to hold their sukuk in due rather than to get involved in activities incompliant to the syariah. On the other hand, some investors will also probably be reluctant to trade their sukuk in case sukuk is valued on the real face value compliant to the sharia compliant law, in recollection of this regard thus it does not reckon default risk and opportunity cost. But based on the fact that sukuk right now is one of the important Islamic financial instrument and also there are high global demand from all sector investors for Islamic capital market products make the recent challenge to introduce trade mechanism of sukuk that is new and capable to be compliant to syariah law but it also can accommodate valuation process as in conventional bond. The development of secondary market trading is viewed essential in the inject liquidity. It seems that this sort of trade mechanism will attract traditional investors since they sufficiently know well the valuation process and will attract investors very paying attention on rules of sharia compliant law since they gain assurance that trade done is to fulfill Islamic finance rule. Finally, in case it happens then it will afford to encourage liquidity and volume of sukuk, thus it propels sukuk as an alternatively instrument for conventional bond.

### ALTERNATIVE OF TRADE MECHANISM

In the trade mechanism for sukuk, the most important thing is sukuk is an instrument that have asset backed (Wilson, 2007). When sukuk trade, investor of sukuk will buy and sell the rights to the underlying asset which is permissibe under the Islamic law if we compare with the debt instrument that cannot be traded under Islamic finance scholar. In accordance with syariah stipulation, sukuk can be traded at secondary market on market value recently so far following rules of hawalah. But current problems are many sukuk traded in secondary market in compliance to concept bai' al dayn and not in compliance to hawalah. Most of traditional investors probably will be ready to receive concept hawalah, since in concept hawalah, seller of sukuk is still bound in contingency obligation with buyer of sukuk although they have sold sukuk to the buyer. Consequently, a new trade mechanism is needed to encourage the traditional investor to voluntarily trade sukuk under concept hawalah.

One of ways of stimulating traditional investors to receive concept *hawalah* is by acquaint the third party or agent in function to receive contingency obligation from sukuk seller while they sell their sukuk to the buyer. This agent principally acts as party who will assist sukuk buyer when buyer of sukuk fails to comply their duty. Its mechanism is as follows: when seller sells sukuk to the buyer at market price, discount price or premium to the value of pari, seller transfers contingency obligation of his or her *hawalah* to an agent, just say that agent of *hawalah*, with such a fee or return that will be incurred to seller can be efficient. In this regard the rating agent is a good candidate to act as agent of *hawalah*.

This mechanism provides comfortable situation to the traditional investor, in recollection that sukuk can be traded at market value, either at discount price or at premium toward its value of par. This mechanism can either stimulate investors who highly pay attention on sharia stipulation in order to trade their sukuk since this trade mechanism has been subject to stipulation in sharia compliant law.

#### 3. CONCLUSION

Sukuk trade mechanism in secondary market places is different in every countries. However, most of them are traded in adherence to concept *bai'* al dayn, in which the latter does not follow Sharia rule. Adoption on this concept is most probably to fulfill needs of traditional investors in order to have ease in conduct of valuation on their financial products. On other side, adoption of this concept causes investors much paying attention on syariah stipulation will limit their demand to trade their sukuk since not following the syariah rule. Such a trade mechanism of sukuk recently offered by introducing an agent of *hawalah*. The role of *hawalah* agent is to take over contingency obligation from sukuk seller under concept *hawalah*. Through this regulation, sukuk buyer will refer to agent of *hawalah*, and not the seller of sukuk, if issuer of sukuk fails to fulfill his or her duties.

Therefore, traditional investors can trade their sukuk at market value, namely discount price or premium toward its par value, as with their hope and investors who highly abide syariah stipulation can trade their sukuk without worry on trade mechanism against the sharia law. In the end, all these things can encourage more and more investor to trade their sukuk at secondary market and secondary market as well as to add liquidity and volume of sukuk.

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# ISSUES IN SUKUK MUSHARAKAH AND SUKUK MUDHARABAH: CRITICISM AGAINST THE APPLICATION OF INCENTIVE FEE AND INVESTMENT MANAGER ARRANGEMENT\*

Mohamad Syafiqe bin Abdul Rahim<sup>1</sup>

### **ABSTRACT**

The Malaysian Sukuk market has expanded rapidly over the past two decades to become an integral part of the Malaysian capital market. It continues to embrace innovative structure, as underlined by the launch of sukuk using concepts such as Mudharabah, Musharakah and Ijarah. The higher degree of dynamism in the market is reflected by the development of sophisticated Sukuk arrangements that are now structured based on multiple Shariah concepts to meet the needs of the client (Sukuk Issuer). Having to say that, there are several Shariah issues which require further deliberation to ensure its compliance with Shariah. This paper discusses on the Shariah issues in Sukuk Musharakah and Mudharabah where the analysis will focus on the application of incentive fee and investment manager arrangement under these two Sukuk structures applied in Malaysia. This paper will also provide some example of Sukuk which already in the Malaysia market as case study and reference.

**Keywords:** Sukuk, Musharakah, Mudharabah, Manager, Incentive Fee

### 1. INTRODUCTION

One area in Islamic finance that has attracted and continues to attract a lot of interest from the business community worldwide is the global Sukuk market. Sukuk represent one of the most significant instruments of the Islamic capital markets. Sukuk were initially introduced as an alternative instrument which serves the same purpose of providing long-term financing as conventional bonds, however, without compromising the requirements of Shariah (Islamic law). Sukuk have been extensively used for raising government funds via sovereign sukuk issuances as well as obtaining funds for companies through corporate sukuk offerings.

The development of an active Sukuk market is vital in providing alternative funding avenues for individuals, corporate entities and also the government. Tapping into the Sukuk market allows a fund raising entity to reach a wider investor base, thus enjoying a larger funding amount at a competitive rate with the support from the government who provide tax incentive and other benefit for Sukuk issuance.

On the aspect of Sukuk structure, the Sukuk market continues to embrace innovative elements, as underlined by the launch of Sukuk using various types of Shariah contracts such as Mudharabah, Ijarah, Musharakah and Murabahah. Although the development of Sukuk market is a considerable achievement, some structures which attempt to behave and achieve the same economic outcome as conventional bonds have distorted Shariah principles.

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<sup>\*</sup> Paper presented in the 5<sup>th</sup> Islamic Economic System Conference (iECONS) 2013 on 4 - 5 September 2013 at Berjaya Times Square Hotel Kuala Lumpur.

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<sup>&</sup>lt;sup>2</sup> ISRA-Bloomberg Bulletin, July 2013 Edition

This paper therefore aims to shed light on Shariah issues that arise in Sukuk structure particularly with regards to the application of incentive fee in Sukuk Mudharabah and Sukuk Musharakah and also investment manager arrangement under Sukuk Musharakah. However, this paper will only focus on the Sukuk in Malaysia market and will not make comparison with other Sukuk structure in other countries. The analysis of the above Shariah issues will also refer to the Principal Terms and Conditions of several Sukuk which already in Malaysia market.

### 2. THE CONCEPT OF SUKUK

During the early stage of Sukuk introduction in the market, Sukuk are frequently referred to as Islamic bonds. This term may mislead the people to consider that Sukuk are similar to bonds. In fact, some of the Sukuk introduced in the market during that point of time were classified as Islamic bonds instead of Sukuk. Literally Sukuk means certificates. In its simplest form, Sukuk are certificates of equal value that represent an undivided interest (proportional to the investor's interest) in the ownership of an underlying asset or business, usufruct, services or investments in particular projects or special investment activities.<sup>3</sup>

A similar definition is provided by the Islamic Financial Services Board (IFSB) where in its Capital Adequacy Standard (IFSB 2), defines Sukuk as certificates that represent the holder's proportionate ownership in an undivided part of an underlying asset where the holder assumes all rights and obligations to such asset. Through this concept, Sukuk enjoy the benefit of being backed by assets, thereby affording the Sukukholders or investor a level of protection which may not be available in conventional debt securities or bond.<sup>4</sup>

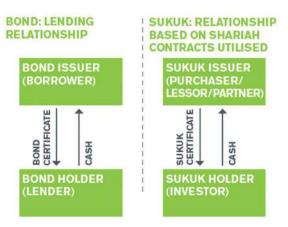
In contrast, conventional bonds are normally issued to evidence debts or mirror loans on which interest is paid. Unlike Sukuk, bonds do not represent ownership on the part of bondholders in the commercial or industrial enterprise for which the bonds are issued. Rather, it document the interest-bearing debt owed to the holders of the bonds by the issuer, who is actually the owner of the enterprise. <sup>5</sup> Nonetheless, Sukuk share some similarities with conventional bonds whereby both are similarly structured based on assets or businesses that generate revenue. The underlying revenue from these assets represents the source of income for the payment of profit on the Sukuk.

The only difference is that conventional bonds are structured based on loan contract where the investors invest their money by way of giving loan with the expectation to gain profit (interest) generated from the business of the Issuer. As for Sukuk, it can be structured based on innovative applications of various Shariah contracts and principles such as sale, lease and partnership as the underlying relationship between the issuer and the investors to enable the latter to enjoy returns on their investment. Diagram 1 below explains the relationship established between the bond/sukuk issuer and holder graphically.

Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI), in its Shariah standard 17(2)
 BNM&SC (2009), Malaysia Debt Securities and Sukuk Market: A Guide for Issuers & Investors, Kuala Lumpur: BNM&SC, p. 29

<sup>&</sup>lt;sup>5</sup> Asyraf Wajdi Dusuki (2010), Critical Appraisal of Shariah Issues on Ownership in Asset-based Sukuk as Implemented in the Islamic Debt Market, Kuala Lumpur: ISRA, p. 4

Diagram 1: Relationship established between Bond/Sukuk Issuer and Holder



Source: ISRA-Bloomberg Bulletin, July 2013 Edition

### 3. SUKUK CLASSIFICATIONS

Sukuk can be classified in various manners. The bases for Sukuk classification can be either be the contracts underlying the Sukuk structures, the nature and type of asset represented by the Sukuk, or the Sukuk technical and commercial features. The normal method is to look into the underlying Shariah concepts used in the Sukuk transactions. They include some common Shariah contracts such as Bai Bithaman Ajil, Murabahah, Tawarruq, Ijarah, Istisna', Mudharabah, Musharakah and Wakalah. Securities Commission of Malaysia identified 14 primary Shariah concepts that can be used in structuring Sukuk together with 10 supplementary Shariah concepts to support the primary Shariah concepts.<sup>6</sup>

Notwithstanding the various types of Shariah concepts, it is common that the bank as the Principal Adviser in arranging Sukuk for the clients to structure Sukuk based on the client's financial needs. This may include for the purpose of project financing (including contract financing), corporate finance-related such as mergers and acquisitions, debt restructuring or refinancing and lastly for general working capital of the client. Based on that, the Principal Adviser will review and apply Shariah contracts that best suit the Sukuk structure according to client's needs after taking into account other related issues such as tax, asset ownership, etc. For the purpose of this paper, the author will not explain in details each of the Shariah concepts and how it applies in Sukuk structure. As explain earlier, the main objective of this paper is to highlight and discuss on two appealing Shariah issues under Sukuk Mudharabah and Sukuk Musharakah. The detail explanations of these two Sukuk structures are deliberated in the next section.

#### 4. SUKUK MUSHARAKAH AND SUKUK MUDHARABAH

Musharakah is a form of partnership between two partners or more which is based on profit and loss sharing. In early literature of Islamic jurisprudence, the term Musharakah was referred to as Shirkah or partnership. In the context of business and trade, technically, Musharakah is a contract between the partners to contribute capital to an enterprise or a venture, whether existing or new, or to own an immovable or moveable asset, either on a

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<sup>&</sup>lt;sup>6</sup> Appendix 1, Guidelines on Sukuk, issued by Securities Commission of Malaysia

temporary or permanent basis. Profits generated by that venture or real estate or asset are shared in accordance with the terms of the Musharakah agreement, while losses are shared in proportion to each partner's share of capital.

On the other hand, Mudharabah is a contract made between two parties to enter into a business venture. The parties consist of the Rabb al-mal (capital provider) who shall contribute capital to finance the venture, and the Mudharib (entrepreneur) who will manage the venture. If the venture is profitable, the profit will be distributed based on a pre-agreed ratio. In the event of a business loss, the loss shall be borne solely by the Rabb al-mal, unless the loss is due to negligence or mismanagement of the Mudharib in managing the venture.<sup>7</sup>

In the case of Sukuk for investment activities funded through Musharakah or Mudharabah, the Sukuk represents Sukukholder's undivided interests in the specific investments. Sukuk Musharakah is used to raise funds for projects on the basis of partnership contracts. The Sukuk Musharakah holders or investors then become the owners of the project, in proportion to their respective shares. Profits are distributed according to a pre-agreed proportion while losses are pro-rated according to their equity share. The details structure of Sukuk Musharakah is explained as per following diagram 2:

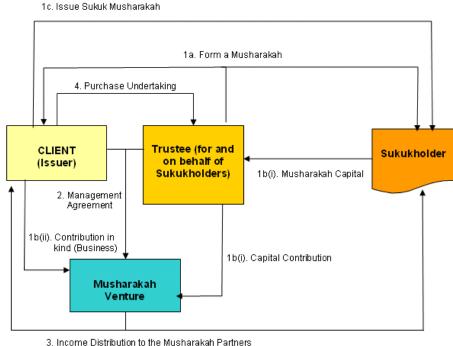


Diagram 2: Sukuk Musharakah Structure

3. Income Distribution to the Mushar

Source: Author's own

The above diagram illustrates the common structure applicable for Sukuk Musharakah in Malaysia. Under (1a), prior to the formation of Musharakah arrangement, the Issuer will identify the Business which will be used for the Musharakah Venture. Sukukholders shall via the Trustee, form a Musharakah arrangement with the Issuer to invest directly into the Business (Musharakah Venture). Concurrently under (1b), each party shall provide capital contribution to the venture whereby the capital contribution of the Sukukholders to the

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<sup>&</sup>lt;sup>7</sup> Guidelines on Sukuk, p. 44

Musharakah Venture shall be the proceeds raised from the Sukuk Musharakah whereas the Issuer will contribute the Business into the Musharakah Venture (1b).

Under (1c), the Issuer shall then issue Sukuk Musharakah and the Sukukholders shall subscribe to the Sukuk Musharakah issued by the Issuer where the Sukuk Musharakah shall represent the Sukukholders' undivided proportionate interest in the Musharakah Venture. The Musharakah Partners shall also agree that the Issuer will be the manager to manage the Musharakah Venture via a management agreement (refer to item 2). Income from the Musharakah Venture shall be distributed to each Partner based on a profit sharing ratio which will be determined prior to the issuance of the Sukuk Musharakah. Any losses incurred in the Musharakah Venture shall be borne by each Partner in proportion to each Partner's respective capital contribution in the Musharakah Venture (refer to item 3).

Under item 4, the Issuer shall issue a purchase undertaking to the Trustee (for and on behalf of the Sukukholders) wherein the Issuer undertakes to purchase the Sukukholders' undivided proportionate interest in the Musharakah Venture from the Trustee at the relevant Exercise Price upon the declaration of a Dissolution Event or upon maturity of the Sukuk Musharakah. Upon exercising such purchase, the Musharakah Venture will subsequently be dissolved and the Sukukholders shall not have any further rights or interests in the relevant Musharakah Venture. Thereafter, the respective Sukuk Musharakah shall be cancelled, upon satisfaction in full of the Exercise Price.

As for Sukuk Mudharabah, each Sukuk Mudharabah holder or investor, holds equal value in the Mudharabah equity. Profits will be shared on a pre-agreed ratio between the Mudharabah investor and the Sukuk issuer while any loss will be borne solely by the Mudharabah investor as Rabbul Mal. The details structure of Sukuk Mudharabah is explained as per following diagram 3:

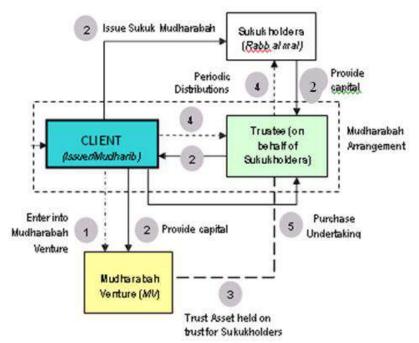


Diagram 3: Sukuk Mudharabah Structure

Source: Author's own

The above diagram illustrates the common structure applicable for Sukuk Mudharabah in Malaysia. Under item 1, the Trustee on behalf of the Sukukholders shall enter into a Mudharabah Venture in its capacity as capital provider (Rabb al-Mal) with the Issuer in its capacity as a manager (Mudharib). The Mudharabah Venture shall be a Shariah compliant business. Under the Mudharabah Venture, the Sukukholders as Rabb al-Mal shall contribute 100% capital via subscription of the Sukuk Mudharabah issued by the Issuer.

The Sukuk Mudharabah issued by the Issuer shall represent the Sukukholders' undivided proportionate interest in the Mudharabah Venture to be managed by the Issuer; hence entitling the Sukukholders to receive its profit portion (refer to item 2). Subsequently, under item 3, the Issuer shall make a declaration of trust in favour of the Sukukholders over all the Issuer's interests in the Mudharabah Venture. Any profit in the Mudharabah Venture shall be shared with the Sukukholders in accordance with an agreed profit sharing ratio of the Sukuk Mudharabah but in the event the Mudharabah Venture makes a loss, the loss shall be borne solely by the Sukukholders (refer to item 4). Under item 5, pursuant to the Purchase Undertaking, the Issuer shall purchase the Sukukholders' interest in the Mudharabah Venture at an Exercise Price upon the declaration of a Dissolution Event or upon maturity of the Sukuk Mudharabah. Upon purchase of the Sukuk Mudharabah, the Mudharabah Venture shall then be dissolved.

From the foregoing explanations, we can summarise that both Sukuk Musharakah and Sukuk Mudharabah structure have almost similar characteristic whereby it involves elements of capital contribution, sharing either the profit or loss and also requirement to have a specific venture where the capital will be invested. However, both structures may also raise Shariah issues particularly on the appointment of manager and also the application of incentive fee arrangement. These two issues will be discussed in the next part of this paper.

### 5. CRITICISM AGAINST SUKUK MUSHARAKAH AND SUKUK MUDHARABAH

Sukuk Musharakah and Sukuk Mudharabah are commonly used in the global Sukuk market and not only limited in Malaysia. However, both have also been criticised by some Shariah scholars. Some of the most notable issues and objection against Sukuk Musharakah and Sukuk Mudharabah are the issues of purchase undertaking and top-up payment which may tantamount to element of capital and profit guarantee. These features thus mimicked those of fixed-income instruments which similar to bonds. Generally, the top-up payment will be made by the Issuer<sup>8</sup> to the Sukukholder in the event of the prevailing return is below the expected return of the Musharakah or Mudharabah venture. In addition, the use of purchase undertaking may resemble the element of guaranteeing the capital since the Issuer is obliged pursuant to the purchase undertaking to purchase Sukukholder's asset in the venture at a price which equivalent to the capital contribution made by the Sukukholder.

Notwithstanding the above issues, it is worth noting that most of Sukuk issued in Malaysia and approved by Securities Commission have applied the above arrangement. However, this is not to say those Sukuk are not in line with Shariah but these are the critical areas where the scholars have differences in opinion and cannot come into one consensus. With due respect to the scholars, another aspects which in the author's opinion has not been thoroughly discussed are the issues of manager appointment and incentive fee arrangement. For the purpose of

<sup>&</sup>lt;sup>8</sup> In the case of Sukuk Musharakah, Issuer as one of the partner whereas under Sukuk Mudharabah, Issuer acts as Mudharib.

explaining these two issues, the author will extract several Sukuk's Principal Terms and Principal (PTC) which already been issued in Malaysia market as reference and case study.<sup>9</sup>

### 5.1 APPOINTMENT OF MANAGER

Generally, under Musharakah contract, it is important to differentiate between Shirkah al-Aqd and Shirkah al-Milk. Some people get confused between these two types of Musharakah. On this matter, Ibn Qudamah for instance explains that "there are two kinds of partnerships namely, joint ownership (Shirkah al-Milk) and contractual partnership (Shirkah al-Aqd)". Shirkah al-Milk means the participation of two or more parties in the ownership of an asset. The ownership of the asset is obtained either by way of Hibah, hadiyyah, inheritance or bequest, wasiyyah, etc, so it becomes jointly owned by them. Shirkah al-Milk does not go through the stages that contractual partnership does, which starts with capital contribution that is then converted into assets/venture. Shirkah al-Aqd on the other hand is a contract between two or more parties on the basis of sharing the profit.

Among the feature which distinguish Shirkah al-Aqd and Shirkah al-Milk are that the former originates from a contract between two parties which involves offer and acceptance whereas this characteristic is absent in the latter since as in the case of inheritance or bequest for instance, the asset is shared between two or more parties without execution of specific contract. Furthermore, the subject of Shirkah al-Milk is only the asset itself, without any agreement upon how to invest it through joint action. As far as Shirkah al-Aqd is concerned, it is established by the agreement to invest the capital or work together and share the profit.

The word "al-Aqd (contract)" means here the contractual partnership which seeks profit. As for Shirkah al-Milk, if it originates from a contract, it would be a contract of purchase or gift or bequest and not a contractual partnership. That is because, it is neither for business nor to generate profit; rather it is only to share or acquire asset. <sup>13</sup> Maybe for that reason, some of jurists have discussed Shirkah al-Milk under the topic of dividing property instead of Musharakah.

The main objective of discussing the above is because each of these two types of Shirkah has its own distinctive. For instance, in terms of the requirement of having an agency between the partners, under Shirkah al-Aqd, it already comprises agency arrangement. As such, each of the partners acts for himself and also for his partners. Therefore, it is not a requirement under Shirkah al-Aqd to have a separate appointment between the partners since such roles already be embedded in the contract.<sup>14</sup>

With regard to Sukuk structure using Musharakah contract in the market, it is important to determine whether it falls under the category of Shirkah al-Aqd or Shirkah al-Milk. According to Dr Abdul Sattar Abu Ghuddah, he mentioned that it is clear that the issuance of Sukuk under Musharakah contract is based on Shirkah al-Aqd and not Shirkah al-Milk. The reason is because Sukuk Musharakah is a joint investment vehicle between Sukukholders and Issuer. Based on that, there is a contract between them in order to establish the partnership in

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<sup>&</sup>lt;sup>9</sup> All the Sukuk PTCs were retrieved from Securities Commission's website. http://www.sc.com.my/sc/search\_principle.asp?stype=P&skey=2

<sup>&</sup>lt;sup>10</sup> Ibn Qudamah, Al-Mughni, 5:3

<sup>11</sup> Sarakhsi, al-Mabsut, vol. 11, p. 151

<sup>&</sup>lt;sup>12</sup> Ali al-Khafif, Ahkam al-Muamalat al-Syar'iyyah, p. 545

<sup>&</sup>lt;sup>13</sup> Dr Salih al-Marzuqi, Sharikat al-Musahamah fi al-Nizam al-Saudi, p. 40

<sup>&</sup>lt;sup>14</sup> Kasani, Bada'I, vol. 6, p. 58, Sharbini, Mughni al-Muhtaj, vol. 2, p. 213

investment. Furthermore, the objective of such partnership is to generate profit which to be shared between them.<sup>15</sup>

As far as Sukuk Musharakah is concerned and as practiced in Malaysia market, normally the Sukukholders will appoint the Issuer as manager to manage the Musharakah venture. This can be seen for example in Eversendai Sukuk Musharakah. In that Sukuk structure, both the Issuer and also the Trustee are partners in the Musharakah contract. It is clearly stated in its Principal Terms and Conditions that Eversendai as the Issuer will be appointed as the manager by the Trustee (on behalf of Sukukholders) to manage the Musharakah Venture. The issue here is whether it is really required to have a separate arrangement to appoint the same partner in the Musharakah to manage the venture since as explained earlier; in a normal Sukuk structure, it is classified under Shirkah al-Aqd where the agency roles is already embedded.

From the other perspective, there is another view by AAIOFI which allows such structure on the basis that the appointment is done on a separate and independent contract. As such, the partner who is appointed as manager to manage the partnership becomes an employee of the partnership venture and not acting in the capacity of a partner. <sup>16</sup> Further, the manager is also entitled to receive fee for his role. With due respect, the author is of the view that although the appointment is made independently, but the party appointed as manager is still the same party i.e the partner itself. The main reason for such prohibition is due to the fact that this may raise the issue of conflict of interest.

In addition, the arrangement seems similar to Wakalah (agency) or Ijarah al-Amal (service with wages) contract. Under these two contracts, the agent or service provider shall be paid fee for the service rendered. As such, this may contradict with the nature and spirit of Musharakah contract particularly Shirkah al-Aqd which involves elements of partnership where each partners acts for the benefit of the partnership and any profit or loss should be shared accordingly. Furthermore, the above ruling should also be read together with a condition where the appointment is subject to the manager can be dismissed from its roles at any point of time without the need to amend or to terminate the Musharakah contract.<sup>17</sup>

From the foregoing statement, most of Sukuk Musharakah structures have imposed a condition whereby the Sukuk Musharakah may be terminated in the event of default or dissolution. In this case, the Sukuk shall be terminated if one of the conditions under event of default or dissolution is triggered; and this includes if the Issuer who is the Musharakah Manager, fails to undertake its roles or perform its obligation as stipulated in the relevant documents. For instance, in Imtiaz Sukuk Musharakah, it is stated that if the Issuer or the Obligor fails to observe or perform its obligations under any of the Transaction Documents or the Sukuk Musharakah or under any undertaking or arrangement entered into (including management agreement), the Sukuk will be redeemed by the Sukukholders pursuant to the Purchase Undertaking, thus terminates the Musharakah.

This condition clearly inconsistent with the requirement as mentioned earlier since by right the dismissal of manager shall not give any affect on the status of Musharakah contract. As an alternative, perhaps the partner can be appointed as manager under a separate and independent contract provided that it needs to comply with the requirement set out by AAIOFI whereby the dismissal of manager shall not affect or lead to termination of Musharakah contract. In this case, there must not be any clauses in legal documentation

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<sup>&</sup>lt;sup>15</sup> Abdul Sattar Abu Ghuddah, Fiqh Characterization of the Contracts of Partnership (Shirkah al-Aqd) and of Ownership (Shirkah al-Milk) and the Impact of that Characterization on the Application of Sukuk and Musharakah Mutanaqisah

<sup>&</sup>lt;sup>16</sup> AAIOFI (2010), Shariah Standard no. 3/1/3/2

<sup>&</sup>lt;sup>17</sup> Ibid., Shariah Standard no. 3/1/3/5

which stipulates that the Sukuk shall be redeemed thus cancelling the Musharakah contract in the event the Issuer (partner) fails to perform its roles as manager. Instead, the Musharakah shall remain and continue where the partners shall agree to appoint another party as manager to manage the Musharakah.

In addition, the appointment of manager can also be done outside the partnership arrangement such as appointing a third party to manage the venture. For example in Sukuk Imtiaz, the Sukukholders who form a Musharakah amongst themselves appoint a third party (the Issuer) which is not the Musharakah partner, as manager to manage the Musharakah venture.

### **5.2 INCENTIVE FEE**

Another issue which requires further deliberation and analysis is on the application of incentive fee arrangement under Sukuk Musharakah and Sukuk Mudharabah. As required under tenets of Musharakah and Mudharabah contract, all the contracting parties must come into agreement on the profit sharing ratio which to be used as mechanism in determining the amount of profit to be shared. This is a requirement set out by Shariah to eliminate uncertainty and any possibility of dispute. Under a common Sukuk Musharakah structure, the partners shall agree on certain expected return of the Musharakah venture.

In the event the prevailing return exceeds the expected return of the venture, the excess shall be passed to the partner who manages the Musharakah venture and such excess is considered as incentive fee. This structure actually relates to the first issue as discussed earlier. In order to apply the incentive fee arrangement, there must be one manager to manage the venture so that the manager will be entitled to receive the incentive fee. In Bolton Sukuk Musharakah for example, the Issuer shall be appointed as manager to manage the Musharakah Venture. The Sukukholders agree that any excess of the profits from the Periodic Distribution Amount shall be retained by the Manager as an incentive fee.

This may raise Shariah issue since from Shariah perspective; it is not permissible to specify a fixed remuneration or fee for a partner who contributes in managing the Musharakah venture or provides any form of services. The basis of this prohibition is because it may tantamount to guaranteeing the capital of the partner (manager) and it violates the nature of Musharakah since the partner is not being exposed to risk of loss in proportion to his capital contribution. By right, the partner who manages the venture can only receive a greater share of profit than it would receive from the profit sharing ratio agreed earlier.

As for Mudharabah contract, the same ruling shall apply where the distribution of profit must be based on the agreed profit sharing ratio. It is not permissible to earn a share of profit in addition to a fee in Mudharabah contract. <sup>19</sup> Furthermore, under the Shariah Standard of Mudharabah issued by Bank Negara Malaysia, it is also stated that a Mudharib is only entitled to profit for works which are integral to the Mudharabah venture and shall not earn any additional fee for such works. <sup>20</sup> However, some of Sukuk Mudharabah in Malaysia have applied the incentive fee arrangement for example in MNRB Sukuk Mudharabah where any amounts in excess of the the Rabb al-Mal's share of profits expected by the Investor from the Mudharabah Venture (Expected Return) shall be given to the Mudharib as an incentive fee for successfully managing the business. In Nur Power Sdn Bhd Sukuk Mudharabah, the actual income in the Mudharabah venture in excess of the Expected Periodic Distribution amount shall be retained by the Issuer as an incentive fee in its capacity as Manager cum Mudharib.

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<sup>&</sup>lt;sup>18</sup> Ibid., Shariah Standards no 3/1/3/4

<sup>&</sup>lt;sup>19</sup> Ibid., Shariah Standards no. 8/2

<sup>&</sup>lt;sup>20</sup> Shariah Standard Mudharabah, ruling no. 12.19

In the author's opinion, this is not consistent with the Mudharabah tenets since it is already clear at the outset of the Mudharabah contract and due to the nature of Mudharabah itself that Mudharib is obliged to manage the Mudharabah venture and shall entitle to profit pursuant to the agreed ratio. If this incentive fee arrangement be applied, it clearly redundant and has similar characteristic with the contract of Jualah where the party involved may be rewarded with a fee as a reward for its performance. On that note, if Sukuk, be it using Mudharabah or Musharakah contract is structured with the "excess profit arrangement", it is proposed that the concept of Tanazul be introduced as an alternative to the incentive fee arrangement.

Tanazul means surrendering the rights. It is also known as Isqat Haq 21 in Islamic jurisprudence. It is found that Isqat Haq is closely related to the concept of Ibra' (rebate). Thus, in order to have a clear idea of Tanazul, the concept of Ibra' should be discussed. The term Ibra' literally means elimination, release, removal and acquittal from something. In Islamic jurisprudence, the term refers to an act by a person to withdraw his rights from a person who has the obligation to repay the amount borrowed from him. Thus, dropping rights that are not established as a liability on a person (e.g. pre-emption rights, the right to live in a house that is part of an inheritance) are not considered absolution. They are rather called Isqat Mal.22

According to Shariah Standard of Mudharabah, the Tanazul can be applied where a party is to waive his right to the profits, if any, to the other contracting party on the basis of waiver (Tanazul) on the date of distribution of the profit.<sup>23</sup> The permissibility to waive any partner's right to the profit is based on the fact that a partner who has agreed to a certain profit sharing ratio may agree to waive the rights to profits to be given to another partner on the basis of Tanazul (waiver) at the time of profit realization and distribution. Moreover, pursuant to the principle of Tanazul (waiver), some partners may give some preferential treatment to other partners with regard to profit distribution.

The above structure is also allowed based on the resolution of Shariah Advisory Council of BNM that resolved, it is allowed for any partners under Musharakah contract, to stipulate a condition whereby any partners to the contract may waive (Tanazul) his right on the profit and it to be passed to another partner should the prevailing profit exceeded certain ceiling.<sup>24</sup> In addition to that, the resolution by AAIOFI states that it is permissible to agree that if the profit realised is above a certain ceiling (expected return), the profit in excess of such ceiling belongs to a particular partner. The parties may also agree that if the profit is not over the ceiling or is below the ceiling, the distribution will be in accordance with the agreement<sup>25</sup>. Further, the concept of Tanazul has been approved by Shariah Advisory Council of Securities Commission to be used for Preferences Shares under the Companies Act 1965 where the ordinary shareholders will Tanazul their entitlement to the profit in favour of the preference shareholders in the annual company meeting.<sup>26</sup>

 $^{21}$  Al-Mausu'ah al-Fiqhiyyah, vol. 4, pp. 226-256; see also SC (2009), Resolutions of the Securities Commission Shariah Advisory Council,  $2^{nd}$  edition, Kuala Lumpur: SC, p.93

shareholders in dividing the profits, in accordance with Tanazul.

<sup>&</sup>lt;sup>22</sup>Al-Atram, Abd al- Rahman Salih (2008), Ibra' in Islamic Finance: Adaptation and Application in Contemporary Issues in Islamic Finance: Deliberation, paper presented at the International Shari'ah Scholars Dialogue 2006, Kuala Lumpur: Bank Negara Malaysia, p. 293

Shariah Standard Mudharabah, ruling no. 12.21

<sup>&</sup>lt;sup>24</sup> 53<sup>rd</sup> SAC of BNM meeting dated 29 September 2005. Please refer to BNM (2010), Resolusi Syariah Dalam Kewangan Islam, 2<sup>nd</sup> Edition, p. 40-41 <sup>25</sup> AAIOFI (2008), Shariah Standard No. 12

<sup>&</sup>lt;sup>26</sup> 20<sup>th</sup> SAC of Securities Commission meeting dated 14 July 1999. Based on the resolution, The SAC ruled that non-cumulative preference shares are permissible based on Tanazul where the right to profit of the ordinary shareholder is willingly given to a preference shareholder. Tanazul is agreed upon at an annual general meeting of a company which decides to issue preference shares in an effort to raise new capital. As it is agreed at the meeting to issue preference shares, this means that ordinary shareholders have also agreed to give priority to preference

With regard to the Sukuk structure, some of Sukuk Musharakah and Mudharabah in Malaysia had already using the Tanazul arrangement. For example in TSH Sukuk Musharakah, it is mentioned that in the event that the distributable profits generated from the Musyarakah Venture are greater than the Expected Return, pursuant to Tanazul (waiver) granted from the onset, the Trustee (for and on behalf of the Sukukholders) shall undertake to waive its right on the excess distributable profits from the Musyarakah Venture to the Issuer. In addition, in Nur Power Sukuk Mudharabah, the Sukukholders have agreed that it shall grant waiver/Tanazul in receiving any profit entitlement above the Expected Periodic Distribution.

### 6. CONCLUSION

From the foregoing discussion, it can be summarized that despite the encouraging growth and development of the Sukuk market, it seems that there are still controversial issues that need prompt solutions in order to sustain the development of the Sukuk market. This requires a close cooperation among financial experts and Shariah scholars on one hand, and more interaction and discussion among Shariah boards on the other. The focus of the Islamic capital market shall not be only on how to raise the funds, structuring innovative product and be acceptable to international financial institutions, although these are valid and well needed objectives, but ensuring Shariah compliant should be the utmost priority. This will also help in the growth of real economy and socio-economic development of the society.

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# PROFILING LIQUIDITY RISK IN THE DEFAULTED SUKUK ISSUANCE COMPANIES IN MALAYSIA

Wan Hasmanirah Wan Mohammad<sup>1</sup> Nursilah Ahmad<sup>2</sup> Siti Nurazira Mohd Daud<sup>3</sup>

### **ABSTRACT**

This paper is to investigate the extent to which the liquidity risk contributed to the defaulted *sukuk* issuance in Malaysian companies. Five randomly selected companies were analysed for the period 2002 to 2011. But for the purpose of this paper, the paper only highlighted the trend prior to three years before default event. Year of default is varied from one company to another. The study showed that the defaulted event was partly due to liquidity risk. This finding is similar to the financial crisis of 2008-2009 that was, in part, due to liquidity risk. (Saunders & Cornett, 2011). This papers concludes that failure to address the issue may lead to dire consequences, including banking collapse, and by extension, the stability of the financial system (O'Hara, 2003). In this case, the growing numbers of defaulted *sukuk* issuance companies in Malaysia could cause the piling-up of bankruptcy companies especially the privately-owned companies, may somehow affected the banking industry and financial institutions in Malaysia.

Keywords: sukuk, default, liquidity risk

### 1. INTRODUCTION

Based on the achievement, Malaysia's is the main contributor to the world *sukuk* market. As the world number one *sukuk* issuer, Malaysia has been the hardest hit in terms of series of defaulted *sukuk* event in Malaysia. In 2009, the *sukuk* market is labelled as the 'default year'. The year ended with at least 15 cases. In 2010, there were another six default events reported. These default events were notified by respective rating agencies. In Malaysia, so far, there are two rating agencies that authorised for rating and defaulting event, which are Malaysian Rating Corporation Berhad (MARC) and Rating Agency MalaysiaBerhad (RAM). According to RAM rating agencies, there were 24 registered default events in Malaysia from 2003-2010. To date, there are 34 listed defaulted *sukuk* companies in Malaysia registered by both rating agencies ranging from 2002 until 2011.

At the global, the issue was brought up by Al-Eqtisadiah<sup>4</sup>, was one of the first worldwide publications who provided the readers with an in-depth analysis on the defaulted issue. It was written that there were 21 defaulted *sukuk* cases reported in the last 20 months (since 2009) as the total value of such issuance has reached of almost \$2.1 billion. The numbers keep arising each year plus with the recognized worldwide defaulted issuance the figure end up with 31. (Khnifer, 2009). According to the Islamic

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<sup>&</sup>lt;sup>4</sup> The Saudi financial newspaper

Finance Information Services (IFIS), there were at least 33 *sukuk* default events in the global market for the period 2003 to 2009.

### 2. SUKUK TERMINOLOGIES

The recent modernization in Islamic finance has changed the dynamics of the Islamic financial industry. The demand for *sukuk* has increased in the last few years and gained universal acceptance as a feasible alternative to conventional financial products. *Sukuk* has developed as one of the most significant mechanisms to raise finance in the market through Islamic guidelines. Aside from the obvious attractiveness to Muslim investors, *sukuk* also appeal to conventional investors looking for attractively-priced instruments for regular income and capital gains (Mohamed, 2008).

Sukuk is an Arabic literature from the plural of word sakk, means "legal instrument, deed, or check" (Muhammad Al-Amine, 2008) were extensively used by Muslims in the Middle Ages as papers representing financial obligations originating from trade and other commercial activities. However, the present structure of sukuk are different from the sukuk originally used and are akin to the conventional concept of securitization, a process in which ownership of the underlying assets is transferred to a large number of investors through certificates representing proportionate value of the relevant assets.

In the contemporary meanings, *sukuk* in general is translated as a *shariah*-compliant bond. (Muhammad Al-Amine, 2008) In its simplest form *sukuk* represents ownership of an asset or its usufruct. The claim embodied in *sukuk* is not simply a claim to cash flow but an ownership claim. This also differentiates *sukuk* from conventional bonds as the latter proceed over interest bearing securities, whereas *sukuk* are basically investment certificates consisting of ownership claims in a pool of assets.

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines *sukuk* as being:

"Certificates of equal value representing after closing subscription, receipt of the value of the certificates and putting it to use as planned, common title to shares and rights in tangible assets, usufructs and services, or equity of a given project or equity of a special investment activity"

Whereas the Securities Commission Syariah Advisory Council (SAC) defines *sukuk* as a document or certificate, which documents the ownership of undivided pro-rated pledged assets. The Securities Commission (SC) also differentiates *sukuk* with conventional bonds follows:

"Sukuk structured with a Shariah-compliant assets through the contract of certain exchanges. The contract can be created through the sale and purchase of assets with deferred payment, leasing of assets or participation in the business of money involving interest. It uses various Shariah principles such as bal' bithaman ajil (BBA), mudarabah, ijarah, murabahah and musharakah that allows investors benefit through the transaction."

Malaysian International Islamic Finance Centre (MIFC) stated:

"Sukuk refers to trust certificates of participation securities that grant investors a share of the asset including the cash flow and risks that commensurate from such ownership. Similar to financial bonds in the conventional financial industry, sukuk are proof of ownership title and are utilized by financial institutions to raise cash."

As one of renowned Islamic bodies in Islamic finance, the definition by AAOIFI is accepted and followed by many countries as the guiding principles in *sukuk* concepts and trading mechanism.

### 3. DEFAULTED SUKUK IN MALAYSIAN ISSUANCE COMPANIES

### 3.1 Definition of Default

According to RAM, time of default occurs when there has been any breach of the binding obligations under the original terms of the agreement between the issuer and bondholders, based on the premise that the bondholders are likely to be exposed to monetary loss. This includes the following: (i) a missed interest and/or principal payment, which is not remedied within the grace period; (ii) failure to honour the corporate-guarantee obligations provided to subsidiaries; (iii) the legal insolvency or bankruptcy of the issuer; (iv) a distressed exchange in which the bondholders are offered a substitute instrument with inferior terms (e.g. extended maturities, lower coupons or diminished security packages).

Whereas for MARC, the agency will assign default ratings when it has reasonably determined that payment has not been made on a material obligation in accordance with the requirements of the obligation's documentation. MARC defines default as follow: (i) failure of an issuer/obligor to make timely payment of principal and/or interest under the contractual terms of the rated financial obligation; (ii) bankruptcy filings, administration, receivership, liquidation, winding-up or cessation of business of an issuer/obligor; or (iii) distressed or other coercive exchange of a rated financial obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing financial obligation of the issuer/obligor.

There are many other definitions of default, regulated and found in the literatures. One of which that specifically connected to companies, and not the banking industry as widely referred to in many literatures - since many research are conducted in the banking industry or financial institutions and rarely on defaulted companies or firms - is Sageworks<sup>5</sup>. Sageworks defined default as a loan that experiences any of the following events:

- i. Nonaccrual status
- ii. 90 Days past due
- iii. Troubled debt restructuring
- iv. Write-Down/Charge-Off
- v. Borrower Bankruptcy

# 4. LIQUIDITY RISK

There are many interpretations of liquidity risk described in the literature review. According to IFSB's Guiding Principles of Risk Management (2005), liquidity risk is the potential loss to Islamic banks arising from their inability either to meet their obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. Liquidity risk arises from maturity mismatches where liabilities have a shorter tenor than assets. A sudden rise in the borrowers" demands above the expected level can lead to shortages of cash or liquid marketable assets (Oldfield and Santamero, 1997).

Other literature explaination is, liquidity is the ability to meet expected and unexpected demands for cash. This does not necessarily mean that the firm is insolvent: liquidity risk can occur when the companies have more assets than liabilitie, but unable to liquidate those assets in time. This is important risk class for

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<sup>&</sup>lt;sup>5</sup> The leader in the Financial Analysis of Privately Held Companies

many financial institutions precisely because they often have illiquid assets and more liquid liabilities. (Askari *et.al.*, 2012)

Liquidity crisis in a banking institution could lead to insolvency and bank runs. Consequently, minimizing the liquidity risk is one of the most important aspects of banks" asset and liability management. In essence, the objective of liquidity risk management is to mitigate the impact of the maturity mismatch on the banks" statement of financial position. This requires the understanding of how cash flows are moving within an organization, identifying the existence and location of cash flow strains by measuring emerging liquidity pressures, and taking corrective actions to prevent these pressures from growing (Taylor, 2001).

Two literatures below, strengthened the indication that the presence of liquidity risk is significant and imminent therefore managing its presence should be the financial institutions's top priorities especially in Malaysia. It is not uncommon to argue that the credit spread inherent in many financial instruments could be more aptly explained as being caused by the presence of liquidity risk, rather than the credit risk (Bielecki & Rutkowski, 2002). Managing liquidity is one of the top priorities of a financial institution's assets and liabilities management (Noraini, 2012).

## 4.1 Definition of Liquidity Risk

Liquidity of an asset is its ease of convertibility into cash or a cash equivalent asset. Liquidity risk arises from the difficulty of selling an asset quickly without incurring large losses. For a banking and financial firm "liquidity risk includes both the risk of being unable to fund [its] portfolio of assets at appropriate maturities and rates and the risk of being unable to liquidate a position in a timely manner at reasonable prices." Sometimes it is defined in terms of maturity mismatch between assets and liabilities while at others it is defined in terms of asynchronous timing of cash in flows and cash outflows from the business. The bank regulatory literature defines it as "risk to a bank's earnings and capital arising from its inability to timely meet obligations when they come due without incurring unacceptable losses."

### 4.2 Sources of Liquidity Risk

Liquidity risk emanates from the nature of banking business, from the macro factors that are exogenous to the bank, as well as from the financing and operational policies that are internal to the banking firm. In case of Islamic banks the nature of *sharia* compatible contracts are an additional source of liquidity risk, particularly if the conventional financial infrastructure is maintained.

However, maturity mismatch at a given time is not the only source of liquidity risk. The risk of this kind can arrive from many directions and its pinch depends on various factors. In a nutshell its sources (i) on assets side depends on the degree of inability of bank to convert its assets into cash without loss at time of need, and (ii) on liabilities side it emanates from unanticipated recall of deposits. Using the categorization in Jameson (2001) and adding a few more we can break them into following behavioral and exogenous sources:

- i. Incorrect judgment or complacent attitude of the bank towards timing of its cash in- and outflows
- ii. Unanticipated change in the cost of capital or availability of funding
- iii. Abnormal behavior of financial markets under stress
- iv. Range of assumptions used in predicting cash flows
- v. Risk activation by secondary sources such as:

- a. Business strategy failure
- b. Corporate governance failure
- c. Modeling assumptions
- d. Merger and accusations policy
- vi. Breakdown in payments and settlement system
- vii. Macroeconomic imbalances

In the case of Islamic banks, additional sources of liquidity risk as follows:

- viii "contractual form",
- ix. "sharia restriction on sale of debt", and
- x. "financial infrastructure deficiency"

# 5. PROFILING LIQUIDITY RISK

Table 1.0 below showed the list of selected defaulted *sukuk* issuance companies in Malaysia based on year of default and the respective rating agency.

Table 1.0 List of Selected Defaulted Sukuk Issuance Companies in Malaysia

Name of Companies	Year of Default	Rating Agency
A-ABI Manufacturing of automotive battery	2005	MARC
B-BSA Investment holding	2008	RAM
C-Englo Investment holding and providing management services	2009	MARC
D-Hualon Manufacture of textiles and fibre products	2003	RAM
E-Intel Investment holding and property development	2008	MARC

Source: RAM and MARC

The following calculations that used in this study are derived from primary data that stated, mainly in the companies' Income Statements and Balance Sheets in their financial years statements. To see the symptom of liquidity risk is by looking at the trend three years prior to the default event, each of the companies.

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Table 1.1: Operating Ratio as a percentage of profit margin of the selected defaulted Sukuk

Bil.	Company/Activity	Profit Margin (%)			
DII.	Company// Cuvicy	3 Yr before	2 Yr before	1 Yr before	
1	A-ABI	21.7	4.8	83.9	
	Manufacturing of automotive battery				
2	B-BSA	34.7	20.4	15.1	
	Investment holding				
3	C-Englo	89.7	53.0	17.0	
	Investment holding and providing				
	management services				
4	D-Hualon	26.7	7.6	8.4	
	Manufacture of textiles and fibre products				
5	E-Intel	74.0	81.3	38.5	
	Investment holding and property				
	development				

Source: Companies' Annual Report

Table 1.1 above summarize the defaulted *sukuk* issuance companies in Malaysia three years prior to the default event.

### Findings and Analysis on Profit Margin

The findings show that the profit margin for A-ABI company was fluctuated three years prior to default. The figure is drastically down, two years before default from 21.7 per cent to 4.8 per cent but drastically jump up to 83.9 per cent a year before default. The trend indicates the performance of the company is inconsistent.

The findings show that the profit margin for B-BSA company showing constantly decreasing three years prior to default. The figures down from 34.7 per cent to 20.4 per cent to 15.1 per cent a year before default. The trend indicates the performance of the company was getting poorer.

The findings show that the profit margin for C-Englo company also indicates constantly decreasing three years prior to default. The figures down from 89.7 per cent to 53.0 per cent to 17 per cent a year before default. The trend indicates the performance of the company was getting poorer.

The findings show that the profit margin for D-Hualon company indicates fluctuated in the company activity three years prior to default. The figures fluctuated from 26.7 per cent to 7.6 per cent slightly increased to 8.4 per cent a year before default. The trend indicates inconsistency in terms of company performance.

The findings show that the profit margin for E-Intel company depicted fluctuated in the company activity three years prior to default. The figure slightly increased from 74.0 per cent to 81.3 per cent slump to 38.5 per cent a year before default. This trend indicates the company operating in inconsistent and the performance of the company was getting poor.

Factors contributed to this trend are:

- i. Nature of business. The data shows that manufacturing companies are affected less than investment companies. When manufacturing companies experiencing fall, the fall is not that bad whereas for investment companies, when the business is fall, it fall.
- ii. Global economy and the turmoil. Three out of five companies were registered default in 2008 and 2009. Nonetheless, all these three investment companies were affected tremendously during the Asian financial crisis in 2008 2009.

The table below summarizes the liquidity ratio of the five defaulted *sukuk* issuance companies

**Table 1.2:Liquidity Ratios** 

Tuble 1000 little utility ratios								
	Bil. Company/Activity	Current Ratio		Quick Ratio				
Bil.								
		3 Yr	2 Yr	1 Yr	3 Yr	2 Yr	1 Yr	
		before	before	before	before	before	before	
1	A-ABI	1.36	1.04	0.27	0.76	0.40	0.17	
	Manufacturing of automotive							
	battery							
2	B-BSA	3.63	3.70	0.003	3.63	3.70	0.003	
	Investment holding							
3	C-Englo	12.35	9.79	0.19	12.35	9.79	0.19	
	Investment holding and providing							
	management services							
4	D-Hualon	0.61	0.31	0.24	0.07	0.24	0.18	
	Manufacture of textiles and fibre							
	products							
5	Investment holding and property	1.07	1.19	1.12	1.07	1.19	1.12	
	development							

Source: Companies' Annual Report

The data are primary data analyzed from companies' annual report. The figures are calculated according to financial reports for three year before the default event.

A-ABI

1.6

1.4

1.2

1

0.8

0.6

0.4

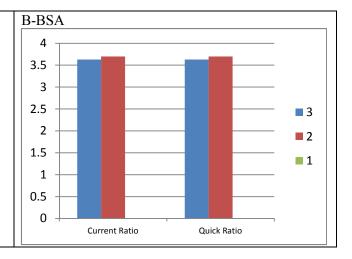
0.2

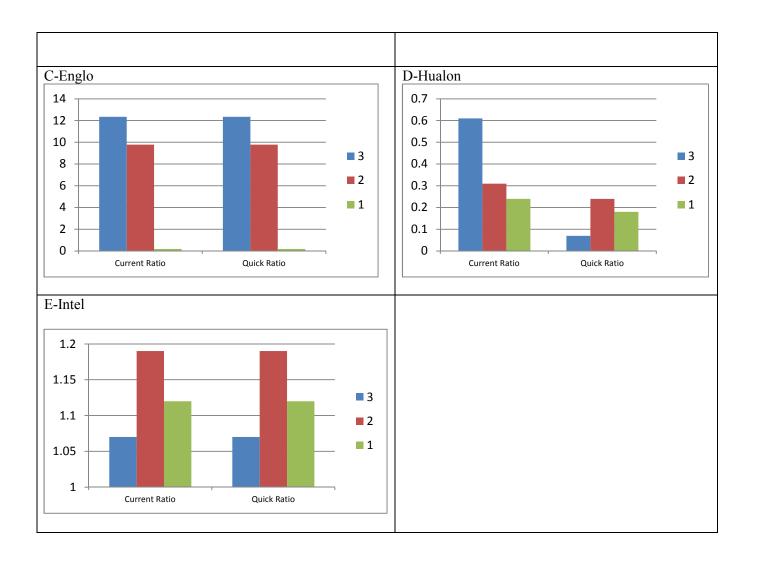
0

Current Ratio

Quick Ratio







#### Findings and Analysis on Liquidity Ratios

Based on Table 1.2 and Figure 1.0, the findings show that all the five companies experienced problems in their liquidity ratios for both current ratio and quick ratio, as the liquidity ratios showing decreasing. This trend indicates poor performance of the company in paying back their debts to creditor. The company ability on amount of current assets to cover their current liabilities were losing their liquidity and this situation is not good for these companies. In the case of B-BSA, the data indicates that one year before default event, the company had liquidated almost all their current assets as the figure showing tremendous decreasing from 3.63 to 3.70 to 0.003. From these findings, the symptoms of liquidity risk were detected in all five *sukuk* issuance companies three years prior to the *sukuk* companies default.

#### 6. CONCLUSION AND RECOMMENDATIONS

The study showed that all the five *sukuk* issuance companies in Malaysia indicated symptoms of liquidity risk three years prior to the *sukuk* companies default. Therefore, it can conclude that the defaulted event was partly due to liquidity risk. This finding is similar to the financial crisis of 2008-2009 that was, in part, due to liquidity risk. (Saunders & Cornett, 2011).

Malaysia is known as the navigator in the Islamic finance and the hub of world *sukuk*, therefore failure to address the issue may lead to dire consequences, including banking collapse, and by extension, the stability of the financial system (O'Hara, 2003). In this case, the growing numbers of defaulted *sukuk* issuance companies in Malaysia could cause the piling-up of bankruptcy companies especially the privately-owned companies, may somehow affected the banking industry and financial institutions in Malaysia.

Therefore, the industry should examine such cases in order to learn and avoid the mistakes and prevent numbers of sukuk default keep arising each year, and to protect the creditors, *sukuk* holders' rights, and parties involved.

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## DO ISLAMIC BANKS CONTRIBUTE TO MALAYSIAN GROWTH?

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#### **ABSTRACT**

**Purpose** – This paper attempts to investigate the causality between the Islamic banks and economic growth of Malaysia.

**Design/methodology/approach** –The methodology employed is time series analysis which comprise of cointegration test, Long Run Structuring Modelling (LRSM), Vector-error correction modelling (VECM), Variance Decomposition (VDC), Impulse Response Functions (IR) and Persistence Profiles (PP). Data used in this study is from January 2000 to December 2010 drawn from the website of Bank Negara Malaysia<sup>4</sup> and Datastream.

**Findings** – The results tend to suggest that Islamic bank financing lead other variables, being the most exogenous compared to others. Thus, this finding has clear policy implication for the government to keep on enhancing Islamic banks' development and subsequently lead to a positive economic growth.

Keywords: GDP, Islamic Banks, Time Series Analysis

#### 1. OBJECTIVE AND MOTIVATION OF STUDY

The rapid development of the Islamic banking and finance industry in Malaysia has staged a very impressive growth. This is well reflected by high growth of the asset of the Islamic banking industry in Malaysia grew by approximately 30 percent per annum since its inception in 1983. At the same time Malaysia economy has experienced growth in GDP as well. From 2000 until 2010, Malaysia's average quarterly GDP growth was 1.20 percent reaching an historical high of 5.70 percent in September of 2009 and a record low of -7.80 percent in March of 2009<sup>5</sup>.

The scepticism whether or not Islamic banks clearly contribute to economy is yet to be resolved. The crucial question is whether the development of Islamic banks encourages economic growth or vice versa. In the first scenario, the supply leading hypothesis, financial sectors act as "supply-leading" to transfer resources to promote and stimulate growth by supplying financial aid to the economy. On the

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<sup>4</sup> http://www.bnm.gov.mv

http://www.biiii.gov.iiiy

<sup>&</sup>lt;sup>5</sup> Retrieved from <a href="http://www.tradingeconomics.com/Economics/GDP-Growth.aspx?Symbol=MYR">http://www.tradingeconomics.com/Economics/GDP-Growth.aspx?Symbol=MYR</a> as at 20 April 2011

other hand, the second scenario known as "demand-following" hypothesis implies that an increase in economic growth eventually will lead to more financial services being demanded (Masih et al., 2009).

Nevertheless, the debate whether the financial sector leads economic growth or vice versa has important policy implications for both developed and developing countries. Many studies (Patrick, 1966; Schumpeter, 1911; Robinson, 1952; Masih et al., 2009; Yang Y.Y. and Yi M.H., 2008; Calderon and Liu, 2003; Demetrides & Hussein, 1996; Furqani, H. and Mulyany, 2009; Muhsin Kar et al., 2010; Y. Khalifa Al-Yousif, 2002) investigate the causality between financial development and economic growth. The importance of these studies could assist governments in prioritizing which reforms should be embarked in the financial sectors. Which theory to follow will confer different implications. According to Muhsin Kar et al. (2010), the proponents of the *supply-leading* suggest that government policies should be directed towards improving financial system, since financial development has important causal effects on growth. On the other hand, the supporters of the *demand-following* conquer that the financial development is actually the outcome of economic growth, thus any policies in improving financial development will have only a little effect on growth.

In view of the increasing presence of Islamic banking in the Malaysian financial landscape, it is indeed timely to investigate which hypothesis best explain the relevance of Islamic banking to Malaysian economy. There are few studies done in Malaysia to investigate the impact of Islamic banks on economic growth. It is hope that this study will aid the policy makers in coming out with the best solution in promoting the growth of Islamic banks.

#### 1.1 Development of Islamic Banks in Malaysia

The rapid growth of the Islamic banking and finance industry in Malaysia are made possible with the full backing support by the Malaysian government. The government has provided a strong foundation for the industry to grow such as establishing the financial and legal platform for the rapidly growth industry. The history of Islamic banking and finance in Malaysia started with the establishment of the Pilgrims Management and Fund Board (PMFB) which represents the pioneer interest-free financial institution in the country (Sukmana and Kassim, 2010). The PMFB was set up in August 1969 with the main role of providing a systematic fund mobilization saving for the Muslims enabling them to perform annual pilgrimage in Makkah, simultaneously, persuading them to take part in economic activities and investment opportunities. Since then the awareness of shariah compliant products and services has escalated and more of these products are being demanded. This request was well responded by the government by establishing a steering committee to study its possibility in 1982. In the following year, a comprehensive Islamic financial system has been established which operates in parallel with the conventional financial system. This dual banking model has been enshrined in the Central Banking Act 2009 following recent enhancements, thereby giving significance to Islamic finance.

The new Islamic Banking Act (IBA) was enacted in 1983 and lead to the establishment of the first Islamic bank in Malaysia, Bank Islam Malaysia Berhad (BIMB) in the same year. Progressively Islamic bank has played an important role for the overall Malaysian financial market. This can only be achieved with a strong institutional infrastructure and effective legal, regulatory and Shariah (Bank Negara, 2011). In terms of market share, the Islamic banking system in Malaysia currently accounts for 20 percent of our banking system. Total assets of the Islamic banking sector amounted to RM350.8bil as at end-2010, increasing by 15.7% from end-2009. The Islamic banking sector now accounts for over 20% of the overall banking system in terms of assets, financing and deposits. At present 27 banking institutions (9 Islamic banks and 18 conventional banking institutions) are offering Islamic banking products and services under the Islamic Banking Scheme (Bank Negara, 2010).

#### 2. LITERATURE REVIEW

For many years the correlation between financial development and economic growth has been studied. The crucial question is does financial development promote economic growth or does economic growth promote financial development? These theoretical discussions reveal that there is no consensus on the direction of causality between them. Patrick (1966) identified two possible patterns in the causal relationship between financial development and economic growth. The first one is called *demand-following* which means that when there is economic growth eventually it will induce more and more establishment of modern financial institutions. This will lead to the demand for these services by investors and savers in the economy (Patrick, 1966). This theory is initiated by Robinson (1952) who argues that finance does not exert a causal impact on growth. Instead, financial development follows economic growth as a result of higher demand for financial services. When an economy grows, more financial institutions, financial products and services emerge in the markets in response to higher demand of financial services.

The second one is classified as *supply-leading* which means the establishment of financial institutions and their financing will stimulate growth by transferring these resources to entrepreneurs and economy as a whole (Patrick, 1966). This theory can be rooted back from Schumpeter (1911) who contends that the services provided by financial intermediaries are essential drivers for innovation and growth. A well developed financial system channels financial resources to the most productive use.

Basically the studies on the relationship between financial development and economic growth can be segregated into 3 main groups. The first group favours *a supply-leading* hypothesis, whilst *demand-following* hypothesis is fully supported by the second group. The third group argues that the causality is bidirectional. In the following section, we will explore these 3 groups in great detail.

## 2.1 Supply-leading

Masih et al. (2009) findings are in line with supply-leading theory. Their study are conducted in Saudi Arabia and support the pioneering work of Patrick (1966) who concluded that a *supply-leading* condition is likely to prevail at the early stage of economic development, while a *demand-following* condition is likely to prevail at the later stage of economic development. This is due to the fact that the financial development is still at the early stage in Saudi Arabia. The major policy implication of their findings is that a pro-active policy of growth and reform of the financial sector will help enhance economic growth in an open developing economy.

Calderon and Liu (2003) found that financial development enhances economic growth for all countries. However, when they split the sample into developing and industrial countries, they found evidence of bidirectional causality. Yang Y.Y. and Yi M.H. (2008) provide evidence that financial development causes economic growth, but the reverse is not true in Korea.

#### 2.2 Demand-following

Robinson (1952) and Demetrides & Hussein (1996) states that financial development follows economic growth or "where enterprise leads finance follows". A study done in Malaysia by Furqani, H. and Mulyany (2009) also supports *demand following* hypothesis where financial development follows economic growth. Under this hypothesis, economic growth creates a demand for financial intermediation and causes Islamic banking institutions to change and develop.

## 2.3 Bidirectional causality

Muhsin Kar et al.(2010) investigates the direction of causality between financial development and economic growth in the Middle East and North African (MENA) countries for the period 1980–2007. In order to capture the different aspects of financial development, six different indicators are used. The empirical results support evidence on both demand-following and supply-leading hypotheses.

Therefore the direction of causality seems to be country and financial development indicator specific. Y. Khalifa Al-Yousif (2002) also arrived at same conclusion and strongly support the view that financial development and economic growth are mutually causal, that is, causality is bidirectional. Moreover, the findings of the present paper accords with the view of the World Bank (1993) and other empirical studies that the relationship between financial development and economic growth cannot be generalized across countries because economic policies are country specific and their success depends, among others things, on the efficiency of the institutions implementing them.

Most of these studies are using deposit of the banks, money supply as the measurement to financial development; however we are using Islamic Financing as our indicator for financial development variable. As mentioned earlier determination which hypothesis to follow will eventually aid the policy make in making the wisest decision. However the previous studies fail to provide a direct answer and arrive at compromised conclusion. The recent study (as far as the knowledge of the author) did not apply the recent technique of LRSM and the years covered are not recent as this study attempt to accomplish.

#### 3. METHODOLOGY

Most of previous studies used regression analysis. In this study we use time series techniques, to overcome the regression limitations and time series has proven to surpass regression technique.

## 3.1 Data Descriptions and Tests Undertaken

For the purpose of this study we use monthly time series data from 2000 – 2010. Most of the data are gathered from Datastream and Monthly Statistical Bulletin of Bank Negara Malaysia.

As regards to the variables of interest, we use GDP to indicate the economic growth. Since the data extracted is quarterly, and other variables are all in monthly form, we used the cubic spine interpolation<sup>6</sup> technique to interpose the quarterly data into monthly data. For the purpose of this study, Islamic Banks Total Financing (IBS)<sup>7</sup> is used to represent financial development and three control variables deemed to have a theoretical relationship to GDP. They are Money Supply (M3), Industrial Production Index (IPI) and Interest Rate (INTRATE).

As in any time series estimation procedure, there are several pre-tests conducted before more rigorous investigation techniques are adopted. The steps undertaken are the unit root test, order of Vector Autoregression (VAR), cointegration tests, followed by Long-Run Structural Modelling (LRSM), Vector-Error Correction Model (VECM), Variance Decomposition (VDCs) analysis, Impulse Response Functions (IRF) and Persistence Profiles (PP).

#### 4. ANALYSIS AND FINDINGS

As mentioned earlier, there are 5 variables used to achieve our objective. They are GDP, IPI, M3, IBS and INTRATE. All the variables except interest rate (already in the rate form) are transformed into logarithm, despite this transformation they still remain in level form. To examine the unit roots of the time series variables, we employed Augmented Dickey-Fuller (ADF) tests suggested by Dickey and Fuller (1979). We tested the unit roots of all the variables on the basis of ADF tests and found that they are non-stationary in the level form and stationary in the first difference.

The results of the unit root tests are presented in Table 1 and 2. It can be seen that all variables are

<sup>&</sup>lt;sup>6</sup> This technique uses a special software

<sup>&</sup>lt;sup>7</sup> These data are retrieved from Bank Negara Website

stationary in the first difference or simply, are I(1) process. Result from Table 1 is gathered from The Dickey-Fuller regressions with a linear trend<sup>8</sup>, whereas in Table 2 the outcomes are extracted from The Dickey-Fuller regressions without a trend<sup>9</sup>.

**Table 1: Augmented Dickey Fuller Test Result (Level Form)** 

Test	LGGDP	LGIPI	LGM3	LGIBS	INTRATE
DF	-1.9206	-4.0570	-2.5812	-2.9131	-1.5157
ADF(1)	-8.4303	-2.2310	-2.9670	-2.5680	-1.9308
ADF(2)	-1.7266	-1.6594	-3.1183	-2.5085	-2.4447
ADF(3)	-3.2563	-1.7874	-3.1277	-2.4976	-2.4717
ADF(4)	-1.9812	-1.8610	-2.9649	-2.3991	-2.5123
ADF(5)	-1.0395	-1.9180	-2.8862	-2.3304	-2.5022
95% critical	-3.4494	-3.4494	-3.4494	-3.4494	-3.4494
value					

**Table 2: Augmented Dickey Fuller Test Result (First Difference)** 

Test	dLGGDP	dLGIPI	dLGM3	dLGIBS	dINTRATE
DF	-3.0460	-19.9905	-9.0156	-7.5123	-7.7964
ADF(1)	-13.5791	-12.7550	-6.5439	-5.4927	-4.8554
ADF(2)	-4.4583	-7.4053	-5.6963	-4.6998	-4.4111
ADF(3)	-8.3216	-5.8128	-5.5779	-3.5846	-4.0493
ADF(4)	-8.7979	-4.8988	-5.3036	-2.8209	-3.8439
ADF(5)	-6.6049	-4.9078	-5.1915	-2.3016	-3.6638
95% critical	-2.8870	-2.8870	-2.8870	-2.8870	-2.8870
value					

The lag length used in conducting the cointegration test was based on several criteria commonly used in many empirical studies such as AIC and SBC. We also found that when choosing the optimal order of the VAR, there is a conflicting VAR order on the basis of AIC and SBC criteria. AIC chooses VAR (4) whilst SBC chooses VAR (2). In order not to exhaust the degree of freedom we will choose VAR (2).

Table 3: Order of the VAR Model

Order of VAR	Type of Tests	
	AIC	SBC

<sup>&</sup>lt;sup>8</sup> This is due to the fact that in level form the variables are in their level form thus contain trend element.

<sup>&</sup>lt;sup>9</sup> When the variables are in differenced form, the trend element is no longer existed.

6	1627.8	1423.3
5	1630.9	1460.5
4	1633.4	1497.1
3	1594.1	1491.8
2	1586.7	1518.5
1	1467.0	1433.0
0	1305.5	1305.5

After confirming the data suitability by unit root test and lag order, we continue to examine whether there exists long-run equilibrium among the variables by first conducting both the EG cointegration test and JJ cointegration test. Under EG cointegration test, we need to test the residuals either they are stationary or not.

Based on the ADF test in Table 4, the residuals are found to be stationary (we reject the null hypothesis), thus conclude that there is one cointegration vector amongst variables tested. This is probably the limitation of EG cointegration test, which assume only one cointegration from the residuals analysis.

**Table 4: Cointegration Test Engle Granger** 

Test	Intercept with no trend	Intercept with trend
DF	-4.1626	-4.1440
ADF(1)	-4.9936	4.9709
ADF(2)	-6.7227	-6.6919
ADF(3)	-7.3853	-7.3510
ADF(4)	-6.0750	-6.0444
ADF(5)	-6.6393	-6.6057
95% critical value	-2.8870	-3.4497

Another cointegration test JJ, on the other hand bypass this limitation. The results of the Johansen–Juselius likelihood cointegration test shows that the existence of long run co-movement amongst variables (GDP, M3, IPI, IBS and INTRATE). We found there are two (2) cointegrating vectors at 95% significance level on the basis of Maximal Eigenvalue and Trace Stochastic Test (Table 5). An evidence of cointegration implies that the relationship among the variables is not spurious, evidentially there is a theoretical relationship among the variables and that they are in equilibrium in the long run (Masih et al., 2009). In another words, even though these variables may diverge in short-run, in long run however they will converge consequently with at least one direction of causation in the Granger sense, either unidirectional or bi-directional causality.

Table 5: Johansen's test for the number of cointegrating vectors (VAR 2)

Null	Alternative	Maximum	Trace
		Eigenvalue	Stochastic

r=0	r=1	144.8261*	233.9713*
r<=1	r=2	48.8149*	89.1452*
r<=2	r=3	24.6991	40.3304
r<=3	r=4	10.0893	15.6313
r<=4	r=5	5.5420	5.5420

List of variables in the cointegrating vector: (LGGDP, LGIPI, LGM3, LGIBS, INTRATE)

\* denotes significant at 5% significance level respectively,
r indicates the number cointegrating vectors present.

In Table 5, both the Max-Eigen and Trace statistics gave similar conclusion; there are two cointegrating equations as shown by the value of statistics. Under both cases, we will reject the null hyphoteses ( $r \le 1$ ) and accept the alternative ( $r \le 2$ ).

Conintegration only tell us in the long run these variables will move back to equilibrium but unable to test the consistency of these variables with the theory. However LRSM is capable of testing this. According to Masih et al. (2009), to make the coefficients of the cointegrating vector consistent with the theory, firstly, there is a need to impose a normalizing restriction of unity on selected variable at the 'exactly-identifying' stage. Subsequently, we experimenting another variable at the 'overidentifying' stage. In this study we have two cointegrating vectors, thus two dependent variables are chosen for each vector. For the first variable, LGGDP is selected as this is our focus variable, while LGIPI is used for second vector since LGIPI could also be used as growth indicator. We impose a normalizing restriction of unity on the coefficient of LGGDP (Vector 1) and LGIPI (Vector 2).

We found in Table 6, all the coefficients of the cointegrating vector are significant<sup>10</sup>. We could not reject LGIBS in triple occasions. Firstly we test the coefficient of LGIBS on CV1, then CV2 and lastly on both CV1 and CV2 by applying this hypothesis;

 $H_0$ : coefficient of LGIBS = 0

Confirmed with our prediction, when we imposed an over-identifying restriction of zero on the coefficient of Islamic bank financing, we were able to reject our null hyphothesis, thus LGIBS variable is supported by theory. We also test the other two variables M3 and INTRATE, and able to reject the joint restriction of zero in both vectors, thus all these variables entered the cointegrating relationships significantly. After testing all the variables, the final cointegrating vectors remain as CV1 and CV2.

Table 6: LRSM (exact-identifying and over-identifying test)

	CV1 Exact	CV2 Exact	Vector 3 Over CV1	Vector 4 Over CV2	Vector 5 Over CV1 and CV2
LGGDP	1.0000	0.00	1.0000	0.00	1.0000

<sup>&</sup>lt;sup>10</sup> When the value of coefficient/standard error is more than 2, the variable has significant effect on GDP/IPI

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	(NONE)	NONE	(NONE)	NONE	(NONE)
LGIPI	0.00	1.0000	0.00	1.0000	
	NONE	(NONE)	NONE	(NONE)	
LGM3	94023	-2.5569	99255	-2.7127	
	(.18737)	(.54574)	(.37011)	(1.2148)	
LGIBS	24386	80536	0.00	0.00	0.00
	(.056922)	(.17482)	NONE	NONE	NONE
INTRATE	026521	-0.037424	.0059742	.070814	
	(.0089028)	(.027270)	(.015713)	(.051329)	
TREND	.0071569	0.030235	.00418	-020269	
	(.0019917)	(.0058338)	.0030629	(.010048)	
Chi-Square (prob	-	-	0.009	0.011	0.034
value)			(Reject Null)	(Reject Null)	(Reject Null)

As mentioned earlier, cointegration does not tell us which variable is leading or lagging. This is when the VECM plays its important role in determining whether the variable is exogenous or endogenous. There are 3 vital information could be extracted from VECM. One is to specify whether the variable is exogenous or endogenous, secondly it can tell us the significant of the variables in the short run and long run and lastly, the speed of the variables going back to equilibrium in the long run. The coefficient of the lagged error-correction term is a short-run adjustment coefficient representing the proportion by which the long-run disequilibrium in the dependent variable is being corrected in each period. For example in the case of dLGGDP as dependent variable, the cointegration process will take about 4 months to arrive at equilibrium (Table 7).

**Table 7: VECM Estimates** 

VARIABLES	ΔLGGDP	ΔLGIPI	ΔLGIBS	ΔLGM3	ΔINTRATE
ΔLGGDP(1)	.93731*	1.15322	.23864	32230*	1.1794
ΔLGIPI(1)	022250*	42014*	.036036*	039933*	17782
$\Delta$ LGM3(1)	063045	15071*	10904	.048941	33328
ΔLGIBS(1)	.042281	46129	.16531	.092035	49790
ΔINTRATE(1)	-0018696	0.020806	.2023E-3	6100E-3	.24034
ECM(-1)	24921*	.31657	.09804	.0074682	.31552
Time taken to go back	4.2 months	3.2 months	10.2 months	135 months	3.2 months
to equilibrium					
ECM(-2)	0.063819*	33767*	084130*	.071664*	.10125
Time taken to go back	16.7 months	3	12.5 months	14	10
to equilibrium		months		months	months
CV1(GDP)	ENDO	-	EXO	EXO	EXO
CV2(IPI)	-	ENDO	ENDO	ENDO	EXO

Looking at Table 7 especially on the error correction coefficients, for CV1 (GDP) we find that the GDP is endogenous and other variables IBS, M3 and INTRATE variables are exogenous. Basically from this result we could infer IBS leads GDP, and consistent with supply leading theory. However, when we look at the second CV2 (IPI), both IPI and and IBS are endogenous and for this reason we need the next step VDC to tell us the relative endogenous and exogenous variables in the long run.

In Generalised Variance Decomposition test, the relative exogeneity or endogeneity of a variable can be determined by the proportion of the variance explained by its own past. The variable that is explained mostly by its own shocks (and not by others) is deemed to be the most exogenous of all (Masih et al., 2009). For this study we use the forecast horizon 25 and 40 to determine the relativity of these variables as in Table 8.

In Generalised VDCs, however the total amount for all variance for each variable of interest is not proportionate to 1, thus we must weigh these variables proportionately to get a total of 100%. The transformation can be deduced as in Table 8.

Table 8: Proportionate Generalized Forecast Error Variance Decomposition 25th and 40th month

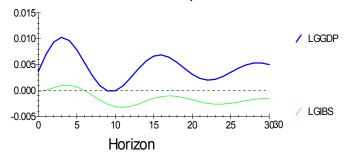
VARIABLE S	MONT H/ (RANK)	ΔLGGD P	ΔLGIP I	ΔLGM 3	ΔLGBI S	ΔINTRAT E	TOTA L
			47.6302	15.7854	1.39567		
ΔLGGDP	25 (4)	24.46237	2	1	5	10.72633	100
(%)	40 (4)	22.89217	47.8893 8	16.6604 8	1.45349	11.10448	100
			51.7346	22.2490	4.75136		
ΔLGIPI	25 (3)	17.71145	3	6	1	3.553504	100
			49.1271	24.6225	5.52049		
(%)	40 (3)	17.21891	2	6	4	3.510921	100
			54.4908	24.2734	3.33448		
ΔLGM3	25 (5)	17.48094	5	2	2	0.420303	100
			57.4780	21.3089	3.51435		
(%)	40 (5)	17.42957	7	5	7	0.26906	100
				9.21615	69.0726		
ΔLGBIS	25 (2)	14.05737	7.36391	5	3	0.289944	100
(0./)	40 (1)	1.56502	9.22852	10.6518	78.1816	0.250105	100
(%)	40 (1)	1.56783	4	2	3	0.370197	100
A D ITD A TE	25 (1)	( (000022	11.5445	1.34107	2.44152	77.07202	100
ΔINTRATE	25 (1)	6.698922	6	4	3	77.97392	100
(0/)	40 (2)	( (01770	11.8538	1.39516	2.55669	77 51251	100
(%)	40 (2)	6.681779	6	2	5	77.51251	100

Based on Table 8, we could conclude on 25<sup>th</sup> month our focus variable IBS (69%) is more exogenous as compared to IPI and GDP. As the period goes on as in the 40th month, the IBS variance increased. In 40th month IBS became the most exogenous variable, thus consistent with the result in VECM. It is clear that IBS is the most influential variable as compared the other 2 growth variables (GDP and IPI), IBS is leading rather than lagging and confirm the supply-leading theory.

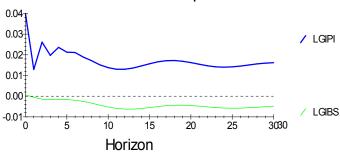
In the next step we applied the generalized IRF in Figure 1. Figure 1 displays the IRF for one standard error shock to the equation for GDP, then IPI and lastly IBS. Generally, one standard error shock to GDP and IPI have a small impact on IBS. The graphs also show us, there is more impact on IPI than GDP, when we shock IBS.

Figure 1: IRF

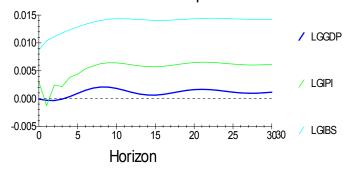
## Generalized Impulse Response(s) to one S.E. shock in the equation for LGGDP



# Generalized Impulse Response(s) to one S.E. shock in the equation for LGIPI



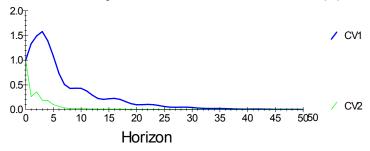
# Generalized Impulse Response(s) to one S.E. shock in the equation for LGIBS



Finally, an application of the persistence profile analysis indicates that if the whole CV1 is shock, it returns to the equilibrium in 30 months. CV2 on the other hand, returns to the equilibrium quicker by 20 months (7 months). This result implied both vectors have a tendency to converge to their long term equilibrium.

Figure 2: PP

# Persistence Profile of the effect of a system-wide shock to CV'(s)



#### 5. CONCLUSION

In this study we want to determine whether or not there is any Granger causality between financial sectors (measured by Islamic Banks financing) and growth (GDP). The direction of this causality is important as this will represent different policy implications for developing countries like Malaysia. For example in the case of supply-leading, policies should aim to financial sector liberalization; whereas in the case of demand-following, more emphasis should be placed on other growth-enhancing policies. Previous studies are inconclusive as to the directions of this causality.

In our study, VECM, Variance Decomposition and Impulse Response tend to confirm with our prediction that indicate that "financial sectors" leads "economic growth" and prove supply-leading rather than demand-following. This conclusion is supported by both cointegrating vectors (CV1, GDP) and (CV2, IPI), as the IBS are proved to be more exogenous than these two variables (GDP and IPI). Our findings are consistent with Masih et al. (1999) and Patrick (1966) who concluded that a supply-leading condition is likely to prevail at the early stage of economic development, while a demand-following condition is likely to prevail at the later stage of economic development. This is true to the scenario of Islamic banking in Malaysia as it has not yet reached its maturity period and still at its infancy. It would be interesting to investigate as how the effect of conventional financing to Malaysian growth.

The major implication from the findings could give a big indicator what Bank Negara is undertaking in ensuring Malaysia to be the hub of Islamic finance is paid off and strongly supported by the findings. Recently, a new Act, the Islamic Financial Services Act 2012 (IFSA) will statutorily enforce and require Islamic financial institutions' business operation and activities are in compliance with Shariah. The objective of the Act is to lay the foundation for a comprehensive regime to promote a robust and resilient Islamic financial system in Malaysia.

Furthermore, Bank Negara has also issued new Islamic Banking and Family Takaful Licences to enhance the financial sector to the next level. Another infrastructure development that is taking shape in the international Islamic financial system is the establishment of the International Islamic Liquidity Management Corporation (IILM) launched in October 2010. Its main task is to issue short-term multicurrency liquidity instruments to facilitate the cross-border liquidity management between financial centres and at the same time enhance the financial inter-linkages<sup>11</sup>. Consequently, all this proactive actions taken by Bank Negara could stimulate economic growth in the future as supported by our findings.

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<sup>&</sup>lt;sup>11</sup> Keynote Address by Dr. Zeti Akhtar Aziz at the Launch of Bloomberg's Enhanced Islamic Finance Platform, extracted from <a href="https://www.bnm.gov.my">www.bnm.gov.my</a> at 5 May 2011.

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## RIBA ISSUES IN GOLD INVESTMENT AND TRADING: PRACTICE OF SELECTED COMPANIES IN MALAYSIA

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#### **ABSTRACT**

Gold was used as the most common form of money throughout history. Its role as currency is now replaced by the paper money, but gold has never stop from being the attention of human beings due to its special features that do not present in other commodities. People invest in gold because of various reasons including it is a hedge against inflation and carries an intrinsic and real value. Gold and fiat money are concluded by Muslim jurists as ribawi items therefore the exchange or trading involving them is governed by two basic rules of Shariah i.e. must be of equal weight and the selling and buying must happen at one mailis. The objective of this paper is twofold. The first objective is to study the practice of gold trading in Malaysia and its compliance to the requirements of Shariah. At the same time, it is to provide readers and the stakeholders in gold trading i.e. banks, companies, gold dealers and customers with the Shariah requirements that they must adhere in this business. In meeting the objectives, a case study on the trading practice of selected companies and banks were conducted. The study adopted a qualitative approach by describing and exploring the Shariah issues surrounding the gold trading and investment in Malaysia. The findings showed that many companies involve in gold trading in Malaysia do not have a Shariah panel, thus some of their practice are not in compliance with the requirements of Shariah. This is due to the fact that the establishment of Shariah panel is not a legal requirement in gold trading. Hence, it is recommended that the Shariah Panel is compulsory for Shariah based gold investment and trading industries.

**Keywords:** Riba, gold investment, gold trading, shariah requirement, Shariah panel.

#### 1. INTRODUCTION

Gold is a yellow precious metal that has several qualities which made it exceptionally valuable throughout history. It has special features that make it the most wanted metal for many centuries. Gold is expensive because it is rare, its shiny colour is attractive, durable to the point of virtual indestructibility, highly malleable, and usually found in nature in a comparatively pure form. Gold does not rust or tarnish, malleable so it can be intricate into shape as jewelry and in modern age, is use as a good conductor of electricity. Gold is always perceived as a universal symbol of wealth and power. The word *fiddhoh* (gold) is mention in Holy Qur'an as wealth that is always desired by man in this world <sup>3</sup> and also as the rewards for the believers in paradise. <sup>4</sup>. But the disbeliever would never be able to ransom himself even with an earth in gold. <sup>5</sup> Many people are aware of its benefits start investing in gold. One of the major driver demands for gold is its reputation as the ultimate safe investment. It was confirmed in a study that gold is an effective hedge against inflation. <sup>6</sup> The Alliance Bernstein has carried out an extensive research on inflation and methods of protecting portfolio from it. In its report published on 2011, they have concluded

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<sup>&</sup>lt;sup>3</sup> Ali Imran:14, Al Zukhruf: 35

<sup>&</sup>lt;sup>4</sup> Al Waaqi'ah: 15, Al Zukhruf:71, Al Hajj:23

<sup>&</sup>lt;sup>5</sup> Ali Imran 91

<sup>&</sup>lt;sup>6</sup> Ghosh, D., Levin J. E., Macmillan P., Wright R.E., Gold as an Inflation Hedge?, Studies in Economics and Finance, Vol 22 Issue 1, pp 1-25.

and advised that real asset including gold tend to raise with inflation therefore offer the potential to protect against it.<sup>7</sup>

Unlike gold, the fiat money devalues quickly and by very much. Malaysian fourth Prime Minister, Tun Dr. Mahathir Mohamad suggested the global trade to revert to the use of gold dinar following the devaluation of the US Dollar (USD).<sup>8</sup> He further added that government must use gold dinar in order to stop the currency war. Pento, in his article opined that gold is the true reserve currency. Odld based coins had the advantage of carrying their value within the gold coins themselves, it really stores the wealth. The fiat money also stores wealth but it is not back by anything, therefore is prone to inflation and limited by the government's monetary policy.

Gold coins circulated all over the world since many centuries ago. With gold in hand, any person will not have to worry about getting stranded in foreign land. Gold has a real value. In order to perform the functions of money as i) medium of exchange, ii) unit of account iii) store of value and iv) standard of deferred payments, a commodity chosen as money must fullfill the following criteria; 11

- It must be easily divided into smaller units, as well as can be merged back into bigger i) units without loss of value.
- It must be fungible i.e. all monetary units are equivalent of value.
- It must be weighable, measurable and countable. iii)
- iv) Its value must be stable over time.
- v) It must be durable and last for long time without being spoilt or destroyed chemically due to weather, heat, pressure etc.
- It must be easily moveable from one place to another. vi)

Gold is commodity that is very desirable to play the role as money as it fulfill the above mentioned criteria.

There is establish an effort propagating the use of gold dinar an silver dirham as an alternative currency. The beginning of the effort to mint the gold dinar in Malaysia started with the launching of the e-Dinar Ltd. in Malaysia in the year 2000 by the then Deputy Prime Minister, Dato' Seri Abdullah Haji Ahmad Badawi at the Islamic Arts Museum, the host of the 4<sup>th</sup> Islamic Political Economy International Conference. <sup>12</sup> In 2002, the *wazirat* of World Islamic Trade Organisation (WITO) Malaysia initiated the first minting of gold dinars in Malaysia from five kilograms of gold according to the standard of Umar al-Khattab which has been adopted by WITO, and this was executed by Islamic Mint Sdn. Bhd. Umar Vadillo, the Director of e-Dinar Ltd, asserts that the Islamic Dinar serve as a symbol of the unity of *Ummah.* <sup>13</sup> Kelantan becomes the pioneer state in Malaysia which introduced the dinar and dirham coins. <sup>14</sup> Dinar Emas Kelantan has its own design but its weight, measure and purity are according to the standard of Umar al-Khattab. 15

<sup>&</sup>lt;sup>7</sup> Ruff & Childrers, AllianBernstein L.P., 1345 Avenue of the Americas, New York, NY 10105, https://www.alliancebernstein.com/Research-Publications/CMA-created. Last visited on 15/5/2013

<sup>&</sup>lt;sup>8</sup> He told reporters after delivering his keynote address at the 2nd Langkawi Islamic Finance and Economics Conference, 13 – 15 December 2010.

http:// halalmedia.net/use-of-gold-dinar-will-stop-currency-war-dr-mahathir/. Last visited on 15/5/2013.

<sup>&</sup>lt;sup>10</sup> Michael Pento, can be read at http://www.forbes.com/sites/michaelpento/2011/08/04/gold-is-the-true-reserve-currency/2/. Last visited on 16/5/2013.

<sup>&</sup>lt;sup>11</sup> International Shariah Research Academy for Islamic Finance (ISRA), Islamic Financial Systems: Principles and Operations, (2012), ISRA: Kuala Lumpur, p 82.

12 Jointly organised by Universiti Sains Malaysia and a few other organisation.

<sup>&</sup>lt;sup>13</sup> http://www.islamicmint.com/newsarticles/launch.html. Last visited on 25/5/2013.

<sup>&</sup>lt;sup>14</sup> Dinar and dirham Kelantan was officially launched on 12 August 2010.

<sup>15</sup> http://www.dinarkel.com/. Last visited on 25/5/2013.

The efforts of reasserting the importance of gold in the monetary system also affect the western world. In the latest report (January 2013) of the Official Monetary and Financial Institutions Forum (OMFIF), Desai wrote in his foreword that Western economies have attempted to remove the gold's monetary role, but they have failed. Gold stands ready to fill the vacuum created by the depreciation of the USD and euro. Thus, it is not surprising that big economic powers such as the US, German and Italy has refuse to sell its gold reserve in recent years and India and China has increase their buying of gold. Below is Table 1 explaining the gold reserve of world big economic powers as of 2011.

**Table 1 : Gold Reserve of World Big Economics Powers** 

World	14.4
US	74.5
France	71.4
Germany	71.1
UK	16.2
Russia	8.7
India	9.2
Japan	2.9
China	1.6

Source: World Gold Council Report

It was also reported by the World Gold Council that China has doubled its gold reserve between 2007 and 2012, with possession of 1054 tonnes in July 2012<sup>18</sup>. It is the world's sixth largest holder of monetary gold, but the proportion of gold in relation to total foreign reserves is very low compared with that of the largest holders as can be seen in Table 1.

#### 2. GOLD INVESTMENT IN MALAYSIA

Generally, there are two types of gold investment, i.e., i) by opening gold investment account offered by banking institutions and, ii) investment in physical gold. Some people buy gold jewelry and keep it as investment. This article will mainly focus on the second type of investment and will look into its practice in Malaysia. Emphasis will be made on the Shariah issues that are related to such practice in Malaysia.

As for the first type of investment, until 2013, there are 6 banks in Malaysia that offer Gold Investment Account (GIA) to Malaysians. They are, CIMB Malaysia (Gold Deposit Account), Maybank (Gold Savings Passbook Account), Public Bank (Gold Investment Account), United Overseas Bank, UOB (Gold Saving Account and Premier Gold Account), Kuwait Finance House (KFH Gold Account-i and Junior- Gold Account-i) and Al Rajhi Bank (Gold-i).

The GIA provides the customers with convenience and confidence in investing in gold. Customers will not have to worry about keeping the physical gold. All transactions, buying and selling gold will be recorded in the passbook or statement. Bank requires customers to open an account and the savings will be recorded in the gram units of gold. Each bank may have different conditions. KFH for example requires the customer to maintain at least 2 grams of gold as minimum balance in account. <sup>19</sup> Al Rajhi

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<sup>&</sup>lt;sup>16</sup> Desai M., Chairman, OMFIF Advisory Board, Gold, the Renminbi and Multi-currencyu Reserve System (January 2013). This report has been commissioned by the World Gold Council as part of a series of reports analysing the role of gold in the International Monetary System.

<sup>&</sup>lt;sup>17</sup> *Ibid*. p. 9.

<sup>&</sup>lt;sup>18</sup> Ibid.

<sup>&</sup>lt;sup>19</sup> http://www.kfh.com.my/kfhmb/ep/images/v2/documents/products/tnc/KFH-General-Terms-&-Conditions-for-Deposit-Products-Apr-2013.pdf. Last visited on 16/5/2013.

Bank requires a minimum purchase of 10 grams.<sup>20</sup> Maybank put a condition of minimum initial purchase and minimum balance of 1 gram of gold.<sup>21</sup>

At Maybank, when a customer open a Gold Saving Passbook Account, he can purchase a minimum of 1 gram gold by cash, debiting from Maybank current/savings account, or through Maybank Debit/Credit Card.

Among all these investments, only Kuwait Finance House and Al Rajhi comply with Shariah requirements. In these two investments, the physical gold exists during the transaction. Customer is given option either to take the physical gold or leave it under the custody of the bank. Upon customer's request, the bank will show the physical gold to the customer at the time of the transaction. In practice, usually customers prefer to keep the gold with the bank so that they will not have to worry about keeping the gold. In addition, customer is not charge for any payment for this service. When the customer wants to resell the gold, he must ensure that the packaging and the security seal of the physical gold remains intact and the serial number and the barcode printed on the face of the packaging must match with the KFH Malaysia's record.<sup>22</sup>

As for the other 4 gold investment accounts, the validity of the transactions are debatable according to Shariah since the physical gold is not available at the time of the transaction. The transaction did not comply to the ruling of the Shariah in gold trading whereby the gold must exist when the party in concluding the transaction. The physical gold will only available for the purpose of withdrawal at certain weight only. When a customer decides to withdraw the physical gold, he has to wait for the maximum period of 30 days. When the bank informs the availability of the physical gold, then only he can collect it at selected branch. Apparently, the customer is in reality not buying an exist gold. In this case, the proceeds will be converted into RM currency and be paid to customer either in cash or deposit to his Maybank account. The non-existent of the physical gold result in delay thus constitutes *riba*. The gold that he so called 'buy' will only exists upon his request to withdraw the physical gold. The customer may also decide to dispose of the possession of the physical gold.

## 3. GOLD INVESTMENT IN ISLAM

Islam is a unique way of life and its teachings is comprehensive, covering all aspects of life, 'aqidah, 'ibadah, akhlaq and muamalat. Islam encourages Muslims to acquire properties through legitimate means, whether for personal or investment purposes. Investing in gold means that purchasing gold with the hope that it will generate income of appreciate in the future. Investment for future needs is encouraged by Allah.

Islam also accords protection to the individual and his properties that he acquired legitimately. The Prophet Muhammad (PBUH) emphasized during his sermon at the farewell *Hajj*:

"Your lives and properties are forbidden to one another till you meet your Lord on the day of Judgment." <sup>23</sup>

For Muslim investors who seek to invest their money in a Shariah compliant manner, they need to be mindful of certain restrictions and conditions before such investment can be labelled as Shariah compliant. The most important rule in dealing with gold investment and trading is extracted from the most famous *Hadith* reported by 'Ubadah bin al-Samit;

<sup>&</sup>lt;sup>20</sup> http://www.alrajhibank.com.my/personal gold i.shtml. Last visited on 16/5/2013.

<sup>&</sup>lt;sup>21</sup> http://www.maybank2u.com.my/mbb\_info/m2u/public/personal. Last visited on 16/5/2013.

http://www.kfh.com.my/kfhmb/ep/images/v2/documents/products/tnc/KFH-General-Terms-&-Conditions-for-Deposit-Products-Apr-2013.pdf. Last visited on 17/5/2013.

<sup>&</sup>lt;sup>23</sup> Sahih Muslim, Kitab al-Hajj, Vol. 2, p. 615.

"Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates and salt for salt, like for like, equal for equal and hand to hand. However, if the commodities differ, then you may sell as you wish provided that the exchange is hand to hand".<sup>24</sup>

Based on the above *Hadith* reported by 'Ubadah, it is clear that gold is included as one of the *ribawi* commodities. It means that *riba* does not only happen in giving loan, but also can happen in trade involving the *ribawi* items. Therefore certain rules must be observed to avoid from the transaction being involved in *riba*.

As to the prohibition of *riba*, there is no disagreement among Muslim scholars that *riba* is prohibited by the injunction in the Holy *Qur'an* and *Sunnah*. *Riba* underwent the gradual process of prohibition. This is not to drastically change the culture that has been rooted in the pre-Islamic trade practices of the Arabs. Hence, it needs the kind of gradualism to prepare the people to accept the final prohibition. The first revelation is verse 30:39, revealed in Makkah, explaining that while interest deprived wealth of Allah's blessings, charity (*zakat*) raised it manifold. The second revelation is verse 4:161, where Allah placed those who took *riba* in juxtaposition with those who wrongfully appropriated other people's property and will be punished by Allah severely. The third revelation, 3:130, revealed around the second or third year after Hijrah, enjoined Muslims to stay away from *riba*. The final revelation on *riba* is 2:275-281, near the completion of the Prophet's mission, which clearly censured those who take *riba* and declared them to be at war with Allah and His Messenger. Allah enjoins trade and prohibits *riba*. "...but Allah has permitted trade and prohibited riba (interest)..." With this revelation, Muslims are required to annul all outstanding *riba*.

It was reported by Jabir R.A that there was a *Hadith* in which the Prophet, peace and blessings of Allah be on him, cursed not only those who give and receive *riba*, but also those who record the transaction or act as witnesses.<sup>25</sup> The Prophet also equated those who took *riba* with one who is guilty of incest with his own mother. <sup>26</sup>

Behind every injunction in the Qur'an there is always reasons and wisdoms for mankind. The prohibition of *riba* has benefits mankind in the moral, social and economic aspect. Firstly, the taking of interest implies taking another person's property without giving him anything in exchange. For example, A lends B RM 1000.00 but A gets RM 500.00 in surplus because of delay in the payment of the loan. This act is prohibited in Islam. The Prophet, peace and blessings of Allah be on him was reported to have said that " *A man's property is as sacred as his blood.*" It implies that taking a man property without giving him something in consideration is prohibited.

Taking interest is an easy way to accumulate wealth. The person who practices *riba* will not bother to take the trouble to work or running business in trade or industry. This will affect the industries, trade and commerce and the whole economic system.

Besides, the practice of usury also discourages people from doing good to another. If interest is allowed in Islam, then people will lend to each other with consideration of making easy profit. It will weaken his feelings of good will and friendliness and lead to hostility between the lender and the borrower. Thus, the prohibition of *riba* has wisdom in the moral aspect.

From the social aspect, taking usury also leads to exploitation and discrimination by the rich to the poor. The lender is likely to be wealthier and the poor will be poorer. This is against the spirit of mercy and

<sup>&</sup>lt;sup>24</sup> Sahih Muslim, Kitab 10, Hadith No: 3852

<sup>&</sup>lt;sup>25</sup> Muslim, Kitab al-Musaqat, Bab la'ana akil al-riba wa mu'kilahu; also in Tirmidhi and Musnad Ahmad.

<sup>&</sup>lt;sup>26</sup> Ibn Majah, Kitab al-Tijarah, Bab al-taghliz fi al-riba; also in Musnad Ahmad.

<sup>&</sup>lt;sup>27</sup> Reported by Abu Na'eem.

charity that is very encouraged in Islam. When there is a huge social gap among the society, it will breed envy and hatred, which could lead to conflicts and threaten the social order. Based on the above reasons, it is obvious that *riba* has significant impacts not only to individual traders but also to the society at large.

Both requirements that must be fulfilled in gold trading are as follows:<sup>28</sup>

- i) *Mutamathilan* must be of equal weight. The standard of purity of the gold is not a matter of consideration. This is based on the hadith of the Prophet Muhammad (peace be upon Him). It was reported by Abu Hurairah, may Allah be pleased with him, reported: Allah's Messenger (may peace be upon him) deputized a person from the Banu 'Adi Al-Ansari to collect revenue from Khaibar. He came with a fine quality of dates, whereupon Allah's Messenger (may peace be upon him) said to him: Are all the dates of Khaibar like this? He said: Allah's Messenger, it is not so. We buy one sa' of (fine quality of dates) for two sa's out of total output (including even the inferior quality of dates), whereupon Allah's Messenger (may peace be upon him) said: Do not do that. But like for like, or sell this (the inferior quality and receive the price) and then buy with the price of that, and that would make up the measure.<sup>29</sup>
- ii) Taqabudh fil hal aw fil majlis— the selling and buying must happen at one majlis (at the same occasion). When A trade in his old gold, B must exchange it with the new gold with the same weight, the process take place in one same occasion.

These two requirements must be fulfilled to avoid *riba al-nasiah*.

The jurists have different views on the '*illah* or underlying rationale of the *ribawi* items (mentioned in the above *hadith*). They have generally categorised them into two bases;

- i. Gold and silver represent currency and medium of exchange. It is a reference to all things that possess the characteristic of being used as money i.e. things that have value (*thamaniyya*).
- ii. Wheat, barley, date and salt represent food stuff. The Zahiris school restrict *riba* to these commodities only but many schools of law extended this to other types of commodities.<sup>30</sup>

If the exchange involves the same items, it must satisfy the requirements of equality and on the spot delivery. Exchanging 10kg Grade A wheat with 10 kg of Grade B wheat and made on the spot, is valid according to Shariah. Exchanging of 10 kg of dates with 10 grams of gold is not governed by the above rules because they are of different basis.

#### 4. ISSUES OF RIBA IN GOLD TRADING

Based on research and personal experience, there are two most important issues in the contemporary gold trading. First is buying gold (except for gold jewelry)<sup>31</sup> with fiat money or currency note such as RM, USD etc. Does this transaction govern by the two above rules? Second issue is buying gold with deferred payment.

In the first issue, first and foremost we must determine whether the *ribawi* items are only conclusive of the six items mentioned in the *Hadith* or extended to other items that share the same characters as the above six. The Muslim jurists have two different opinions on this issue. The first opinion is that the *ribawi* commodities are only confined to the six items in the *Hadith*.<sup>32</sup>

<sup>&</sup>lt;sup>28</sup> Salus, A., Al-muamalat al-Maliah al-Mu'asiroh.p180. Also in al-Buti, T., Al-Buyu' al-Sya'iah

<sup>&</sup>lt;sup>29</sup> Sahih Muslim Hadith No: 2983, Sahih Al Bukhari Hadith No: 4553.

<sup>&</sup>lt;sup>30</sup> Ibn Rusyd, Bidayat al Mujtahid.

<sup>&</sup>lt;sup>31</sup> Majority of Muslims scholars view gold jewelry as not part of ribawi item.

<sup>&</sup>lt;sup>32</sup> School of al-Zahiri and Ibn Uqail forn the Hanbali school.

The second opinion states that the *ribawi* items include other items not mentioned in the *Hadith*. Other items that has the same 'illah as the six are also include as *ribawi* item. However, this second opinion is also subject to disagreement as to the determination of 'illah. Imam Abu Hanifah and Imam Ahmad defines that 'illah in gold and silver is things that can be weighted. In dates, barley, wheat and salt, the 'illah is foods that can be weighted. Therefore, according to this view, metals other than gold and silver are also included as ribawi items. Silk, cotton and other items that can be weighted and measured also include as *ribawi* item.

According the Shafie school, the *'illah* for gold and silver is its current value (*thamanan ghaliban*). And the *'illah* of the other 4 items is type of food. Based on this view, metals other than gold and silver do not include as *ribawi* item. As for food, all type of food included as *ribawi* items disregard whether it can be weighted or not.

According the Maliki school of thought, the 'illah for gold and silver is its use as medium of exchange. The 'illah for dates, barley, wheat and salt is that it is a staple food and can be stored. Thus it is extended to rice and other staple foods.

The fourth opinion is the opinion of Ibn Taymiyyah. He opines that the 'illah of gold and silver is the medium of exchange. Gold and silver include as ribawi items because they are used in exchange of other items. As for the other 4 items, the 'illah is food that can be weighed and measured.

It can be concluded that, the Muslim jurists are in disagreement as to what included as *ribawi* items, other than 6 that was clearly mentioned in the *Hadith*. Therefore, the Muslim society are not bound to hold to one opinion or *ijtihad* only. The disagreement of opinions allows the society to choose the best opinion that does not lead to hardship.

The next important discussion is to determine whether currencies such as MYR, USD, GBP etc is included as *ribawi* item. Previously, before the introduction of fiat money, gold and silver was used as currency. Later, after 1971, the function of gold and silver was replaced with paper money. The Muslims jurist unanimously agreed that in situation where the paper money was use as representing gold or silver, therefore it is regarded as *ribawi* item. Thus, exchanging RM with RM must be of equal value and on the spot delivery. Exchange of RM 100 with 50 USD is allowed but must be made on the spot basis, at the same majlis al-aqd.

In current situation however, the use of fiat money is no longer backed up either by gold or silver. Out of this opinion, fiat currency is not included as *ribawi* items. Fiat money does not have intrinsic value. Its value is not permanent. Fiat money of RM100 is actually only a paper but it has a value of RM 100 because the Central Bank of Malaysia give it such value. It is different from gold and silver which has a real value and its value is always recognised by the society. Imam al-Nawawi in Al Majmu'<sup>33</sup> stated that paper currency value is not permanent.

The second opinion is that fiat money include as *ribawi* item because it plays the role as gold and silver, as a medium of exchange, even though it is no longer backed up by gold and silver. This is the opinion of Imam Malik and supported by Ibn Taymiyyah and contemporary Muslim jurists. Based on this opinion the International Islamic Fiqh Council of the Muslim World League (*Majma' Fiqh al Islam Rabitha al-'Alam al-Islamiy*) has issued a resolution<sup>34</sup> that fiat money or paper currency is an independent form of money and included as *ribawi* item.<sup>35</sup> The rules for gold and silver apply to the paper money. The Muslim

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<sup>&</sup>lt;sup>33</sup> Al Majmu' 9/395.

<sup>&</sup>lt;sup>34</sup> Resolution No 6, Regarding Paper Money. B.d./2/37/1406

<sup>35</sup> http://en.themwl.org/content/sixth-resolution-currency-note. Last visited on 24/5/2013.

World League is an Islamic Non-government Organisation (NGO) which was founded in Makkah in 1962. The Organisations of Islamic Countries (OIC) Islamic Fiqh Academy also issued the similar resolution <sup>36</sup>

To conclude this issue, one who holds the first opinion exclude paper currency as *ribawi* item, therefore the buying and selling of gold and silver can be made on deferred basis. The second opinion regard fiat money as having the same role as gold and silver as a medium of exchange, thus they are considered as *ribawi* items and regulated by the two basic rules. Buying gold with fiat money must be concluded at the same *majlis al-aqd*. After full payment made in cash, transfer of ownership occurs and the buyer will take possession of the gold immediately, at the same *majlis al-'aqd*. The first opinion accords a benefit in gold trading. In real practice, it is difficult and dangerous to pay thousand or hundred thousand of money and carry kilograms of gold. However, with regard to the second opinion, Muslim jurists have different view as to what constitute as on the spot.

The second issue in gold trading is with the regard to the requirement of *taqabudh* at one *majlis al-'aqd*. It is a Shariah requirement that the transaction must be on the spot, hand in hand. Muslims scholars however have different opinions as to what are considered as on the spot. One view says that the delay is allowed as long as it is not more than 3 days. This is the rule issued by the JAKIM's Gold Investment Parameter. Delay of 3 days is considered as part of *urf* or the practice in the business, therefore is considered as on the spot.<sup>37</sup>

Another view considered that on the spot means at the same *majlis al-'aqd*. The buying and selling of gold is valid only if the payment and transfer of ownership takes place at the same *majlis*, before the parties separate. This strict view however is difficult to be adhered to especially in this modern business involving banking institution. Following this view, payment must be made on the spot, buyer has to carry with him enough cash to pay the price of the gold bought. If the price is RM300,000, he needs to pay the full price. This is of course, not only dangerous on the part of the buyer to carry the loads of cash, but also to the seller who has to keep it with him.

Islam exercise tolerance on disagreement among ulama on juristic issues. Kamali<sup>38</sup> writes that Islamic law is described as being one of diversity within unity. It encourages the *Ummah* to think, to understand and try to rationalise issues, and not to follow blindly (*taqleed*). *Ikhtilaf* (juristic differences) in Islamic law is reflected in the above issue of determination of *illah*. Resolution of differences must be made in *maslahah* oriented manner, considering the interest of the people. Once a ruling is concluded by the authorities, everyone must comply with such rulings and disagreement must be ended. For the benefits of *Ummah* as a whole, the second opinion was issued as fatwa and must be complied with.

## 5. GOLD INVESTMENT PARAMETERS BY JABATAN KEMAJUAN ISLAM MALAYSIA (JAKIM)

The Fatwa Committee of Jabatan Kemajuan Islam Malaysia (JAKIM) in its 96<sup>th</sup> meeting has agreed and concluded a Gold Investment Parameters. These parameters serve as guidelines to gold trading form the Islamic perspective. The parameters are concluded as follow;<sup>39</sup>

<sup>&</sup>lt;sup>36</sup> Resolution (9) D/3/07/86 was issued in the third conference of the Council of the Islamic Fiqh Academy of the OIC held in Amman, from 11-16 October 1986.

http://www.e-fatwa.gov.my/fatwa-kebangsaan/parameter-pelaburan-emas. Last visited on 24/5/2013.

<sup>&</sup>lt;sup>38</sup> *Islamic Studies Quarterly Journal*, Vol 37, No 3, Autumn 1998, Islamic Research Institute, International Islamic University, Islamabad, Pakistan.

<sup>&</sup>lt;sup>39</sup> http://www.e-fatwa.gov.my/fatwa-kebangsaan/parameter-pelaburan-emas. Last visited on 24/5/2013

## 1) General conditions of sale and purchase of gold

Gold trading transaction must meet all trading tenets outlined by Shariah, the parties to the contract, exchange items, and *sighah* by '*uruf*' practiced. In the event that a transaction does not meet one of the pillars of trading, the transaction is considered void.

## 1) Parties to the contract

Parties to the contract must be a person who has the qualifications to perform a contract (*Ahliyyah al-Ta'aqud*) of the following criteria:

## 2.1 Puberty, understanding and *Rashid*

If the parties to the contract if a madman or a child whether or not *mumayyiz*, then the sales and purchase is not valid. Solemnization by *mumayyiz* child is not valid since the sale involves goods of high value.

## 2.2 Voluntarily

Any sale contract entered into by the two parties must mutually agreed, without any element of force, pressure and exploitation.

## 3)Purchase Price ( al-Thaman )

The purchase price (al-Thaman) should be clear by both parties to the contract during the trading session.

#### 4) The subject matter of sale ( *al-Muthman* )

Purchase goods (*al-Muthman*) shall be an inherent, and is wholly owned by the selling party at the contract. Therefore, the sale and purchase of something that does not exist physically and also sale and purchase something that is not owned by the selling party is invalid.

Purchase goods (*al-Muthman*) shall be that which can be delivered to the purchaser or his representative. If the purchased item cannot be delivered to the buyer, or seller requires not be handed to the buyer, then the contract is void. Purchase goods (*al-Muthman*) shall be known by both parties to the contract at the time of the transaction. It can be done through the following rules;

- i. Seeing it by himself during a sale contract, or before the contract of sale within a period not affect its properties.
- ii. See samples of the product to be bought and sold. This usually occurs during the booking process before the contract is executed.
- iii. Determine the properties and detail of the goods, which are in custom does not create conflicts. In the context of gold, its determination is to identify the authenticity of the old gold purity standard based either steel (such as 24-carat gold), or a new standard based on a percentage (such as 999, 916 gold). Determination of nature must also account for the form of gold, whether in the form of coins, wafers, ingots and so on. Gold scales accurately also is required in the determination of a gold properties.

#### 1) Sighah (Ijab and Qabul)

It can happen either through speech, or a speech that can take the law as written and the like. While trading in *Mu'ataah* is also calculated as sighah by some jurists. In the sale and purchase sighah can not include defer element. For example, someone says, "I sell it to you for RM100 for a period of one year". Offer and acceptance must match and meet each other in terms of features and rates.

## Specific conditions of the Sale and Purchase Gold Items.

Because gold and money are two *ribaw*i items, then additional conditions for a transaction of purchase or sale of gold must meet the following conditions:

- i. *taqabudh* (delivery) between the two items involved in the transaction before the two transacting parties separated.
- ii. Gold trading to be carried on the spot, and cannot happen any delay.

Such conditions are characterized by a special gold items *ribawi*, such as gold bullion and gold coins. This requirement does not include gold jewelry because it was not include as ribawi item. Average *taqabudh* and spot transactions are as follows:

## First condition: Taqabudh

*Taqabudh* (delivery) shall occur on both the sale and purchase of the item price and the purchase of goods (gold), and it must be done before the two sides separated from the contract (in the same *majlis al-'aqd*). Payment can be done via the price of the following methods:

- a. Payment in cash;
- b. Payment by certified check (such as banker's check);
- c. Payment by personal check;
- d. Payment by debit card;
- e. Payment by credit card; and
- f. Transfer money from savings or current account.

In practice, all forms of payment above except (c) is treated as a cash payment by the seller. Payment by credit card is still considered cash because the seller will get the full sales price of the party issuing the credit card. Status of this cash is still an accepted custom by the seller despite the fact that the seller will accept physical or put into his account a few days after the transaction occurs.

The delivery of the purchased gold shall occur in real delivery or other accepted method which has the same effect, namely;

a. Transfer of *dhaman* (security responsibility) from the seller to the buyer; and b. Buyer's ability to obtain the purchase of goods at any time without any hindrance.

The meeting of contract can either occur in physical meeting or by way of implications. The example of contract by implication is offer and acceptance via telephone, short message system (SMS), e-mail, fax and others. But in all situations, the delivery shall occur at the time of the conclusion of the contract, such as by way of *wakalah*. It is noteworthy that the written contract will only start when it is received by the contracting parties. For example, the buyer signed the contract of sale and then sends it by mail to the seller. After three days, the contract is in the hands of the seller. Then the solemnization ceremony began at that time, if the seller agrees, then the contract is to be completed by the seller to sign it, and the purchase of goods to be delivered to the purchaser in fact or *hukmi*.

## **Second condition: On the spot**

Gold trading transaction should occur on the spot and cannot be interfered by any element of delay, either in price or in the delivery of gold delivery. Delay in delivery of gold more than a period of three days after a sale contract is signed is not allowed. In other words, gold submission must be done within the

contract without any delay. This is because in gold trading, a three-day delay is not an uruf, in contrast to foreign exchange issues.

But practically, the seller will deliver the gold after the amount of the payment made by check and so credited to his account. This process usually takes about three working days. In dealing with the period between the receipt of checks and gold, then the seller and the buyer can take the following rules apply: The buyer will only make an order (order) to the seller with the specified type and weight of the gold he wanted to buy. This message will be accompanied by remittance to the account of the seller. At this point, the following should be noted:

- i. At this stage, the gold sale contract has not happened.
- ii. The money is in the account of the seller still does not belong to the seller. It is still owned by the buyer and held in trust by the seller. In this case, it is better if a special account of a trust ( trust account ) opened by the seller.
- iii. Gold still remains the property of the seller and he takes full responsibility for the possession of gold.

iv. At this stage, the buyer can still cancel the order made and the seller must return the money to the buyer. However, in the event of an actual loss due to the cancellation, it may be made a condition that it is to be borne by the purchaser. For example, buyers of gold 100gm order 999 to RM20,000. Currently, the seller has kept the gold and sells it to others who are ready to buy. After three days, when the seller is ready to make the next sale and purchase contract and hand over the gold to the buyer, the buyer rescind its order. During the day the price of gold has fallen to RM 19,000. In other words, the seller will lose RM1,000 if sold to another party.

#### 'Agad related Elements

The involvement of *hibah* in sale and purchase transactions in the form of either grants or cash items are allowed if sufficient conditions of *hibah* present, and does not involve elements that contradict with Islamic law. It is noteworthy that the *hibah* contract in fact is voluntary and it is not in the usual form. In other words, if the promise is not fulfilled by the seller, then the buyer cannot be forced to give *hibah*..

The application *wadiah* in gold investment plans shall conform to the same rules on *wadiah*, among others, is holding *wadiah* is based on the *Yad Amanah*. Someone who buys gold is free to deal with his gold, including lending ( *qardh* ) to others. But must meet the criteria *of lending*, which among others cannot bring the element of interest, there is no element of "Salaf wa bay" which is tied together with a debt sale. Someone who buys gold is free to deal with his gold including lease to make it a money debt, as long as the concept of *al-Rahn* used are in accordance with Islamic law. But theoretically, it should not be encouraged because it indirectly encourages debt in an unnecessary situation.

Wa'd can be entered in gold investment, as long as it is promise from the side rather than exchange of promises from both sides. Wa'd application example in this context is to make a purchase order, the customer makes a deal to buy gold for a price. Purchase agreement is named 'key' price. If the process is regarded as similar as the sale contract, it is not allowed as the delay has taken place. Nature of the transaction shall be free from riba elements, gambling, excessive gharar, and tyranny. In the event that these elements exist, the nature of the transaction is considered as invalid and contrary to the Shariah requirements in gold trading.

The issuance of this Parameter although a little bit late, (many Muslim investors has involved in the non Shariah compliance activities), is among the measures taken by the authorities and serve at least two important goals. It becomes guidelines to sellers, buyers and dealers involve in this business as to how to avoid riba. In addition, it create awareness among the society on the importance of adhering to the Shariah rules in *muamalah*.

## 6. SHARIAH ISSUES IN THE PRACTICE OF GOLD TRADING IN MALAYSIA.

For this discussion, the study is limited to the practice of gold trading by the Public Fine Gold International Sdn Bhd. (Public Gold). This article has selected Public Gold because it is among the pioneers in gold trading in Malaysia and in fact the biggest gold trading company in Malaysia. Public Gold was listed in the Malaysia Book of Record in 2008 as the first locally-manufactured certified gold bullion bar. 40 On 15 July 2008, the share capital of the company was RM 500,00.00. In December 2009, the share capital has increased to RM 10 Million. On 13 September 2012, the company was selected by the Junior Chamber International as the award winner of the Socially Responsible Company under the investment sector.41

As of 2013, Public Gold does not have a Shariah panel, even though there was a discussion made towards establishment of such a panel. 42 In Malaysia, there is no requirement that any company involve in gold trading to have a Shariah panel. What is important that its operation must adhered to a Gold Investment Parameter issued by JAKIM. Many other companies such as Habib Jewels, Poh Kong, Wah Chan etc. also do not have a Shariah panel to regulate their business.

In Public Gold, customer may purchase its product at any of its 18 branches all over Malaysia including Sabah and Sarawak. Public Gold has also introduced an online buying of gold. There are a few steps that a customer needs to do. First, the customer has to register and fill up his personal information at the Public Gold's website. After he has done so, he needs to lock the price. Locking the price means the mutually agreed price of selling. The gold price at the Public Gold is according to the current international market price and is accordingly updated. This is to the advantage of the customer who has the knowledge and expertise in the analytical analysis of the gold price. They know when is the right time to buy and sell to gain maximum profit form the difference between the selling and buying price.

#### 6.1 THE LOCK-PRICE SYSTEM

The 'price locking' system is also a matter of dispute. Some says that it is not Shariah compliant and involves riba al-nasiah (not on the spot). The issue involve is al-wa'd. Locking the price means agreeing on the purchase price. The procedure is that, customer will refer to the sale price of gold in the Public Gold's website. If he decides to buy, he will make a call to the Public Gold and inform that he wants to buy at the current price. The price then will be locked. At this juncture, it works as if the seller and buyer mutually agreed to sell and buy at the quoted price. This amounts to mutual agreement by both parties.

The promise or al wa'd has no specific definition. It could be said as a commitment made by one person to another to undertake a certain actual or verbal disposal beneficial to the second party. 43 Al-wa'd is different from contract as the former is only an information whereby the latter is initiation. Contracts bind the parties once it has fulfilled all the requirements. The binding obligation of promise however depends on the agreement by the parties. Muslim scholars have disagreement with regard to the liability imposed to the parties of the promise. According to Maliki school of thought, the promise merely for sale transaction is permissible. This view says that promise is not binding and cannot be enforce by the court

 $<sup>^{40}\,</sup>http://www.publicgold.com.my/v1/,\,http://jutawanemas.com/v1/news/gold-bar-public-gold-mencipta-rekod-malaysia-book-of-leading-public-gold-mencipta-rekod-mencip$ record/. Last visited on 24/5/2013 http://www.publicgold.com.my/v1/index.. Last visited on 24/5/2013

<sup>&</sup>lt;sup>42</sup> http://pelaburjutawan.wordpress.com/2010/11/28/public-gold-monthly-market-update-syariah-compliance-panel-will-beimplement/. Last visited on 24/5/2013

<sup>&</sup>lt;sup>43</sup> Mohd. Noor. N.A, Aripin, M.A., 2010. Mechanism of Al Wa'ad (Promise): Theory and Application in Islamic Banking in Malaysia. Canadian Social Science Vol 6 No 1. p 81.

except if the party to whom the promise had been broken suffer loss, then the party who breaks the promise must pay damages for the detriment or hardship arises from it.<sup>44</sup>

Generally, the majority of the classical jurists view that although keeping promise is very much emphasis in Islam, the enforcement of the promise is not binding form legal perspective and there is no enforcement by the court. Some scholars such as Samurah bin Jundub, 'Umar ibn 'Abd al- 'Aziz, Ibn Shubrumah, Hassan al-Basri, Ibn Arabi, Imam Bukhari, etc., state that enforcement of promise is binding both by Islam and the law, thus the court has jurisdiction to enforce the promise made.

In the practice of 'lock price' system in Public Gold, it does not form part of the sale contract. If the customer or a dealer decided not to buy after he has locked the price, he is no under legal obligation to continue with the sale. However, in order to avoid such practice to happen again, that particular customer or dealer will be blacklisted for some time. No obligation imposed on the customer to buy. If customer is not given an option, but is force to buy after he locked the price, then it may be invalid according to Shariah. The penalty imposed is one way to manage the risk. If customers are allowed to simply cancel after they locked the price, then it would be bad to the business of the company.

In the Gold Investment Parameters issued by JAKIM, it was stated that the promise can be practised as long as the promise is only from one party and not an exchange of promises by both parties. In the case of Public Gold, it can be seen in the process of making the purchase order, whereby the customer has made a promise to buy the gold at the locked price. The locked price in this situation is a separate agreement and not as part of the sale. It is merely an element of business administration. When a customer lock the price, he does not only determine the purchase price but also what and how much the quantity that he wants to buy. It does not bound the parties to effect the sale. If any of the parties either the seller or the buyer, decided not to continue with the sale, it does not constitute breach of contract of sale.

After the price is locked, the customer shall proceed with the payment of the purchase price. There are two methods of payment available to customer. Customer may choose to pay in full or by way of easy payment. At this juncture, there arise the issue of *riba*. If a customer choose to pay in full, the transaction is valid and considered as made on the spot basis. If however, the easy payment purchase (EPP) method is chosen, it will constitute *riba* as the payment will be made in installments (4 times/4 months). This is clearly contradicts with one requirement in gold trading i.e. sale and purchase must be on the spot, not deferred or pay by installments. In this method of payment, customer will be charged 0.5% of the whole purchase price. The EPP is not only available to customer who buys online, but also available to customer who buys at Public Gold branch. In Public Gold, some Muslim customers choose the EPP method, as it provides facility in paying the price. Whether they did so purposely or due to ignorance of Shariah, is unknown. It is important that the Muslim customers must have the knowledge of Shariah rules so that they will not be involving in unislamic transaction.

After the order is confirmed by the customer, the company will email the Sales Order to the customer immediately. Customer will only proceed with the payment after he has satisfied with the Sales Order. After the customer has paid in full, the gold is available and he can take it immediately. According to the good banking practice, the payment will take the minimum period of 1 working day and maximum of 3 working days to be completed, depends on the method of payment used. If the customers directly bank-in to the Public Gold account, normally payment takes effect immediately and customer may collect the gold at the Public Gold branch. If payment is made by cheque, usually it takes 3 working day to be cleared. Usually, the gold is always ready at the branch. If it is unavailable, customer will have to wait not more

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<sup>&</sup>lt;sup>44</sup> Ibid.

<sup>&</sup>lt;sup>45</sup> Al-Nawawi, al-Adhkar, 282, Ibn Hazm, al-Muhalla, 3/518, Shaykh 'Ulayyish, Fath al-'ali al-Malik, 1/254

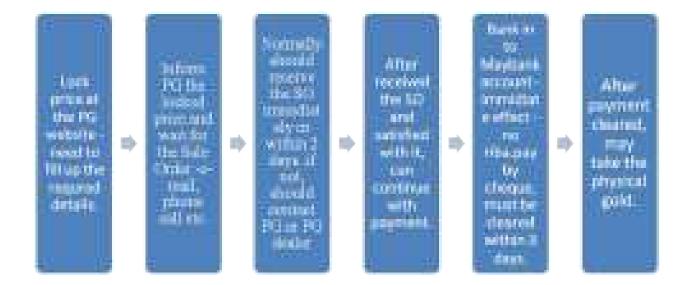
than 3 days to allow the company to collect the gold from other branch. For future reference, the customer is advised to keep the original payment record.

The procedures of gold trading in Public Gold are summarized in the following Table 2 and 3. Whether the transaction amount to riba or not depends on how the customer chooses to deal with the company.

Table 2: Procedures of gold trading at Public Gold's branch.



Table 3: Procedures of online gold trading at Public Gold's website.



#### **6.2 METHOD OF PAYMENT**

The basic rule of Shariah is the transaction must be on the spot basis (hand to hand). This is agreed by all 4 main schools of thought. Therefore, this condition rule out any deferred method of payment, or installment as discussed earlier. How about paying by credit card? If the credit card is a product of conventional banking, it is invalid according to Shariah because the credit card is a *ribawi* product out of conventional financial system. However, purchasing gold and buying by a Shariah compliant credit card which use the contract of *bay al-'inah* or *tawarruq* is allowed as the two contracts gives cash to the card owner and the cash is exist in a specific *wadiah* account. The loan, if exist, was not between the buyer and

seller of the gold but between the card holder and the bank. If the buyer pay by installment, that is considered as not made on the spot and amounts to *riba al-nasiah*.

## 6.3 TRADE-IN GOLD TO BUY GOLD

Public Gold offers an X Plan whereby the customer can trade in his old gold to purchase the Public Gold's product. The old gold presented by the customer will be graded according to the quality and its purity standard. The trade in process can only take place after the purity test is conducted in Public Gold and customer has agreed on the quoted price.<sup>47</sup>

From the Shariah point of view, this is allowed if the exchange is between the old and new gold of the same weight, contracted on the spot basis. If A trade in his gold bracelet with purity of 916 weighted 10 grams with a gold bar purity 999.99 weighted 10 grams, this is valid as long as the transaction take place on the spot.

One issue may arise out of this practice if for example A wants to trade in his old gold bracelet for an exchange of brand new gold which is higher in price. In situation whereby the gold trade in is less in value with the gold bought, then it lacks the requirements of equality in weight, thus amounts to *riba*. *Riba* may be avoided with a condition that the buyer sells his gold to the seller who pays in full, on the spot. The buyer then buys the gold that he wants with the traded in gold plus the balance price, in currency note. This may look awkward, but that is the best way to avoid *riba*.

## 6.4 GOLD INVESTMENT AND MORTGAGE (AR RAHN)

In practice, some customers buy physical gold and mortgage the same gold in any pawn shop. Whether this is allowed by Shariah depends on how the process takes place. There could be two possibilities. First situation, A sold 20 grams gold bar to B at the price of RM 3400. B paid 30% of the sold price. i.e. RM 1020. After having possession of the gold bar, B then mortgages the gold bar and gets 70% of the current gold price. B now has RM2380. That money is used to pay RM 2380, the amount that he owed to A. This is invalid according to the rules of *muamalah*, because the original buying and selling of the gold bar was not made on the spot basis. When the transaction was made on loan basis, it constitutes *riba*.

In the second situation, the buying and selling of the gold was made on the spot basis, full payment is settled and B has complete possession of the gold. B mortgaged the gold only after he has completely paid the purchase price. This is allowed and valid transaction because there was no element of *riba al nasiah*. However, mortgage for the purpose of buying more gold (create leverage) is not advised because it encourage the society to involve in unnecessary loan.

#### 6.5 CONTOVERSY OF GENNEVA MALAYSIA SDN. BHD.

The controversy of Genneva Malaysia Sdn. Bhd. has attracted the attention of many in the public. It was estimated that around 60,000 investors<sup>48</sup> affected by the Genneva's cessation of business. As of 2013, the case is still under investigation by the related authorities.

The Fatwa Committee of the National Council for Islamic Religious Affairs in its 100<sup>th</sup> meeting held on 4-6 July 2012 has issued a *fatwa* that the business of gold trading conducted by Genneva Malaysia Sdn. Bhd. do not fully comply with the Gold Investment Parameter.<sup>49</sup> JAKIM advised the society not to be

<sup>47</sup> http://www.publicgold.com.my/v1/images/stories/pdf/promotions/x-plan\_july.pdf. Last visited on 26/5/2103.

<sup>49</sup> http://www.e-fatwa.gov.my/fatwa-kebangsaan/hukum-jual-beli-dan-pelaburan-emas-yang-dijalankan-oleh-syarikat-genneva-malaysia-s. Last visisted on 24/5/2013

<sup>&</sup>lt;sup>48</sup> No official numbers from Genneva. But some claims that it has 60,000 customers in Malaysia. Can read at http://gms101.wordpress.com/2013/03/13/press-statement-by-genneva-customers-sabah/. Last visited on 26/5/2013.

involved in any activities of gold trading which in violation against the Shariah principles. Previously, on 1 and 2 October 2012, a joint raiding operation was conducted on Genneva Malaysia Sdn. Bhd. and its affiliates by the Royal Malaysian Police, the Ministry of Domestic Trade, Cooperatives and Consumerism, Companies Commission of Malaysia and Bank Negara Malaysia. These companies are being investigated for suspected offences among which include illegal deposit taking, money laundering, tax evasion and avoidance, misrepresentation including false description and appointment of agents without license. Relevant assets and documents of the company were seized for the purpose of investigation. <sup>50</sup>

The *modus operandi* adopted by this company is different from others. The customer who buys the gold will sign an agreement for 6 months. Every month, the customer is given an agreed percentage of *hibah*, at the discretion of the company. Thus, upon conclusion of the contract of sale, (by signing Sale and Purchase Agreement), the buyer holds the gold, letter of *hibah* with guaranteed percentage of *hibah* (ranging from 1.8% to 2.5%) for 6 months, certificate of ownership and first cheque of *hibah*. The monthly *hibah* will be issued till the contract ends. Upon expiry of the 6 month contract, the customer has 3 options. He can choose to continue with the contract, sell back the gold to Genneva at the purchased price or keep the gold purchased. Who could resist such proposal? According to the JAKIM's Parameters, *hibah* is permissible as long as it fulfill the conditions of hibah. *Hibah* is voluntary and not to be part of the obligations of any of the parties in contract. If the customer breach the contract before the term agreed, a penalty of 20% - 25% will be imposed.

Based on the *modus operandi*, it is submitted that what Genneva offered is not a gold trading but more inclined to money lending business. In any trading, the rule is very clear. There must be a willing buyer and seller for a transaction to take place at a price agreed by both parties. In the case of Genneva, the customer becomes the lender and Genneva is the borrower. The customer bears the financial risk; in return Genneva pays you the monthly interest as they call it *hibah*. At the end of the loan contract, Genneva returns the money to you. During the contract, the customer keeps the gold as collateral in the event the company fails to pay, the customer will not lose the full amount lent to the company. If there is a contractual obligation for monthly interest and promise of buy back, it is similar to money lending. In a purely sell and buying, there is no such obligations exist; only the seller profits and the buyer keeps the gold. The price of gold in Genneva is higher compared to other competitors, and this explains how they manage to pay *hibah* to the buyer.

In the practice of Genneva, technically, the seller (Genneva) do not realized its profit because there is a contractual obligation to pay 2%-3% *hibah*, and also obliged to buy back the gold at the original purchased price. Such obligation becomes a liability to the seller. In a clear cut trading, the more goods sold out, the more profits reailsed. In Genneva situation, the more customers' means the more liability imposed on the company because of the obligation to pay *hibah* and to buy back the gold. It seems that the buyers will obtain more profits rather than the seller. This is too good to be true. Even banks with a bigger capital do not give *hibah* to its customer.

The whole system works as long as the gold price does not crash, people continue to buy gold bars, Genneva continues to generate positive income from their billions of dollars of profit elsewhere. Genneva also know that its customers will not redeem their gold at the same time. From the Shariah point of view, this kind of *modus operandi* is tainted with uncertainties and *gharar*.

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<sup>&</sup>lt;sup>50</sup> http://www.bnm.gov.my/. Last visisted on 24/5/2013.

#### 7. CONCLUSION

Of all the precious metals, gold has always been a good and preferable choice of investment due to its various advantages over the other types of investment. Unlike other items, trading and investing gold is subjected to two basic requirements of Shariah because it is included as ribawi item. In Malaysia, there are many options for the Muslims to invest in gold. As for the gold investment account offers by 6 banks in Malaysia, only the gold investment account in Kuwait Finance House and Al Rajhi Bank comply with the requirements of Shariah. Among the many companies involve in gold trading in Malaysia, until 2013,78 companies were not authorized under regulations of Central Bank Malaysia. Muslims scholars have disagreement as to the position of the currency, whether it is a ribawi item or not. Following the resolution issued by the Islamic Figh Council of the Muslim World League and the Council of Islamic Figh of the OIC, currency is considered as a *ribawi* item as it currently plays the role of gold and silver as currency. Thus, the trading of gold is governed by two rules of equality and on the spot basis. riba can be avoided if customer adhere to these requirements. Based on the study conducted, the practice of gold trading in the Public Gold company may be valid and invalid according to Shariah, depends on how the transaction is conducted. Therefore, it is gravely important that the society particularly the Muslims to be aware of the Shariah rules and regulations before involve in gold trading or investment. They must not be easily trapped into various attractive offers by the companies but should equip themselves with education on investment and more importantly, the Islamic rules and regulations on gold investment and trading. Many of these companies are operated by the non-Muslims thus explain why their operations are not scrutinized by the Shariah panel. It is recommended that these companies should consider establishing a Shariah panel to advise them on the Shariah compliant gold trading. In the current framework, JAKIM has taken good efforts and issued the Gold Investment Parameters serve as guidelines to those involve in gold trading and investment. Hopefully, the Muslim will gain more confidence to trade and invest in gold, for a better future.

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## DETERMINANTS OF USAGE OF ONLINE INVESTMENT PLATFORM: AN EMPIRICAL ANALYSIS.

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#### **ABSTRACT**

Malaysia has experienced a revolution in doing investment, which is internet-based investment when in 2000 Kuala Lumpur Stock Exchange or currently known as Bursa Malaysia launched the online stock trading. The study defines online investment as any kind of investment activity undertaken through the bank website, whereby customers can buy or sell their stocks or investments on their own as long as they have access to internet. This study looks into the criteria that determine as to why Muslims choose to invest online. The findings from this study would give Muslims some perspectives on the permissibility concerning the application of internet technology in performing investment. Hence, the main objective for this study is to identify variables or factors that significantly determine potential investors to use online investment platform from an Islamic perspective. The findings have revealed that out of the six criteria identified to determine usage of online investment platform; only four criteria supported the hypothesis of the study. It is found that the four variables namely; perceived usefulness, perceived security, perceived financial return and perceived religiosity have a positive relationship with intention to use online investment platform. A surprising but interesting finding is that Islamic worldview indicates to have a negative relationship with usage of online investment platform. This indicates either that (i) some of the respondents do not actually understand the concept of Islamic worldview, or (ii) they understood it very well, hence are more cautious in their business dealings especially where online investment is concerned.

Keywords: Online investment platform, TAM, Religiosity, Islamic worldview

## 1. INTRODUCTION

Malaysia has experienced a revolution in doing investment, which is internet-based investment when Kuala Lumpur Stock Exchange or currently known as Bursa Malaysia launched the online stock trading in 2000. Konana and Balasubramanian (2005) define online investment as the activity performed by individual investor towards the independent management of their investment account with online brokers. We define online investment as any kind of investment activity undertaken through the bank website, whereby customers can buy or sell their stocks or investments on their own as long as they have access to internet.

According to Armfield and Holbert (2003), American religious individuals will less likely use the internet. Thus, in this study, we want to determine among others, if religiosity and understanding of Islamic worldview influence Muslim investor's usage of online investment platform. This is in view of the fact that, a Muslim must ensure that they comply with *Shariah* rulings in every decision that they makes in their life. The requirement to adhere is well documented in The Holy Quran and Sunnah (Aribi and Gao, 2010). As Allah mention in al-Quran, *Surah al-Maidah*, verse 48:

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To thee We sent the Scripture in truth, confirming the scripture that came before it, and guarding it in safety; so judge between them by what Allah hath revealed, and follow not their vain desires, diverging from the Truth that hath come to thee. To each among you have We prescribed a Law and an Open Way. If Allah had so willed, He would have made you a single people, but (His plan is) to test you in what He hath given you: so strive as in a race in all virtues. The goal of you all is to Allah; it is He that will show you the truth of the matters in which ye dispute. (48)

Hardie and Robboy (2008) in their study based on the Islamic investment theory found that, ethical aspect of investment is an essential feature of investment in the Islamic world. In the Quran, there are so many reminders from Allah (SWT) to Muslims regarding the ethical management of their wealth. As Allah (SWT) mentioned in *Surah al-Bagarah*, verse 188:

And do not eat up your property among yourselves for vanities, nor use it as bait for the judges, with intent that ye may eat up wrongfully and knowingly a little of (other) people's property. (al-Baqarah: 188)

Shariah is the body of Islamic Religious Law. The term means "way" or "path to the water sources". It is the legal framework known as the Islamic principles of jurisprudence is within which the public and private aspects of life are based on. This study, would like to look in depth the most favourable criteria that determine as to why Muslims choose to invest online. The information gathers from this study would give Muslims some perspectives on the permissibility concerning the application of internet technology in performing investment. Hence, the main objective for this study is to identify variables or factors that significantly determine potential investors to use online investment platform from an Islamic perspective. It is hoped that this study would be able to provide significant benefits to Muslim investors, in assisting them in their decision-making, as to whether they would like to use or not online investment platform. Since previous studies have focussed mainly on internet banking, this study will be a preliminary study for investors to get some ideas about the Shariah ruling pertaining to online investment.

The paper is organised as follows; Section one introduces the study. Section two discusses the past literatures related to investment from the Islamic and online perspectives. Section three provides the theoretical framework for the model on determinants of usage of online investment platform. Specifically, the model tries to identify variables that determine usage of online investment platform. Section four analyses and discusses the findings of the study. Finally, the last chapter concludes the study.

#### 2. LITERATURE REVIEW

There are many researchers who use extended TAM by adding others variables that are relevant to their study. For a case in point, Khalil Md Nor *et al.* (2010) applied TAM as a based model and combined with trust to study the adoption of internet banking among the Malay and Chinese. For that reason, this study also extend TAM, to include four more variables to work with namely, perceived security, perceived financial return, perceived religiosity and Islamic worldview.

Perceived usefulness (PU) is defined as the degree of an individual's belief that by using a particular system, it would enhance the individual's job performance (Davis, 1989; Wang, 2003). The benefits include the effortlessness whereby they can conduct investment activities at anytime and in anywhere. For the purpose of practicing online trading, Jafarpour (2006) ratified that internet technology will provide convenience and efficiency, whereby consumers' can perform their trading activities 24 hours a day without having to call a stockbroker, save a lot of time and money. In addition, many studies found that perceived usefulness significantly and positively influenced individual intention to use online banking. (Cheong and Park, 2005; Chiu *et al.*, 2005; Lassar *et al.*, 2004; Hanudin Amin, 2007; Jahangir and Begum, 2008; Wang *et al.*, 2003). Pikkarainen *et al.*, (2004) viewed that perceived usefulness is one of the variables that is significant to

influence the customer's intention to use online banking in Finland. Based on the reviews, it thus hypothesised that there is a significant positive relationship between PU and usage of online investment platform and thereby denoted by the following hypothesis;

H1: Significant positive relationship exists between perceived usefulness and usage of online investment platform.

The other construct variable in TAM model is Perceived Ease of Use (PEOU). PEOU is defined as the degree to which an individual believes that using a particular system would be free of effort (Davis, 1989). Indeed, if the applications of the system were easy to use, more people would be likely to accept it. Extensive research over the past decade provides evidence of the significant effect of perceived ease of use on usage intention (Davis, 1989; Adams *et al.*, 1992; Ramayah *et al.*, 2003; Wang, 2003; Guriting and Ndubisi, 2006; Hanudin Amin, 2007). Ramayah *et al.*, (2009) acknowledge that the advertising of benefits and ease of use from companies offering online stock trading will lead to a positive reaction among current and potential users. Based on these findings, it is hypothesised that PEOU has a significant and positive relationship with usage of online investment platform. It is denoted by the following hypothesis;

H2: Significant positive relationship exists between perceived ease of use and usage of online investment platform.

Security is one of the important considerations for users to use internet banking. Wang *et al.*, (2003) in their study define security as a protection of data or system from any kind of illegal interruption and losses. In addition, Salisbury *et al.*, (2001) defined perceived web security as the extent of user's beliefs that it is secure for them to transmit sensitive information via internet. Indeed, there are many previous banking studies, which focussed on the security and privacy to support the acceptance of online banking, among others Poon (2008); Hernandez and Mazzon (2007); Chen and Barnes (2007); Sathye (1999); Tan and Teo (2000); Polatoglu and Ekin (2001); Black *et al.* (2002); Howcroft et al. (2002). According to Warrington *et al.*, (2000) the users who were concerned with the security level tend to be very careful when providing sensitive information online. Therefore, it is hypothesised that perceived security does have an influence on usage of online investment platform, and is shown by the following hypothesis;

H3: Significant positive relationship exists between perceived security and usage of online investment platform.

According to Curry and Penman (2004), technology can provide customers more information with a lesser cost as compared to the traditional way. Field (2007) in his study agreed that there are many benefits that investors' can get by undertaking online investment. In fact, there are some benefits that investors receive only by using online investing technologies such as cost saving, efficiency, competence and control over the portfolio (Looney *et al.*, (2006). Jafarpour (2006) addressed that the online brokerage institutions compete each other by lowering commission rates to attract as many new entrants as possible. Therefore based on prior studies, it is hypothesised that financial return has a significant and positive impact on the use of online investment platform, and is illustrated by the following hypothesis:

H4: Significant positive relationship exists between financial return and usage of online investment platform.

Krause (1993) claims that the dimension of religious belief has historically been the most neglected aspect of business especially with respect to financial business. He also claimed that the participation in religious institution and is frequently related to church attendance or church membership. As correctly pointed out by Kutcher, *et al.*, (2010) religious beliefs and practice bring many positive consequences to peoples' life. Ultimately, religious beliefs are the main beliefs of people that are related to their religion, and man or

woman's relationship to God. Religiosities were generally related to clear behaviour and it is instructs behavioural patterns and encourages obvious religious expression (Hill et al., 2000). In addition, they stated that, Muslims want to conduct their business transaction in line with *Shariah*. This is because conducting transactions within the *Shariah* boundaries are considered as *ibadah*. Naziruddin Abdullah and M. Shabri Abd. Majid (2003) in their study found that savings and religiosity is intimately and significant positively related. Therefore, based on prior studies, it hypothesised that religiosity does determine the use of online investment platform, and this is indicated by the following hypothesis;

H5: Significant positive relationship exists between religiosity and usage of online investment platform

However, to the knowledge of the researchers, there have been no published studies regarding Islamic worldview and their impact on online investment. With this in mind, it is hoped that the initial study on these three concepts would fill up the gap existing in the literature, and to investigate further on the relationship between Islamic worldview with online investment.

# 3. RESEARCH METHOD

The framework of this study was developed based on the work of Davis (1989), whereby, Davis include perceived usefulness and perceived ease of use, and that they are strongly correlated with user acceptance. However in this study, the variables that determine usage of online investment platform are perceived usefulness, perceived ease of use, perceived security, financial return, religiosity and Islamic worldview. The dependent variable is to determine the usage online investment platform. Usage of online investment platform refers to the use of online investment platform when undertaking investment. Independent variables are the variables that can influence the dependent variable either in a positive or negative way. This study would like to investigate the determinants that could influence people's usage of online investment platform. The variables that might influence the usage of online investment platform are perceived usefulness, perceived ease of use and perceived security, financial return, religiosity and Islamic worldview.

Unit analysis for this study is individual and the respondents are Muslim since this study want to look into the Islamic perspectives. For the purpose of this study, the minimum criteria for respondent are that they must have online banking account, have experiences in using online banking and at least they are financial literate. Moreover, the criterion chosen was to enable the respondents to understand the question given. The survey was then distributed to amongst 350 participants in the urban city, Kuala Lumpur. This sample was to cover a wide spectrum of internet users and internet banking adopters.

The standard rule of thumb for an appropriate sample size used in this study was based on Hair *et al.* (2006), whereby the minimum requirement for sample size is to have at least five participants per item. The total number of items in order to measure all of the variables in the study is 36. Therefore, an acceptable sample for this study is 180 participants. Prior to conducting the study, a pre-test session was carried out. Some amendments on the questionnaire were made based on the comments from the per-test. During the fieldwork, 350 questionnaires were distributed. However, only 255 were returned and 246 were usable for the analysis. The rate of response is therefore 70.3 percent. The total numbers of items analysed were 52 variables. This conforms with the guidelines by Hair *et al.*, (2006) that is, the minimum requirement is that the sample has to be 5 times the total number of variables which is 52.

Factor analysis can reduce data set to fewer variables. According to Hair *et al.*, (2006), in order to have an appropriate analysis, it is compulsory to have several assumptions. The first assumption is to include that the value Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) must more than 0.50. In addition, the Bartlett's test of sphericity is required to be less than 0.6 in order for it to be considered significant. Besides that, the anti-image correlation matrix of items and communalities of the variables should be at least or

greater than 0.50. Additionally, it also take into account that the factor loading of 0.40 or above for each item is considered practical and considered statistically significant for sample size of 200 or greater. Further, factors with eigenvalues greater than 1 are also to be considered significant.

#### 4. RESULT

The purpose is to investigate the banking customers' preference when they make up their mind to use online investment platform. There were seven items used to measure usage of online investment platform. After the factor analysis performed, five items were produced and eigenvalues of 3.721 was extracted and they explain 74.41 percent of the total variance. The Kaiser-Meyer-Olkin value is 0.873 and the Bartlett test of sphercity is found to be significant at 0.000, indicating that the items were correlated and suitable for factor analysis. The communalities of the five variables ranged from 0.689 to 0.794 and factor loadings of the variables ranged from 0.830 to 0.891. Table 4.1 (refer appendix) displays the factor loadings of the items measuring the construct for potential investor's intention to use online investment platform.

Initially there were 37 items used to be measure the determinants of usage of online investment platform such as perceived usefulness (4 items), perceived ease of use (5 items), perceived security (7 items), perceived financial return (5 items), perceived religiosity (9 items) and *Islamic* worldview (7 items). Hence, during the first iteration of factor analysis, there were 37 items from eight factors with eigenvalues above one were produced. The Kaiser-Meyer-Olkin value was 0.844 and the Bertlett's test of sphericity was significant at 0.000. Anti-Image correlation for the determinants of usage of online investment was greater than 0.5. however, 18 items were found to cross-load in more than one factor. These items were then deleted. After removal of the items, factor analysis was run again. After the second iteration for factor analysis, five factors were extracted with eigenvalues greater than one. The Kaiser-Meyer-Olkin value was 0.821 and the Bartlett test of sphercity was significant at 0.000. Anti-image correlation for the whole usage of online investment platform variables revealed communalities of 0.5 and above.

Factor 1 is labelled as "Perceived usefulness". This factor captured 29.37 percent of the total variance with 5.58 eigenvalues. Factor 2 is labelled as "Perceived religiosity" and this factor captured 22.06 percent of the total variance with 4.19 eigenvalues. There were five items that fall under this factor. Factor 3 is labelled as "Perceived security" and this factor captured 10.30 percent of the total variance with 1.95 eigenvalues. There were four items that fall under this factor. Factor 4 is labelled as "Islamic worldview" and this factor captured 7.26 percent of the total variance with 1.38 eigenvalues. Three items fall under this factor. Factor 5 is labelled as "Perceived financial return" and this factor captured 5.97 percent of the total variance with 1.13 eigenvalues. Two items fall under this factor.

The degree of stability and consistency among the multiple measurement of a variable is based on the internal consistency of the variables. This means that there is consistency amongst variables that could be determined using reliability test (Hair *et al.*, 2006). A Cronbach's alpha was calculated in order to examining the internal consistency of the factors extracted. As reported by Sekaran (2003), when the alpha value close to 1.0, it indicates that there is high internal consistency, the alpha value above 0.8, the reliability of the factors is considered to be good. The values for the Cronbach's alpha in this study were significantly over 0.8.

The mean and standard deviation values for all of the variables are presented in the descriptive analysis. In this study, all the variables were measured using five-point Likert scale ranging from 1 (strongly disagree), 2 (disagree), 3 (neither agree nor disagree), 4 (agree) to 5 (strongly agree). Table 4.4 (refer appendix) represents the mean and standard deviation values for all of the variables. The results of the descriptive analysis suggest that the mean score is between 1.68 and 2.90. The dimension tested in these study shows that all the respondents had moderate perception. Besides, the standard deviation for all the dimensions

ranged from 0.47 and 0.76. The mean score for intention to use online investment, perceived usefulness, perceived ease of use, perceived security and perceived financial return are rated as average. However, the mean score for perceived religiosity and Islamic worldview are rated as low due to the mean score, which is less than two. In addition, based on the general guideline suggested by Norjaya Mohd Yasin (2004) explains the scale of 1 to 5, in that, a mean score of less than 2 is rated as low. Correspondingly, when the mean score is between 2 and 4, it is rated as average.

Overall, the results of the correlation in Table 4.5 (refer appendix) between the dependent variable (usage of online investment platform) and the independent variables (perceived usefulness, perceived ease of use, perceived security, perceived financial return, perceived religiosity and Islamic worldview) shows that they are significant and positive except perceived religiosity and Islamic worldview. In addition, the result of the correlation coefficient also suggested that there is no correlation coefficient values of the variables that are beyond 0.8. For that matter, in this study the multicollinearity does not exist (Hair *et al.*, 2006).

In order to determine if the relationship between dependent and independent variables of the model are significant, multiple regression analysis was carried out (Ramayah *et al.*, 2009). It was used to analyse the direct relationship between intention to use online investment platform (dependent variable) towards perceived usefulness, perceived ease of use, perceived security, perceived financial return, perceived religiosity and Islamic worldview (independent variable). Normally, the significance of the model depends on two factors, (1) goodness of fit, which is the observation of the data as whether the model is fit, and (2) generalisation of the model, which is the capability of the model to generalise the findings to the whole population (Kalsom Abdul Wahab, 2004; Anderson, 2008; Hanudin Amin *et al.*, 2009).

The first hypothesis (H1) examines if there is a positive relationship between perceived usefulness and intention to use online investment platform. As a point of reference, Table 4.6 (refer appendix) shows that there is a significant positive relationship between perceived usefulness and intention to use online investment platform ( $\beta$  = .292, p < .000). Therefore, H1 is supported. The second hypothesis (H2) investigates whether there is positive relationship between perceived ease of use and intention to use online investment platform. As the result shown in Table 4.6 (refer appendix), it indicates that there is a negative relationship between perceived ease of use and intention to use online investment platform ( $\beta$  -.032 = p < .652). Therefore, this finding is not significant; hence, H2 is not supported. The third hypothesis (H3) examines whether there is a positive relationship between perceived security and the intention to use online investment platform. Table 4.6 (refer appendix) illustrates that perceived security is significantly and positively correlated to intention to use online investment platform ( $\beta$  .500 = p <0.000). Therefore, H3 is also supported.

The fourth hypothesis (H4) investigates whether there is positive relationship between perceived financial return and intention to use online investment platform. Table 4.6 (refer appendix) presents the findings that suggest perceived financial return and intention to use online investment platform is positively correlated ( $\beta$  .134 = p < 0.027) and is significant at 5% significance level. Therefore, H4 is also supported. The fifth hypothesis (H5) examines whether there is positively relationship between perceived religiosity and intention to use online investment platform. As the results shown in the Table 4.6 (refer appendix), perceived religiosity and intention to use online investment platform is positively correlated ( $\beta$  .077 = p < 0.097) and significant at 10% significance level. Therefore, H5 is also supported. The sixth hypothesis (H6) investigates if there is a positive association between Islamic Worldview. Table 4.6 (refer appendix) illustrates that Islamic worldview is negatively correlated to intention to use online investment platform ( $\beta$  -.037 = p < 0.448). As a result, H6 is not supported.

#### 5. CONCLUSION

The study has revealed that out of the six criteria identified to determine usage of online investment platform; only four criteria supported the hypothesis of the study. It is found that the four variables namely; perceived usefulness, perceived security, perceived financial return and perceived religiosity have a positive relationship with intention to use online investment platform. A surprising but interesting finding is that Islamic worldview indicates to have a negative relationship with usage of online investment platform. This indicates either that (i) some of the respondents do not actually understand the concept of Islamic worldview, or (ii) they understood it very well, hence are more cautious in their business dealings especially where online investment is concerned. All researches have limitations, therefore, the participation of respondents become one the major limitation for this study. The citizens living in this urban city are classified as busy persons, they spend their time wisely, and thus it is hard to find a voluntary person to become respondent for this study. The other limitation of this research is the survey was conducted in English. Most of the respondents claimed that they would prefer to corporate in the survey if was it in Bahasa Malaysia. In this research, there was still some of the factors had not been further studied such as demographic factors. Therefore, the researcher emphasized that future research on the factors that has not been studied to gain better understanding on the usage of online platform. Besides, the researcher also recommends that future research would include testing of the consumers understanding towards Islamic banking product.

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# **APPENDIX**

**Diagram 4.1: Theoretical Framework** 

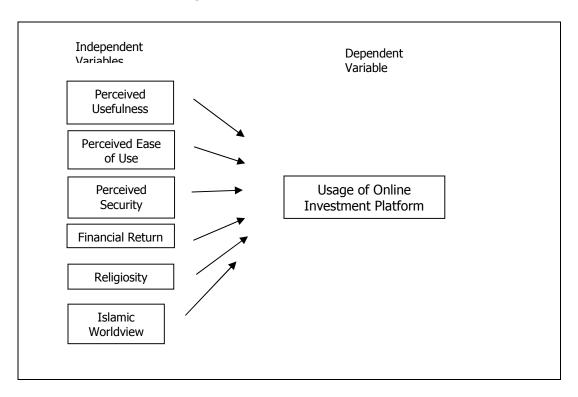


Table 4.2: Factor Analysis on Usage of Online Investment Platform

No.	Items	Factor Loadings
A7	I intend to continue using online investment platform in the future	0.891
A5	I will use online investment platform in the future	0.888
A4	I really like the idea of performing investment via online investment platform	0.861
A3	I am willing to buy and sell investment products through online platform	0.841
A6	If I have access to online investment, I want to use it as much as possible	0.830
Eiger	nvalue 3.721	
Total	Variance Explain 74.41	
Meas	ure of Sampling Adequacy 0.873	
Bartle		
Signi	ficant .000	

Table 4.3: Factor Analysis for the Determinant for the Usage of Online Investment Platform

No.	Items	F1	F2	F3	F4		F5
	Factor 1: Perceived usefulness						
1.	I believe online investment can be very effective and	.839					
	useful						
2.	I believe online investment enable me to complete my	.812					
	transaction activities more conveniently						
3.	I believe online investment would reduce expenses	.806					
	related to investors and stock brokers' fees.						
4.	I believe online investment would save time for me	.781					
5.	I believe online investment makes it easier for me to	.850					
	conduct my online investment transaction						
	Factor 2: Perceived religiosity						
6.	I do not take investment that is involve with riba		.890				
	(interest)						
7.	I do not be involved in investment that has element of		.848				
	gharar (uncertainty)						
8.	I do not take other people's belonging without permission		.806				
9.	I do not undertake investment that involve element of		.761				
	maisir (gambling)						
10.	I do not eat pork		.649				
	Factor 3: Perceived security						
11.	I feel totally safe in providing sensitive information while			.884			
	undertaking online investment.						
12.	I believe that online investment is a secure place to put			.861			
	sensitive information.						
13.	I feel secure while performing online investment			.803			
14.	I believe online investment is a safe place to perform			.785			
	investment.						
	Factor 4: Islamic worldview	T		1	T T		
15.	I understand that the life in the dunya is seen as a				.892		
	preparation for the life in the <i>akhirah</i> .						
16.	I agree that everything in <i>Islam</i> is ultimately focused on				.820		
	the akhirah-aspect however at the same time without						
1.5	neglecting the <i>dunya</i> aspect.				010		
17.	I believe that the worldview of Islam encompasses both				.810		
	al-dunya and akhirah						
	Factor 5: Perceived financial return						
18.	I do not have to pay additional cost (transportation cost,						.841
	stamp duty and etc.) when using online investment.						
19.	I believe that using online is cheaper.						.776
	n Value	5.580			1.380		1.136
	entage of Variance Explain	29.37	22.06	10.31	7.26	:	5.97
	Variance Explained 74.98						
Meas	sure of Sampling Adequacy 0.82						
	ett's Test of Sphericity 2998.114						
Sign	ificant 0.0000						

Table 4.4: Reliability Analysis on Variables of the Study

Construct	Variables	No. of Items	Cronbach's alpha
Usage	Intention to use online investment platform	7	0.918
Perceived usefulness	Perceived usefulness	4	0.896
Perceived ease of use	Perceived ease of use	5	0.897
Perceived security	Perceived security	7	0.886
Perceived financial return	Perceived financial return	5	0.817
Perceived religiosity	Perceived religiosity	9	0.855
Islamic worldview	Islamic worldview	7	0.816

Table 4.5: The variables for Mean and Standard Deviation in the Study

Variables	Mean	Standard Deviation
Intention to using online investment platform	2.6122	0.7677
Perceived usefulness	2.2195	0.757
Perceived ease of use	2.4740	0.7388
Perceived security	2.9088	0.7461
Perceived financial return	2.2894	0.6134
Perceived religiosity	1.4679	0.4782
Islamic worldview	1.6823	0.5136

Table 4.6: Pearson Correlation Matrix of Study Variables (N=246)

	Variables	1	2	3	4	5	6	7
1	Perceived usefulness	1						
2	Perceived ease of use	.723**	1					
3	Perceived security	.467**	.612* *	1				
4	Perceived financial return	.649**	.616* *	.522*	1			
5	Perceived religiosity	.122	.106	.010	.110	1		
6	Islamic worldview	.291**	.204*	.171*	.290*	.379*	1	
7	Intention to use online investment platform	.588**	.568* *	.681* *	.562* *	.115	.195*	1

<sup>\*\*.</sup> Correlation is significant at the 0.01level (2-tailed)

Table 4.7: Regression Analysis of the Independent Variables with Intention to Use Online Investment Platform (Dependent Variable)

Dependent Variable	Independent Variable	Std. Coefficient Beta (β)	Sig.
	Perceived usefulness	.292*	.000
	Perceived ease of use	032	.652
Usage of Online Investment	Perceived security	.500*	.000
platform	Perceived financial return	.134**	.027
	Perceived religiosity	.077***	.097
	Islamic worldview	037	.448
	$R^2$	.571	
	Adjust R <sup>2</sup>	.560	
	Sig. F	52.98*	

Note: Significant level \*1%, \*\*5%, \*\*\*10%

# PERFORMANCE OF ISLAMIC REAL ESTATE INVESTMENT TRUSTS AROUND DIVIDEND ANNOUNCEMENT DAY

Hairulnizam Hashim<sup>1</sup> Mohd Faizal Kamarudin<sup>2</sup> Nurul Ainun Ahmad Atory<sup>3</sup>

#### **ABSTRACT**

Real estate investment trusts (REITs) have been traditionally able to attract investors because of their relatively low risks and high dividend yields. This study analyzes the effect of dividend announcements on share prices among listed Islamic REITs (i-REITs) in Malaysia. It is also analyzes the general perception of the investors with a belief that share prices are favourable with the increase dividend announcement, while neutral or unfavourable with unchanged or decrease dividend announcement. The sample of 38 dividend announcements throughout 2007 to 2012, which comprises of 19 increased and 19 decreased dividend announcement respectively among three i-REITs have been analyzed upon thirty (30) days event window (t-15 days, t+15 days). This study discovers that generally there are significant positive dividends announcements affect on i-REITs. Specifically, this study establishes significant positive effects on increased dividend announcements, while insignificant effect for decreased dividend announcements for i-REITs.

Keywords: Islamic Real Estate Investment Trusts (i-REITs), dividend announcement effect

#### 1. INTRODUCTION

Real estate investment trust (REIT) is a trust that manages a pool of fund from numerous investors to be invested in the real estate or real estate-related assets beside distributing the dividends to the unit-holders on regular basis (James, 2006; Ling & Archer, 2005). The income producing real estate assets owned by a REITS possibly will include office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, warehouses, mortgages or loans.

In general, there are three (3) main types of REITs, which are equity REITs, mortgage REITs and hybrid REITs (Ling & Archer, 2005). The equity REITs are involved in investing and managing diversified or specialized income generating properties. The mortgage REITs are involved in acquiring mortgage debt that secured by commercial properties and effectively as real estate lenders. Hybrid REITs are involved in investing in both properties operations and mortgages loans. In addition, in order to accommodate Muslim investors, Malaysia introduced Islamic REITs (i-REITs) in the year 2005, which comes under the category of equity REITs (Malaysian Securities Commission, 2005). The i-REITs invest in real estate, in which the tenants operate permissible activities according to Syariah rules or at least 80% must be permissible (Ting & Abdul Rahman, 2007). In most cases, an Islamic insurance coverage or Takaful must apply as part of the prerequisites. i-REITs must also appoint Syariah committee.

The distribution of income, although similar with those of conventional REITs where it should only be made from realized gains or realized income, for i-REIT these income must be earned from Syariah compliant activities or from the activities within the 20% benchmark. This benchmark is used to assess the level of contribution from mixed rental payment from non-Syariah compliant activities such as the rental payment from premises that are involved or dealing with gambling and sales of liquor.

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The initiation of establishing REITs is to allow small investors to invest in income yielding commercial properties, which are normally dominated by rich investors and big institutions (Imperiale, 2002). Further, REITs could offer better diversification of property portfolios because the qualified real estate professionals are engaged in administering them (EPRA, 2004). As a substitute of investing in real estate development, private schemes might purchase equity in REITs, and therefore keep away from some of the direct risks of investing in property, for example construction and credit risks (Mutero, 2011).

Even though there are unlisted REITs, a majority of REITs are listed or exchange-traded. Thus, REITs provide higher liquidity as compared to physical property, which is hard to liquidate (James, 2006). Moreover, REITs provide high dividend distribution policy to their unit holders which is generally more than 90% of their taxable income (Jones Lang LaSalle, 2005/2006). Advantages of REITs may create strong demand to investors (Coskun, 2011).

REITs have been traditionally able to attract investors because of their relatively low risks and high dividend yields. Indeed, the high dividend yield of REITs is the main reason investors invest in the REIT market. REITs returns are composed of both price appreciation and rental yield from real estate. The rental component forms a significant portion of REITs return. Income streams from real estate are more predictable and relatively low in volatility compared to changes in capital values. The low volatility coupled with the high payout in the form of dividends adds a bond-like feature to REITs. However, rental incomes from investment properties are cyclical and may come under pressure during distress economic conditions.

The effects of dividend announcement have positive and negative effects in different ways. There is a positive abnormal return as the motivating factors that lead to dividend increase announcement with share price. Some of them have been given as to the result of the link between dividend payout and cash flow volatility, which leads to negative effect. Much is given to the expected outcome dividend, however, little is known as to the actual result of the i-REIT prices reactions at the dividend announcement in Malaysia. Thus, this study intent to analyze the effects of general, increased, decreased and unchanged dividend announcement on i-REITs.

#### 2. LITERATURE REVIEW

REITs were established in the United States (US) in the early 1960s. In Malaysia, the legislation to permit the formation of listed property trusts (LPT), which similar to REIT was the first to be introduced in Malaysia among Asian countries. Arab Malaysian First Property Trust (AMFPT) being listed on Kuala Lumpur Stock Exchange (currently known as Bursa Malaysia) as the first LPT on August 28, 1989 (Ahmad Husni, Mohammad Badri, & Izah, 2010).

By the end of the 1990s, there are four LPTs on the KLSE, with the second LPT, First Malaysian Property Trust (FMPT) that was established in November 23, 1989 and third LPT, Amanah Harta Tanah PNB (AHTP), which was launched in December 28, 1990 and followed by Mayban Property Trust Fund One (MPTF1), which was listed on March 25, 1997. However, after listed for thirteen years, FMPT ceased listing on July 2002.

At the end of April 2005, there were only three LPTs left on Bursa Malaysia, which are, AmFirst Property Trust (formerly Arab Malaysian First Property Trust), Amanah Harta Tanah PNB and Amanah Harta Tanah PNB 2. In 2005, Securities Commission introduced new guidelines on REITs, and the term LPT is renamed as REIT to standardize the term with other countries. The first Malaysian REIT (M-REIT) known as Axis REIT was subsequently listed on Bursa Malaysia. As at 31<sup>st</sup> Dec 2011, they are 14 M-REITs listed in Bursa Malaysia including 11 M-REITs are the Conventional REITs and another three (3) Islamic REITs.

Al-Aqar Healthcare REIT and Al-Hadharah Boustead REIT were the earlier i-REITs to be introduced in Malaysia in 2006 and 2007 respectively, followed by Axis REIT which was transformed from conventional REIT into i-REIT on December 2008. Al-Aqar Healthcare REIT, being the first i-REIT in the world and Al-Hadharah Boustead REIT, being the first Islamic plantation REIT in the world. Both the Al-Aqar KPJ REIT and Al-Hadharah Boustead REIT rank amongst the top three REIT in Malaysia in terms of dividend yield.

Since i-REITs growing are relevance, as investment instrument, study needs to be conducted to evaluate the current performance of i-REITs in relative to the global and broader equity market. Moreover, given that i-REITs are dividend yield based investment, whereby dividend yields are more significant than capital appreciation, increasing global and domestic inflation levels might have cast doubt on M-REITs as worthwhile investments. The increasing inflationary pressure in the recent years has mounted onto the effectiveness of M-REITs serving as a hedging tool for investors. The key to invest in REITs successfully is to know the sustainability and potential of their rental income, the management integrity and their intention and competency to improve and grow their rental properties.

Since the i-REITs market are undergoing a period of rapid development and expansion in order to position itself as an emerging REIT market in the region, this study is utmost vital as it provides all potential investors with a broader and deeper understanding on the nature and the development of i-REITs market in the past, present and future.

Dividend policy is relevant for portfolio considerations because of the likely impact on the risk-return characteristics of individual stocks. Wang, Erickson and Gau (1993) examined the dividend policies of 123 REITs in US between 1985 and 1988. They found that equity REITs pay a significant higher portion of their incomes as dividends than mortgage REITs. The authors also observed that REITs often pay out more dividends than are required by tax regulations, which suggests that their dividend decisions are dictated by imperfect information in the real estate market and the resulting agency costs (Wang, Erickson, & Gau, 1993).

Dividend payments can serve as market signals, conveying asymmetric information regarding the firm's future earnings (Aharony & Swary, 1980). Wang, Erickson and Gau (1993) found that REITs on average pay 165% of their taxable income. Wang, Erickson and Gau (1993) find an abnormal return on dividend increase announcements of 0.66% for equity REITs and 0.38% for mortgage REITs. For dividend decreases, the authors reported corresponding figures of -1.9% and -0.11%.

McDonald, Nixon and Slawson (2000) determine that dividend announcements provide information for equity REITs and smaller size REITs, but no information significance for larger size REITs. The effect of asymmetric information is more prominent around funds from operations (FFO) announcements than other announcements of performance. This suggests that investors process FFO announcements differently than other information. Any problems created from adverse selection are more than offset by the amount of uninformed traders (McDonald, Nixon, & Slawson, 2000).

#### 3. THE MODEL AND METHODOLOGY

There are two models that might explain the findings of this study, which are Efficient Market Hypothesis (EMH) and Dividend Expectation Model.

An efficient market defined as a market in which prices of all securities quickly and fully reflect all information about the securities. For example, when a company announces a significant increase in earnings, price will reflect this information and price will increase immediately. If the price adjustment is slow or less accurate, the market said to be not an efficient market. According to Fama (1970), an 'efficient' market is defined as a market where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants. In an

efficient market, competition among the many intelligent participants leads to a situation where, at any point of time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events, which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value (Fama, 1970).

Efficient Market Hypothesis (EMH) as one in which all information is reflected quickly and correctly in stock prices. The main variables assessing market efficiency is information. When prices adjust quickly and correctly to new information, investors are notable to use the information to earn abnormal return because it is already compounded in prices.

To examine empirically the adjustment of common stock prices to dividend announcements, a measure of unexpected change in dividends first must be derived. The dividend expectation model used in this study, which a dividend announcement is considered favorable if  $\hat{D}_{i,d} > D_{i,d-1}$ , neutral if

$$\hat{D}_{i,d} = D_{i,d-1}$$
 and unfavorable if  $\hat{D}_{i,d} < D_{i,d-1}$ .

where:

 $\hat{D}_{i,d}$  = expected dividend per share for the j-th firm in the d-th distribution and

 $D_{i,d-1}$  = actual dividend per share announced by the firm.

Managers do not change dividend payments unless they have reasons to expect a significant change in the future prospects of the firm (Aharony & Swary, 1980). Hence, an increase in dividends should signal a favourable change in managers' expectations, whereas a decrease in dividends should indicate a pessimistic view of the firm's future prospects.

The dividend announcements data collected from company announcement in Bursa Malaysia's website. Day *t* is defined as the day on which the firm announces its interim and final dividend and the same announcement appears in the Bursa Malaysia website. There are 41 dividend announcements from 2007 to 2012 for three i-REITs listed in Bursa Malaysia (see Appendix B). The first dividends after listed or being transformed into i-REIT are not included in this study. Thus, there are 38, 19 and 19 announcements of general, increased and decreased dividend respectively (see Appendix A).

Meanwhile, price of i-REITs and Kuala Lumpur Composite Index (KLCI) as a proxy for returns on the market portfolio data are gathered from klse.info and Yahoo Finance website respectively. Data collected based on their daily data 15 days before and after announcement dates (31 days event window). The different  $\pm$ 0 days from the study by Aharony and Swary (1980) which using 21 days event window with  $\pm$ 10 days and  $\pm$ 10 days is to observe if there are longer effect before and after the dividend announcement since REITs is supposedly to be stable investment instrument. Returns for each company announcing multiple dividends for 31-day event window have been calculated. Market returns for the same event window are also calculated. Formula for calculating returns from i-REITs prices or KLCI,  $R_{i,t}$  is as follows:-

$$R_{j,t} = \frac{(P_{j,t} - P_{j,t-1})}{P_{j,t-1}}$$

Where:

 $P_{j,t}$  = price of a specific i-REIT or KLCI, j over time t

 $P_{i,t-1}$  = price of a specific i-REITor KLCI, j over time t-1

To find out abnormal returns for companies, difference of both returns, for each day of event window, has been calculated as shown in formula:

$$AR = R_{it} - E(R_{it})$$

Where AR, represents abnormal returns,  $R_{it}$  represents returns for REIT stock i on event day t, and  $E(R_{it})$  is expected return.

Base on Market Model, expected return,  $E(R_{it})$  is given by following equation:

$$E(R_{it}) = \alpha + \beta iRm + e_{it}$$

Where:

 $R_{it}$  = the rate of return on i-REIT, i over period t, which is one day;

Rm = the rate of return on the equally weighted market index;

 a = the intercept of the linear relation for the return on i-REIT, i and the return on the market index;

B = the slope of the linear relation between the return on i-REIT, i and the return on the market index; and

 $e_{it}$  = the unsystematic component of i-REIT's return on day t.

The error term, **e** it can be considered a measure of the abnormal return of i-REITs, i on day t since it represents the deviation of i-REIT's return from its expected return, conditional upon the realized return on the market portfolio.

The abnormal return for each security / at time t is given by the following equation:

$$e_{it} = E(R_{it}) - \alpha - \beta_i Rm$$

where  $\alpha$  and  $\beta$  are obtained using 31 daily returns from day t-15 so to day t+15.

The market model is applied to all stocks in the sample and abnormal returns  $(AR_{it})$  are calculated for each day relative to the announcement day.

The average abnormal return on a time t, AAR, has been calculated as follows:

$$AAR_{t} = \frac{1}{N} \sum AR_{i,t}$$

Where;

 $AR_{i,t}$  = abnormal return of a REIT, i over a day t

N = number of dividend announcement over a specific time t

t = t-15...t+15

Then, average cumulative abnormal return on a cumulative period t,  $ACAR_t$  has been computed as follows:

$$ACAR_{t} = \frac{1}{N} \sum CAR_{i,t}$$

Where;

 $CAR_{it}$  = cumulative abnormal return of a REIT *i* over a cumulative period *t* 

N = number of dividend announcement over a specific period t

t = t-15...t+15

T-test has been applied on AAR and CAAR respectively to find out its significance. Formulas for calculating t values of AAR and CAAR respectively are:

$$t = \frac{AAR_t}{\left(\sigma/\sqrt{N}\right)}$$

and

$$t = \frac{CAAR_t}{\left(\sigma/\sqrt{N}\right)}$$

The standard deviation,  $\sigma$  is calculated as follows:

$$\sigma = \sqrt{\Sigma (x-xi)^2/(N-1)}$$

Moreover, t-test is also applied to test the statistical significance of the cumulative abnormal returns (where the significance level is 0.01).

# 4. FINDINGS AND ANALYSIS

Figure 4.1 and Figure 4.2 show performance of i-REITs around general dividend announcement throughout 2007 to 2012 in term of AAR and ACAR respectively. The charts show significant effect around dividend announcement day t. This can be evidenced by Appendix C, which shows that AAR for i-REITs at t+1 and t+2 are significantly positive at 90% confidence level (AAR= 0.6%, t-value= 1.9231\*) and at 95% confidence level (AAR= 0.42%, t-value= 2.3100\*\*). Moreover, the ACAR are significantly positive at 95% confidence level from t+2 (ACAR= +2.5%, t-value= 2.2156\*\*) to t+6 (ACAR= +2.88%, t-value= 2.5175\*\*) and is significantly positive at 99% at t+7 (ACAR= +3.22%, t-value= 2.8419\*\*\*). These ACAR continue to show significant positive at 90% confidence level until at t+12 (ACAR= +1.95%, t-value= 2.0049\*).

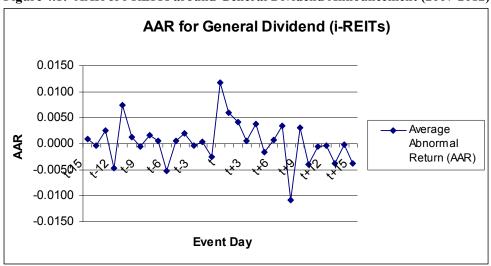


Figure 4.1: AAR of i-REITs around General Dividend Announcement (2007-2012)

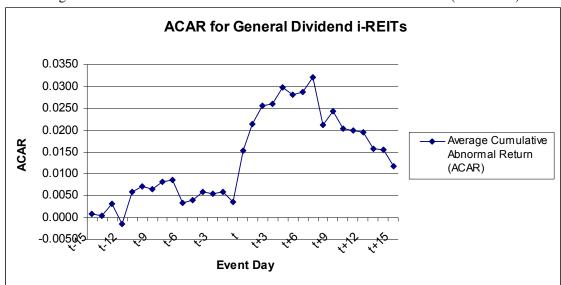


Figure 4.2: ACAR of i-REITs around General Dividend Announcement (2007-2012)

Figure 4.3 and Figure 4.4 show performance of i-REITs around increased dividend announcement throughout 2007 to 2012 in term of AAR and ACAR respectively. The charts show significant effect around dividend announcement day t. This can be evidenced by Appendix D, which displays that AAR for i-REITs at t+2 are significantly positive at 95% confidence level (AAR= 0.67%, t-value= 2.8148\*\*). Moreover, the ACAR are significantly positive at 95% confidence level from t+5 (ACAR= +3.79%, t-value= 2.0967\*\*) to t+7 (ACAR= +3.96%, t-value= 2.2696\*\*). These ACAR continue to show significant positive at 90% confidence level from t+9 (ACAR= +2.89%, t-value= 1.8703\*) until t+11 (ACAR= +2.83%, t-value= 1.9965\*).

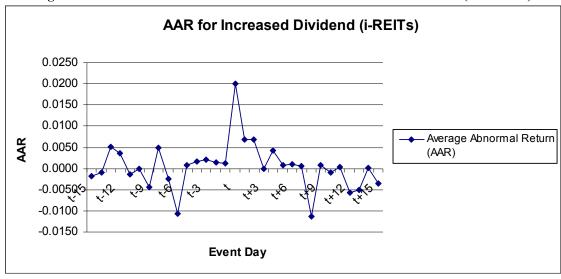


Figure 4.3: AAR of i-REITs around Increased Dividend Announcement (2007-2012)

ACAR for Increased Dividend (i-REITs)

0.0500
0.0400
0.0300
0.0100
0.0100
0.0100
0.0100
0.0100
0.0200
Event Day

Figure 4.4: ACAR of i-REITs around Increased Dividend Announcement (2007-2012)

Figure 4.5 and Figure 4.6 show performance of i-REITs around decreased dividend announcement throughout 2007 to 2012 in term of AAR and ACAR respectively. The charts show insignificant effect after dividend announcement day, t. This can be evidenced by Appendix E, which AAR shows insignificant value from announcement day, t to t+6 and ACAR indicates insignificant value from t-3 to t+15. However, AAR for i-REITs at t+8 and t+10 are significantly negative at 95% confidence level (AAR=-1.04%, t-value=-2.7502\*\*) and (AAR=-0.69%, t-value=-2.6432\*\*) correspondingly.

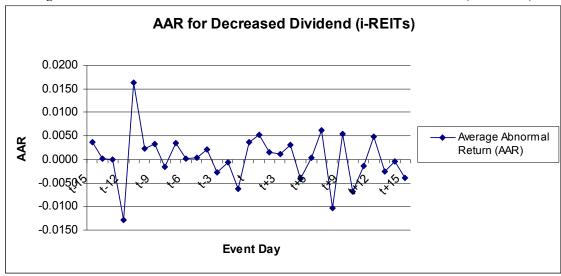


Figure 4.5: AAR of i-REITs around Decreased Dividend Announcement (2007-2012)

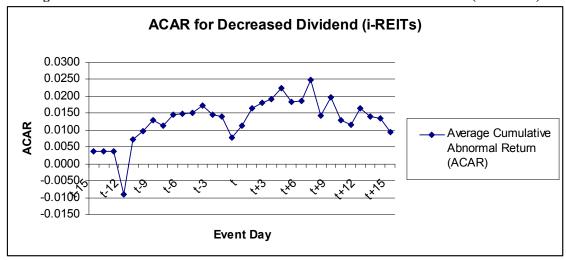


Figure 4.6: ACAR of i-REITs around Decreased Dividend Announcement (2007-2012)

# 5. CONCLUSION AND RECOMMENDATIONS

This study aims to find out the effects of dividend announcements on i-REITs. Based on the previous studies, it is hypothesized that dividend announcements positively affect the share prices. People buy more of the shares in market REITs when expecting higher future returns announce more dividends by the companies of REIT. Dividends are commonly used as a signal of company's performance by the investor. The impact of dividend announcements on share prices was to be in the direction of dividend announcements. When dividend announced is greater than the expected dividend, i-REITs prices tend to increase and vice versa.

The AAR and CAAR were calculated for the 31 days event window (-15 days, +15 days) before and after the dividend announcement by the i- REITs. T-test has been applied to calculate the significance level for all announcements of i-REITs. On analyzing the general and increased dividend announcements from 2007 to 2012, this study found significant positive effect.

Based on Efficient Market Hypothesis (EMH) model, generally, the market for i-REITs are not efficient at semi-strong form since some investors can earn abnormal profit from the dividend announcements. This indicates that the public information on i-REITs is not well disseminated among investors. Meanwhile, the findings also support the Dividend Expectation Model, where investors are optimistic when the current dividend payout is higher than the previous dividend payout. The increased dividend announcement generates favourable surroundings among investors, which consistent with findings found by Wang, Erickson and Gau (1993).

However, for decreased dividend announcement, the results show an insignificant effect. The Dividend Expectation Model might not explain well this finding, where the decreased dividend announcements only create neutral environment among investors. This might be due to higher confidence level among investors on property capital appreciation and the stability of property rental business of i-REITs.

There are a number of implications of this study. This study contributes to the body of knowledge in supporting the EMH and Dividend Expectation Model, except for decreased dividend announcements, which might not explain for i-REITs market. Moreover, the policy makers should improve the process of information dissemination to increase the market efficiency of i-REITs market at semi-strong form. The findings from this study also very useful to more updated investors, where they can earn abnormal profit from dividend announcement especially for increased dividend announcement.

This study employs KLCI as a benchmark for Malaysia market in finding the abnormal return. Thus, it is recommended for future study to use Syariah Index as market benchmark in explaining Islamic capital market.

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**Appendix A: Number of Dividend Announcements from 2007-2012** 

Company	No of announcement							
Company	2007	2008	2009	2010	2011	2012	Increase	Decrease
Axis-REIT*	0	0	4	4	5	4	8	9
Al-Aqar KPJ REIT	2	1	2	2	2	2	6	5
Al-Hadharah Bousted REIT	0	2	2	2	2	2	5	5
Total	2	3	8	8	9	8	19	19

<sup>\*</sup>Axis REIT was transformed from conventional REIT into i-REIT on December 2008

Appendix B: Dividend announcements for i-REITs from 2006 to 2012

Company	Announcement Date	Dividend (sen)	Dividend Change	EX-Date	Entitlement Date
	1/6/2012	3.26	Increase	27/06/2012	29/06/2012
	24/02/2012	2.52	Decrease	21/03/2012	23/03/2012
	15/09/2011	5.2	Increase	12/10/2011	14/10/2011
	28/02/2011	3.3	Decrease	23/03/2011	25/03/2011
	1/6/2010	4.42	Increase	28/06/2010	30/06/2010
Al-Aqar	3/2/2010	3.8	Increase	23/02/2010	25/02/2010
Healthcare REIT	31/07/2009	2.8	Increase	19/08/2009	21/08/2009
	3/3/2009	1.5	Decrease	18/03/2009	20/03/2009
	25/02/2008	1.82	Decrease	7/3/2008	11/3/2008
	30/11/2007	1.86	Decrease	27/12/2007	31/12/2007
	3/7/2007	2.72	Increase	1/8/2007	3/8/2007
	29/12/2006	2.7	-	30/01/2007	2/2/2007
	22/10/2012	4.3	Decrease	2/11/2012	6/11/2012
	23/07/2012	4.4	Increase	2/8/2012	6/8/2012
	16/04/2012	4.3	Increase	26/04/2012	30/04/2012
	16/01/2012	1.4	Decrease	30/01/2012	2/2/2012
	18/11/2011	2.8	Decrease	1/12/2011	5/12/2011
	17/10/2011	4.3	Decrease	28/10/2011	1/11/2011
	25/07/2011	4.5	Increase	4/8/2011	8/8/2011
	28/04/2011	4.2	Decrease	11/5/2011	13/05/2011
Axis REIT	17/01/2011	5.3	Increase	31/01/2011	7/2/2011
AXIS KEII	26/08/2010	3.1	Decrease	8/9/2010	13/09/2010
	19/07/2010	4	Increase	30/07/2010	3/8/2010
	20/04/2010	3.7	Decrease	30/04/2010	4/5/2010
	20/01/2010	5	Increase	2/2/2010	4/2/2010
	24/08/2009	2.8	Decrease	4/9/2009	8/9/2009
	20/07/2009	4.1	Increase	31/07/2009	4/8/2009
	20/04/2009	3.9	Decrease	4/5/2009	6/5/2009
	22/01/2009	7.9	Increase	6/2/2009	11/2/2009
	4/8/2008	6.7	-	15/08/2008	19/08/2008

	15/08/2012	4.5	Decrease	29/08/2012	3/9/2012
	27/01/2012	8	Increase	13/02/2012	15/02/2012
	9/8/2011	4	Decrease	19/08/2011	23/08/2011
	26/01/2011	6.2	Increase	10/2/2011	14/02/2011
Al	13/08/2010	3.8	Decrease	25/08/2010	27/08/2010
Hadarah Boustead	29/01/2010	5.6	Increase	11/2/2010	17/02/2010
REIT	23/07/2009	3.7	Decrease	13/08/2009	17/08/2009
	30/01/2009	7.3	Increase	13/02/2009	17/02/2009
	6/8/2008	3.7	Decrease	18/08/2008	20/08/2008
	29/01/2008	7.2	Increase	13/02/2008	15/02/2008
	5/7/2007	3.7	-	17/07/2007	19/07/2007

Appendix C: Performance of i-REITs around General Dividend Announcement (2007-2012)

T-Test	Average Abnormal Return (AAR)	T-Values AAR	Average Cumulative Abnormal Return (ACAR)	T-Values ACAR
t-15	0.0009	0.5939	0.0009	0.5939
t-14	-0.0004	-0.2263	0.0005	0.2168
t-13	0.0026	1.0363	0.0031	0.9114
t-12	-0.0046	-0.6846	-0.0015	-0.2003
t-11	0.0075	0.8085	0.0059	1.1806
t-10	0.0012	0.6095	0.0071	1.3463
t-9	-0.0006	-0.2781	0.0065	1.1873
t-8	0.0016	0.6586	0.0081	1.2127
t-7	0.0005	0.2561	0.0086	1.2150
t-6	-0.0052	-1.0494	0.0034	0.5018
t-5	0.0005	0.4194	0.0039	0.5283
t-4	0.0019	0.9591	0.0058	0.7983
t-3	-0.0004	-0.1560	0.0055	0.6224
t-2	0.0004	0.2223	0.0059	0.7496
t-1	-0.0024	-1.2520	0.0035	0.4071
t	0.0118	1.5406	0.0153	1.4394
t+1	0.0060	1.9231*	0.0213	1.9126
t+2	0.0042	2.3100**	0.0255	2.2156**
t+3	0.0006	0.2779	0.0260	2.1144**
t+4	0.0037	1.6148	0.0298	2.4617**
t+5	-0.0017	-0.9165	0.0281	2.3079**
t+6	0.0007	0.2596	0.0288	2.5175**
t+7	0.0034	1.9831*	0.0322	2.8419***
t+8	-0.0109	-3.4962***	0.0212	1.8277*
t+9	0.0031	1.3045	0.0243	2.2223**
t+10	-0.0039	-1.3671	0.0204	1.9440*

t+11	-0.0005	-0.2703	0.0199	1.9261*
t+12	-0.0004	-0.1973	0.0195	2.0049*
t+13	-0.0038	-1.7224*	0.0157	1.6422
t+14	-0.0001	-0.0607	0.0156	1.5545
t+15	-0.0038	-1.3319	0.0118	1.1983

Appendix D: Performance of i-REITs around Increased Dividend Announcement (2007-2012)

T-Test	Average Abnormal Return (AAR)	T-Values AAR	Average Cumulative Abnormal Return (ACAR)	T-Values ACAR
t-15	-0.0018	-0.8270	-0.0018	-0.8270
t-14	-0.0009	-0.3051	-0.0027	-0.7191
t-13	0.0052	1.6121	0.0025	0.4582
t-12	0.0035	2.0544	0.0061	0.9889
t-11	-0.0015	-0.5099	0.0046	0.6265
t-10	0.0000	-0.0098	0.0046	0.5709
t-9	-0.0043	-1.3925	0.0002	0.0321
t-8	0.0048	1.1299	0.0051	0.5123
t-7	-0.0025	-0.9808	0.0026	0.2567
t-6	-0.0106	-1.0891	-0.0081	-0.9146
t-5	0.0007	0.4969	-0.0074	-0.7579
t-4	0.0017	0.6040	-0.0056	-0.5158
t-3	0.0021	0.5449	-0.0035	-0.2511
t-2	0.0015	0.3909	-0.0021	-0.1725
t-1	0.0013	0.6795	-0.0008	-0.0607
t	0.0200	1.3388	0.0193	1.1583
t+1	0.0069	1.4452	0.0262	1.5229
t+2	0.0067	2.8148**	0.0329	1.8740*
t+3	-0.0001	-0.0245	0.0328	1.6914
t+4	0.0043	1.0269	0.0371	1.9832*
t+5	0.0008	0.3314	0.0379	2.0967**
t+6	0.0010	0.3470	0.0390	2.1926**
t+7	0.0006	0.3950	0.0396	2.2696**
t+8	-0.0114	-2.2518**	0.0281	1.6756
t+9	0.0007	0.2253	0.0289	1.8703*
t+10	-0.0009	-0.1820	0.0280	1.9321*
t+11	0.0003	0.1306	0.0283	1.9965*
t+12	-0.0056	-2.0237*	0.0226	1.5959
t+13	-0.0051	-1.3934	0.0175	1.2008
t+14	0.0002	0.0487	0.0177	1.1212

<sup>\*\*</sup> Significant at 0.01 level or 99% confidence level \*\* Significant at 0.05 level or 95% confidence level \*\*\* Significant at 0.10 level or 90% confidence level

t+15	-0.0036	-0.7807	0.0141	0.9001
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<sup>\*\*</sup> Significant at 0.05 level or 95% confidence level \* Significant at 0.10 level or 90% confidence level

Appendix E: Performance of i-REITs around Decreased Dividend Announcement (2007-2012)

T-Test	Average Abnormal Return (AAR)	T-Values AAR	Average Cumulative Abnormal Return (ACAR)	T-Values ACAR	
t-15	0.0036	1.8272*	0.0036	1.8272*	
t-14	0.0001	0.0796	0.0037	1.2409	
t-13	-0.0001	-0.0234	0.0036	0.8938	
t-12	-0.0128	-0.9606	-0.0091	-0.6508	
t-11	0.0164	0.8980	0.0072	1.0324	
t-10	0.0024	0.8689	0.0096	1.3712	
t-9	0.0032	1.4856	0.0129	1.5817	
t-8	-0.0017	-0.8112	0.0112	1.2069	
t-7	0.0034	1.3528	0.0146	1.4513	
t-6	0.0002	0.1244	0.0148	1.5244	
t-5	0.0004	0.1755	0.0152	1.3992	
t-4	0.0021	0.7356	0.0173	1.8569*	
t-3	-0.0028	-1.1702	0.0145	1.3719	
t-2	-0.0006	-0.4164	0.0139	1.3476	
t-1	-0.0062	-1.9217*	0.0077	0.6435	
t	0.0036	1.0819	0.0114	0.8310	
t+1	0.0051	1.2321	0.0165	1.1288	
t+2	0.0016	0.5995	0.0181	1.1925	
t+3	0.0012	0.6521	0.0193	1.2383	
t+4	0.0032	1.5142	0.0224	1.4328	
t+5	-0.0042	-1.4978	0.0183	1.1087	
t+6	0.0003	0.0683	0.0185	1.2829	
t+7	0.0062	2.0770*	0.0248	1.6825	
t+8	-0.0104	-2.7502**	0.0144	0.8763	
t+9	0.0054	1.6013	0.0198	1.2457	
t+10	-0.0069	-2.6432**	0.0129	0.8348	
t+11	-0.0013	-0.4429	0.0116	0.7604	
t+12	0.0048	1.7790*	0.0164	1.1980	
t+13	-0.0025	-0.9872	0.0139	1.0886	
t+14	-0.0005	-0.4216	0.0134	1.0536	
t+15	-0.0039	-1.1621	0.0095	0.7686	

<sup>\*\*</sup> Significant at 0.05 level or 95% confidence level \* Significant at 0.10 level or 90% confidence level

# IMPORTANCE OF ENVIRONMENTAL DISCLOSURE: DIFFERENCES IN PERCEPTIONS BETWEEN MUSLIM AND NON-MUSLIM FUND MANAGERS

Ridzwana Mohd Said<sup>1</sup> Maliah Sulaiman<sup>2</sup> Nik Nazli Nik Ahmad<sup>3</sup>

#### **ABSTRACT**

The objective of this study is to examine the differences in perceptions between Muslim and non-Muslim fund managers concerning the usefulness of environmental information in investment decisions. A questionnaire survey was used and 59 responses were received. No differences were found in perception between Muslim and non-Muslim fund managers regarding various companies' environmental attributes and types of environmental information. This implies that the Islamic worldview is not reflected in the perception of Muslim fund managers. Thus, the present study makes a significant contribution to environmental reporting research, companies and practitioners in Malaysia particularly from the context of accountability in Islam.

**Keywords:** Environmental information, perception, fund managers, Islam, accountability

#### 1. INTRODUCTION

Nowadays, businesses have been forced to rethink their responsibilities towards various stakeholders particularly after the world top companies scandals such as Enron, Worldcom, and Nike (Ehsan and Kaleem, 2012). The corporate scandals indeed have served as the "wake up" calls for the entire organization to be more responsible towards society (Janggu et al., 2007). Therefore, there is a growing trend of CSR practice around the world. Although CSR practices are commendable, it costs companies time, energy and money (Saleh et al., 2011). Accordingly, the information should be of value to corporate preparers and stakeholders. While a plethora of studies on perceived usefulness of social information has been carried out for decades, to the knowledge of the researchers, a study that specifically focuses on Muslims' perceptions concerning social information has not been found. Thus, the present study examines the difference in perceptions concerning the usefulness of environmental information in decision-making between Muslim and non-Muslim fund managers.

The study has one significant contribution. It includes the aspect of religion, specifically, Islam, which is lacking in the current environmental accounting literature. Additionally, studies on accountability in Islam are very limited. Most prior studies were developed from the Western worldview in which the concept of accountability is different from that of the Islamic point of view. While the present study will examine the usefulness of environmental information between Muslim and non-Muslim fund managers, it does not assert that non-Muslim stakeholders are less accountable than Muslim fund managers. The tests will only be examined on the degree of importance as perceived by Muslim in comparison with non-Muslim stakeholders. Muslims are expected to adopt a more comprehensive approach to decision-making.

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#### 2. DIFFERENCES BETWEEN MUSLIM AND NON-MUSLIM STAKEHOLDERS

A few scholars (such as, Baydoun and Willett, 2000; Haniffa and Hudaib, 2002; Maliah and Willett, 2003) have proposed Islamic Corporate Reporting that can fulfil the needs of wider stakeholders. Generally, the scholars agree that the main criteria in Islamic Corporate Reporting are social accountability and full disclosure of information. Companies need to be transparent through reporting full disclosure of information to wider stakeholders. Apart from profit and loss statement, balance sheet and cash flow statement, companies are required to report information on social performance activities, which includes information about environmental management or protection. This information is important to stakeholders, be they Muslims or non-Muslims, in assisting them in making economic and religious decisions (Haniffa and Hudaib, 2002).

In Islam, the concept of accountability is a dual accountability: accountability to God and to God's creations (Shahul, 2000). The Islamic accountability concept can be discussed from two different views. First, an organization is a social partner in the wider society. The management of the company acts as a trustee of capital providers and, thus, is responsible to carry out business ethically in a manner that will not impair the well being of the community. Responsibility of the management also includes accountability to disclose information in assisting users to make decisions (Haniffa and Hudaib, 2002). Thus, financial as well as social information, including environmental information, should be reported to the users (Haniffa and Hudaib, 2002).

Second, the Islamic concept of accountability indicates that each Muslim should realize his role as vicegerent in all situations. Man is not made without purpose and it is such a purpose that gives meaning to God's creation (Maliah, 2005). Thus, man is accountable for his actions (inactions), which will be accounted for in the hereafter and this includes every decision he makes.<sup>4</sup> Accountability of man is not restricted to the accountability to God but also accountability to God's other creatures including humankind, animals and the environment. Man is accountable to secure the welfare and sustainability of the environment as referred to by Samarai (1997) that the earth is for the betterment and development and not for misuse of God's given resources.

A few studies were identified that examine the extent that culture, race and religion influence decisions made by groups of stakeholders. Ramasamy et al., (2007) examined the relationship between corporate social performance and ethnicity, which is whether the ethnicity of the chief executives influence the way they formulate and implement the socially responsible policies and programmes of the organizations. The results indicate that organizations with Malay<sup>5</sup> chief executives reflect higher corporate social performance levels than organizations with Chinese chief executives. The authors believe that religious upbringing may play an important factor that contributes to the difference. Additionally, another study by Asma and Lim (2001) found that among the three major ethnic groups in Malaysia, Malay managers have a more positive attitude towards religion and their work ethics are strongly attached to their religious beliefs. This indicates that Islam has a deep influence on the attitudes and behaviour of Muslims when their behaviour is guided to comply with the Islamic teachings (Lim, 2001).

Haniffa and Cooke (2002) examined the effect of culture and corporate governance mechanisms on voluntary disclosure of companies in Malaysia. In the study, culture was measured by race (Malay versus Chinese) and one of the voluntary disclosure items was information on environmental policy. The authors

they are measured for you" (from Omar bin Al-Khattab (may Allah be pleased with Him)).

<sup>&</sup>lt;sup>4</sup> "Hold yourselves to account before you are held to account, for it is easier for your accounting, and measure your deeds before

<sup>&</sup>lt;sup>5</sup> The Article 160 of the Constitution of Malaysia defines Malay "as a person who professes the religion of Islam..." (Wikipedia, 2010). Accordingly, all Malays in the present study is presumed to be Muslims.

found that firms dominated by Malay directors have higher voluntary disclosure. They asserted that this is due to the Islamic business ethics, which encourage transparency in business.

The above studies imply that religion (Islam) as a cultural variable (Maliah, 1997) has, to some extent, influence on individual perceptions and behaviour, which subsequently affect their decisions. For example, one would expect a Muslim fund manager not to invest in a company that harms the environment. Accordingly, environmental information disclosure may be regarded as satisfying an Islamic society's need for full disclosure and social accountability (Maliah and Willett, 2003). Thus, the perceptions between Muslim and non-Muslim stakeholders would be different. Indeed, one would expect committed Muslims to perceive the environmental information to be more useful than non-Muslims. A Muslim fund manager who refers his doings at all times to *Shari'ah* is believed to realize the importance of having complete corporate information before making investment decisions. Accordingly, the following hypotheses are developed:

Hypothesis 1: There is no difference in the perceived importance of company

environmental attributes between Muslim and non-Muslim fund managers.

Hypothesis 2: There is no difference in the perceived importance of various types of

environmental information between Muslim and non-Muslim fund

managers.

### 3. RESEARCH METHOD

Data is collected through a questionnaire survey method. The research instrument has been adapted from previous related studies, thus ensuring both internal and external validity. Fund managers were chosen as they constitute an important category of stakeholders (Deegan and Rankin, 1997). The questionnaires were piloted with academicians and fund managers through convenience sampling. Several modifications were then made based on their comments. The sample consists of 218 licensed fund managers. Fifty-nine useable responses were received, which gave a response rate of 27 per cent. The test of non-response bias to compare between the early with the late respondents was conducted using the Mann-Whitney U test, and no significant difference was reported. Reliability tests were conducted for each question and Cronbach's alpha at a minimum of 0.89 was obtained for all questions. This implies that the items in the instrument possess high internal consistency reliability.

#### 4. FINDINGS AND ANALYSIS

# Demographic analysis

The majority of fund managers were male, which represents 71.2 per cent of the total fund managers (28.8 per cent of fund managers were female). Half of the fund managers were in the age group of 31-40 (50.8 per cent). Relatively few of the fund managers were below 30 years old or in the age group of 41-50 years old (20.3 per cent and 23.7 per cent, respectively). Interestingly, 3 fund managers were above 50 years old, which indicates their maturity working in the fund management and investment field. While 35 fund managers were Muslim (59.3 per cent), the remaining were non-Muslim including Christians, Buddhist and Hindu

# Company's Environmental Attributes

Table 1:
Perception Differences on the Importance of Environmental Attributes when Making Investment
Decisions between Muslim and Non-Muslim Fund Managers

		Muslims			Non-Muslims			Mann-
The company:		Mean	Std devn	Rank	Mean	Std devn	Rank	Whitney (Signif. test)
1	exhibits a high standard of environmental awareness (e.g.: in terms of the use of natural resources and/or pollution control)	3.37	1.165	3	3.50	1.180	3	ns
2	has environmental liability insurance	3.46	1.197	2	3.17	0.917	8	ns
3	conducts an environmental audit	3.03	1.150	9	3.21	0.884	7	ns
4	has a formal environmental control unit	2.86	1.167	12	2.96	0.955	10	ns
5	uses clean technology	3.23	1.060	7	3.29	0.955	4	ns
6	holds ISO 14001 certification	2.97	1.098	10	2.79	0.779	12	ns
7	registers its products with an eco-label scheme	2.89	0.993	11	2.88	1.076	11	ns
8	promotes the recycling of its products, by-products and waste	3.11	1.078	8	3.25	1.113	5	ns
9	seeks to minimize energy consumption	3.49	1.095	1	3.92	1.100	1	ns
10	seeks to minimize the use of materials that harm the environment	3.29	1.152	5	3.25	1.294	6	ns
11	meets all known and likely future environmental control standards	3.31	1.183	4	3.54	0.977	2	ns
12	manufactures environmental friendly products	3.26	1.067	6	3.12	1.035	9	ns
13	involved in environmental consultancy	2.60	1.035	13	2.33	1.049	13	ns

1=not important, 2=quite important, 3=important, 4=very important, 5=extremely important ns = not significant

The results in Table 1 above presented that there is no difference in the perceived importance of the environmental attributes between Muslim and non-Muslim fund managers in Malaysia. Accordingly, there is not enough evidence to reject the null hypothesis.

Indeed, as to the mean rankings, both Muslim and non-Muslim fund managers perceived the importance of the company's environmental attributes equally. Though not in the same order, both groups ranked nine out of thirteen items in the list as important with companies that seek to minimize energy consumption being ranked as the most important attribute by both groups before making investment decisions. The four environmental attributes that were ranked as quite important (rated at 2) by Muslim and non-Muslim fund managers include companies that have a formal environmental control unit, hold ISO14001 certification, registers their products with an eco-label scheme and those that are involved in environmental consultancy.

# Types of Environmental Information

Table 2:
Perception Differences on Various Types of Environmental Information
Perceived as Important for Investment Decisions between
Muslim and Non-Muslim Fund Managers

		Muslims			Non-Muslims			Mann-
		Mean	Std devn	Rank	Mean	Std devn	Rank	Whitney (Signif. test)
1	Financial information on past and current environmental expenditure	3.20	1.132	5	3.42	1.176	4	ns
2	Financial information on future estimates of environmental expenditure	3.54	1.010	3	3.38	1.096	5	ns
3	Financial information on financing for environmental equipment	3.23	1.140	4	3.50	0.978	3	ns
4	Past and present litigation	3.57	1.170	2	3.92	1.139	2	ns
5	Potential litigation	3.69	1.157	1	4.08	1.018	1	ns
6	Environmental data on pollution abatement	2.83	1.175	13	3.04	1.042	11/12	ns
7	Control, installations, facilities or processes described	2.74	1.067	15	3.12	0.947	7/8	ns
8	Land rehabilitation and remediation	2.80	1.132	14	3.04	0.908	10	ns
9	Conservation of natural resources	2.86	1.167	12	3.04	1.042	11/12	ns
10	Departments or offices for pollution control	2.71	1.073	16	2.83	1.129	15	ns
11	Regulations and requirements	3.14	1.216	7	3.33	1.274	6	ns
12	Policies or company concern	3.17	1.098	6	3.12	1.116	9	ns
13	Goals and targets	3.11	1.132	8	3.12	0.947	7/8	ns
14	Awards	2.69	1.157	17	2.50	1.022	17	ns
15	Environmental audit	3.00	1.138	9	2.92	0.929	13	ns
16	Environmental management system	2.86	1.061	10	2.92	0.974	14	ns
17	Environmental end products/services	2.86	1.115	11	2.71	1.042	16	ns

1=not important, 2=quite important, 3=important, 4=very important, 5=extremely important ns = not significant

The results of the Mann-Whitney U tests in Table 2 show that there is not enough evidence to reject the null hypothesis. This implies that Muslim and non-Muslim fund managers had similar perceptions concerning the importance in their investment decisions of the various types of environmental information disclosed in corporate annual reports.

Both Muslim and non-Muslim fund managers ranked high regarding environmental information related to the past, present and future litigation as well as environmental information on company's past, present and future environmental expenditure. The results reveal that both groups perceive environmental information that has a financial impact on the company as important in their investment decision-making process. In addition, both groups ranked information about environmental awards compared to other types of environmental information as important for investment decisions as being the lowest.

Generally, there was no evidence to indicate that Muslims perceived environmental information as being more important than non-Muslims. The results show no differences in perception between Muslim and non-Muslim fund managers for both variables tested in the study.

# 5. DISCUSSION AND CONCLUSION

Man was created to be God's vicegerent (*Khilafah*) on earth and has been bestowed with spiritual and mental characteristics (Chapra, 1992). According to Chapra, one of the implications as God's vicegerent is that man must acknowledge God as the absolute owner of resources on earth and that man is merely a trustee. Thus, a Muslim is responsible to use the given resources in a manner that will benefit not only himself but also the wider society (Maliah, 1997). Furthermore, a Muslim should always believe that he is accountable for all his actions and inactions, which will be accounted for in the Hereafter (Abu-Sway, 2002; Abdul Rahim, 2003). Responsibility for all actions and inactions include Muslim decisions concerning to investment decisions.

Unfortunately, the results of the study did not support the argument. The results indicate that there are no differences in the perception of environmental information between Muslim and non-Muslim fund managers and, thus, none of the hypotheses can be rejected. This implies that the Islamic worldview is not reflected in the perception of Muslim fund managers. Additionally, the results are also inconsistent with prior studies on the difference in attitude concerning social issues between Malays and non-Malay top managers in companies (for example, Asma and Lim, 2001; Haniffa and Cooke, 2002, 2005; Ramasamy et al., 2007).

There are several possible explanations for these results. First, the economic system in the world is built on the idea of capitalism which is to maximize profit. The main feature of capitalism is economic rationalism (Weber, 1979 cited in Maliah, 1997). According to Weber, several assumptions are embedded in this type of economy. The first is that humans are motivated by self-interest, which is expressed to increase financial gain. Second, the action that yields the greatest financial return to an individual is also considered as most beneficial to society. This encourages competitive rather than cooperative behaviour in society. Finally, human progress is best measured by the increase in the value of what the members of society consume, which implies that higher levels of material output improve the well-being of society (Weber, 1979 cited in Maliah, 1997).

However, Islam's viewpoint is different. Islam clearly denies economic rationalism. The economic system from the Islamic perspective is developed according to *Shari'ah*, which explains the relationship between man and the Creator, man with other creatures and man with the environment in which the goal is to achieve *falah* to the people and the wider society (Abdul Rahim, 2003). These relationships may be represented by the four ethical principles described by Naqvi (1981), as unity, equilibrium, free will and responsibility. Islam emphasizes collective interest rather than self-interest. In Islam, the pursuit of profit should be carried out within the freedom granted to humankind by Allah for

the use of the resources so provided. Humankind should use the resources with responsibility to provide benefit to society with the intention of ensuring socio-economic justice and to Allah's pleasure (Maliah, 1997).

Second, is the failure to highlight the importance of ethical issues in the accounting and business related education. The accounting education that is presently being taught at institutions of higher learning is inconsistent with the Islamic teachings (Haniffa and Hudaib, 2002). Many of the Western accounting concepts and principles, such as going concern, money measurement, business entity, historical cost, conservatism, matching and materiality concept that are currently applied in many countries, including Malaysia, are irrelevant from the Islamic point of view (Adnan and Gaffikin, 1997). For example, Adnan and Gaffikin explained that in conventional accounting practice, a business is assumed to be in existence for the foreseeable future. However, this is criticized from the Islamic perspective as it implies that there is something else other than Allah that will live indefinitely. They further added that the monetary concept in accounting has several limitations. Accounting information is limited to information expressed in monetary units and monetary units are unstable over time. This implies that accounting information that cannot be expressed in monetary value, such as social and environmental information, should not be reported (Belkaoui, 1992). Indeed, the primary objective of accounting information should be to fulfil the accountability obligation to the Creator, that is Allah (Adnan and Gaffikin, 1997). This is manifested through comprehensive disclosure of accounting information (Haniffa and Hudaib, 2002). The results of the study seem to show that Muslim fund managers are significantly influenced by Western accounting thought that has been learned throughout their tertiary level.

In essence, the importance of environmental information disclosure that fulfils the full disclosure principle in Islam was not reflected in the perception of Muslim fund managers. In sum, despite the increasing trend of companies to report social and environmental information, its perceived importance in investment decisions to Muslim fund managers in Malaysia is still unclear.

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# A REVIEW ON BOARD ROLES THEORIES: THE RELEVANCY OF ISLAMIC ACCOUNTABILITY AS THE THEORETICAL LENS IN EXAMINING THE SHARIAH COMMITTEE EFFECTIVENESS

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#### **ABSTRACT**

The financial crises affecting countries worldwide provide evidence of governance failure and the repercussion of speculative financial transactions. Thus, the Islamic Financial Institution (IFI) is seen as a viable alternative due to its unique value system that promotes sound governance, eventually creating value. Contrary to this belief, IFI is still subject to governance failure. In fact, the repercussions are greater, as this failure includes the shari'ah aspects. Hence, the Shari'ah Committee (SC) as the IFI gatekeeper is placed at the centre stage. The effectiveness of the SC needs to be assessed in relation to the IFI governance and value creation. In examining the IFI ontological issues, there exist two conflicting views on the epistemology to be applied. Therefore, this paper aims to cross-examine the existing board role theories simultaneously with the Islamic precept. The two main findings are as follows. First, the agency theory; which is widely used in the literature, displays inherent limitations within the IFI context. Second, the comparative analyses of the alternative board role theories, namely, resource dependency, stakeholder theory, redefined accountability, and the Islamic accountability (IA) doctrine, showed that IA is the most appropriate theoretical lens. This paper also develops the theoretical dimensions and propositions based on the IA, which formed the conceptual framework (CF). The CF, based on the contemporary IFI structure, is subject to further refinement. On the other hand, the IA remains true as a doctrine and is applicable beyond the boundaries of time, society, and culture; as its value remains universal.

**Keywords:** Governance, Islamic Financial Institution, Board Roles Theories, Islamic Accountability, Shari'ah Committee

#### 1. INTRODUCTION

The crises affecting the financial industry have been a recurring phenomenon. The downfall of financial institutions was not only due to the speculative financial transactions (M. N. Ismail, 2010), but also due to poor corporate governance (Gup, 2007). Ironically, the recurring phenomenon is attributed to the fact that people normally forget when the economies are booming<sup>3</sup>. This condition is evident in the downfall of the Conventional Financial Institution (CFI) throughout the centuries. Some examples over the past two decades are the Bank of Credit and Commerce in 1991, Barrings Bank in 1995, Societe Generale in 2008, Madoff Hedge Fund in 2008, and Stanford Financial Group in 2009.

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<sup>&</sup>lt;sup>3</sup> Professor Dr. David Crowther in his keynote address titled 'Governance, sustainability and crisis management' delivered at the 2<sup>nd</sup> International Conference on Governance and Accountability (ICGA 2012) held in Kuching, Malaysia on 15–18 February 2012.

Now, the issue of financial crisis is affecting countries on a larger scale around the globe, including Japan, the United States (U.S.), and the European countries.

Thus, the existence of the Islamic Financial Institution (IFI) is seen as a viable alternative to the CFI, as the former is found to be more stable (Asiamoney, 2008; Hamzani, 2008). This is due to its unique value system (Deehani, Karim, & Murinde, 1999; Olson & Zoubi, 2008; Rosly, 2005) which is the permissibility of al bay (commerce and trade) and the non permissibility of riba (excessiveness which caused injustice) (Mirakhor, 2011). Contrarily to this belief, IFI is still susceptible to failure in the event of poor corporate governance (Chapra and Ahmed, 2002; Asiamoney, 2008). This phenomenon is evident as set forth in Table 1, which indicates that the governance issue extends beyond the corporate aspect as it includes the shari'ah<sup>4</sup> aspect as well. The reason is that the ultimate objective of the IFI establishment is to adhere to the shari'ah (Al-Zuhayli, 2003) in achieving the maqasid al shari'ah<sup>5</sup> (M. O. Mohamad & Haneef, 2011; M. O. Mohamad & Taib, 2011).

Insert Table 1 about here

The discussion above clearly demonstrates the need for continuous sound governance in the financial industry, be it the CFI or IFI. This need is pertinent to achieve the financial and economic sustainability in a country (Adams & Mehran, 2003; Ciancanelli, 2000; Polo, 2007). Thus, having an effective board is imperative, because the board plays a crucial role in ascertaining sound corporate governance (Fama & Jensen, 1983; Greuning & Bratanovic, 2009; Pathan, 2009), which eventually creates value (Cadbury Code, 1992; Huse, Minichilli, & Schoning, 2005). In the case of the IFI, the gatekeeper is the Shari'ah Advisory Board (SAB) (Jabbar, 2010), which is interchangeably known as the Shari'ah Advisory Committee or Shari'ah Committee (SC). The Shari'ah Commitee existence is a distinguished feature of the IFI board structure (El-Muhammady, 2009; Nathan & Ribiere, 2007). Therefore, the SC plays a crucial role to the survival of the IFI (Choudhury & Hoque, 2006; Haniffa & Hudaib, 2007) as the ultimate aim of the IFI is to obtain the barakah<sup>6</sup> (blessing) of Allah SWT.

Currently, the IFI has been criticized as its financial products appear to be similar to the ones offered by the CFI (Dusuki & Abozaid, 2007). Consequently, there exists shortcomings of the IFI value creation which have emerged at the aggregate level (Z. Hasan, 2011). As a result, there is a significant disparity exists in terms of the ideal identity of the IFI (Haniffa & Hudaib, 2007). Hence, attention towards the SC effectiveness in delivering their roles has increased tremendously (Unal, 2011) due to the high expectation of the ummah and society at large (R. Hassan, Ibrahim, Abdullah, Aziz, & Sawani, 2010). Thus, it is essential to assess the SC effectiveness vis a vis the IFI value creation which is to be aligned to the Islamic precept.

In examining the ontological issues affecting the IFI, two conflicting views persist in terms of the epistemology or theoretical lens to be utilised in order to form the conceptual framework. The first view is that the epistemology should be based on the Islamic precept<sup>7</sup> (Dadgar, 2010; Haneef and Furqani, 2009; Mirakhor, 2011), because the solutions provided have not been able to resolve the economic problems; in fact, they exacerbate the problem (Dadgar, 2010). On the contrary, the second

<sup>5</sup> The maqasid al shari'ah literally means 'the intent of the higher objective of the Islamic law' which is the wisdom behind its ruling (Auda, 2010).

<sup>&</sup>lt;sup>4</sup> Shari'ah literally means the road to the watering place, the straight path to be followed (Laldin, 2008: 2)

<sup>&</sup>lt;sup>6</sup> 'Shari'ah non compliant' means 'against the commands of Allah SWT, impediment of Allah SWT blessing, or barakah, invalidation of contract'; thus, the profit gain would be considered non Halal income; contravention of the IBA 1983 and Capital Adequacy Ratio (CAR) impact (Rusnah, 2011).

<sup>&</sup>lt;sup>7</sup> Salleh (2011) listed a few scholars, namely, Muhammad Syukri Salleh, Abdul Hamid Abusulayman, Mohamed Aslam Haneef, Ziaudin Sardar, Mousudul Alam Choudhury, and Syed Nawab Haider Naqvi, who insist that the epistemology should be from the Islamic precept.

view<sup>8</sup> is that the epistemology from the secular knowledge is permissible as long as it does not deviate from shari'ah. If the secular knowledge deviates from shari'ah, then such knowledge should be modified. Meanwhile, those that defy shari'ah should be rejected (Hassan, 1998). Therefore, due consideration must be given in selecting the appropriate theoretical lens to examine the relationship of the SC effectiveness with the IFI value creation. This approach ensures that the IFI ontological issues is properly comprehended in order to arrive at a more appropriate and feasible solutions.

Notably, the agency theory (AT) has been used extensively as the theoretical lens in the literature on the effectiveness of the Board of Directors (BOD) (Daily, Dalton, & Cannella, 2003; A. I. Hillman & Dalziel, 2003). The AT is based on several assumptions, which displays inherent limitations in addressing the issue of BOD effectiveness in all economic sectors (Daily, et al., 2003), including the financial sector, both conventional (Ciancanelli, 2000; Macey & O'Hara, 2003) and Islamic (Azid, Asutay, & Burki, 2007; Safieddine, 2009). Thus, an evaluation of the alternative board role theories, namely, the resource dependency theory (RDT), stakeholder theory (ST), redefined accountability (RA), and the Islamic accountability (IA) doctrine (Nagyi, 1990) is carried out.

This paper is structured as follows. Section 2 discusses the limitations of the agency theory. Section 3 compares the alternative board role theories from the Islamic perspective. Section 4 posits the conceptual framework and theoretical dimensions, and the propositions derived from the IA are discussed. Section 5 compares the alternative board role theories. Section 6 concludes this paper. Finally, Section 7 highlights the limitations and offers recommendations for future studies.

#### 2. LIMITATIONS OF THE AGENCY THEORY

The literature on corporate governance and board effectiveness is based largely on the AT, which has been heavily criticized as an inadequate theoretical lens (Huse et al., 2009; Judge, 2009). Nevertheless, this theory has been very dominant in the literature on corporate governance and board effectiveness (Daily, et al., 2003; A. I. Hillman & Dalziel, 2003). It has its origins in the economics and finance discipline (M. C Jensen & Meckling, 1976), which advocates the separation of ownership and corporation. Based on this theory, Fama and Jensen (1983) focused on the board roles as an apex of an organization. Consequently, the BOD plays an important role as the gatekeeper. Hence, the focus of the theory is that the BOD as an internal control mechanism must discharge its monitoring role to ensure that the shareholder interest is well guarded.

There are a number of the underlying assumptions of the AT (Ciancanelli, 2000; Daily, et al., 2003). First, there exists the notion that humans as self-interested creatures are unwilling to sacrifice personal interest for the interests of others. Second, there are only two participants, namely, the managers and the shareholder. Third, the organization operates under a normal or competitive market. Fourth, the nexus of information asymmetry is the principal agent relationship between owners and managers. Fifth, an optimal capital structure exists, which requires limited gearing.

The first assumption of the AT is that the managers are perceived to be self-centred (Daily, et al., 2003; W. Judge, 2009), but this notion may not reflect the true behaviour in practice (Davis, Schoorman, & Donaldson, 1997; Muth & Donaldson, 1998). Moreover, the incentive alignment to directors has been found to be insignificant, as other motivational factors are present, including altruistic behaviour (Stout, 2003) and developing a reputation as experts (Fama & Jensen, 1983). Therefore, the BOD role extends beyond monitoring, as it includes advising (A. I. Hillman & Dalziel, 2003) and assisting management in making strategic decisions (W. Q. Judge & Zeithaml, 1992).

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<sup>8</sup> Salleh (2011) listed a few scholars, namely, Muhammad Abdul Mannan, Monzer Kahf and Muhammad Nejatullah Siddiqui, Abdel Rahman Yousri Ahmed, and Mohammad Anas Zarqa, who hold the view that using the epistemology from the secular knowledge is permissible.

Second, the dyadic relationship, which is the principal agent relationship between owners and managers (Freeman, 1984), fails to address the interest of other stakeholders. Example is, the cash claimants interest in terms of firm value and information on both the CFI (Adams & Mehran, 2003; Macey & O'Hara, 2003; Polo, 2007) and IFI (Azid, et al., 2007; Safieddine, 2009). The third assumption of the AT is that it operates under normal or competitive markets, which violate the nature of both the CFI and IFI. The reason is that these institutions operate in a highly regulated environment (Levine, 2004), as they mobilize funds from the surplus to the deficit units.

Thus, this situation is closely related to the fourth assumption; the notion that the information are between owners and managers excludes the requirements of other stakeholders, namely the regulators and the depositors. The needs for information for these stakeholders are paramount in order to make an informed judgement. Finally, the capital structure differs in both the CFI and IFI. Notably, the CFI has a highly geared capital structure, which denotes the function of intermediary, whereas the IFI is based on the premise of equity, risk sharing (Mirakhor, 2011). These differences are summarized in Table 2.

Insert Table 2 about here

In addition, generalizing the use of AT worldwide undermines the contextual differences in the organizational settings across the countries, which is diversified in terms of its social construct (Aguilera & Jackson, 2003). Majority of the empirical research uses samples from the U.S. with the AT as the theoretical foundation (Kang, Cheng, & Gray, 2007; Tosi, 2008; Vafeas & Theodorou, 1998). Notably, the U.S. has a more developed external governance system, which differs from countries that rely heavily on the internal governance mechanism (Shleifer & Vishny, 1997). On the contrary, the IFI external governance system varies among Malaysia, the Gulf Cooperation Council countries, and the United Kingdom. The facilitative structure, the standards, and the regulatory bodies of the Islamic financial industry are relatively new. Finally, differences exist in terms of value, which is aligned with the Islamic precept, as majority of the IFIs operate in Islamic countries, such as Malaysia and Indonesia, and most of the Middle East countries (Beekun & Badawi, 2005; Kamla, Gallhofer, & Haslam, 2006).

The AT conceptual framework predicts a direct relationship between the board attributes and the firm financial value. The board attributes are divided into three main categories, namely, the composition, characteristics and board standing structure. Among the variables are the board independence, board size, skill, knowledge, minority interest, and gender. These variables are derived from the board effectiveness literature in the non-financial sector. In the case of a CFI, generally, research on board effectiveness has been examined based on the size and independence of the BOD in relation to the CFI financial performance, as shown in Table 3. Majority of these studies focus on the monitoring role of the board (Adams & Mehran, 2003, 2005, 2008; Belkhir, 2009; Caprio, Laeven, & Levin, 2003). Only a few have acknowledged the duality roles of the board, namely, monitoring and advising (Adams & Ferreira, 2007; Andres & Vallelado, 2008). However, results of these studies are inconsistent. Adams and Mehran (2003, 2005, 2008) and Belkhir (2009) found that no significant relationships exist between the board independence and the bank performance. Therefore, the debates regarding the necessity of more outside BOD for good governance are questionable. On the contrary, Andres and Vallelado (2008) found that an inverted U-shaped relation exists between board independence and bank value. Their results indicate that there is a trade-off between the monitoring and advising roles, and that the optimal board composition creates value.

Insert Table 3 about here

Several studies also examine the relationship of board size and bank performance. Adams and Mehran (2003, 2005, 2008) found that there is no relation exists between board size and bank performance even after controlling for plausible sources of endogeneity. Meanwhile, Belkhir (2009) suggested that banks with more insider ownership and more outside directors have larger boards. On the contrary, Andres and Vallelado (2008) found an inverted U-shaped relation between bank performance and board size. Their findings indicate that larger board size is related to the ability of directors to be more efficient in their monitoring and advising function, thus creating more value. Notwithstanding these implications, it is further noted that the empirical study produces contradictory results when the BOD role expands from the monitoring to advising role. Muth and Donaldson (1998) found conflicting results when they analysed their hypotheses based on the agency and stewardship theories within the non-financial sectors. These results are consistent, as both theories 'offer opposing predictions about the structuring of effective boards' (Muth and Donaldson, 1998, p. 5). Therefore, careful consideration is vital in ensuring that the findings are accurately interpreted, which would eventually result in better corrective measures in the recommendation provided. Therefore, adopting proposals that are largely motivated by board effectiveness research from the non-financial firms into the CFI and IFI are inadequate. Thus, more research is needed in this sector 'before governance policy concerning banks can be formulated' (Adams and Mehran, 2008, p. 24), and this should be applied to the IFI as well.

The evidence provided above clearly shows the need to search for an appropriate theoretical lens, and this need is advocated in the mainstream literature (Ees, Gabrielsson, & Huse, 2009; W. Judge, 2009; Pettigrew, 1992). The following section discusses the alternative conventional board role theories visà-vis the Islamic precept.

#### 3. ALTERNATIVE BOARD ROLE THEORIES

Three main alternative theories are being considered in the mainstream, namely, the resource dependency theory (RDT), stakeholder theory, and accountability.

#### 3.1 Resource Dependency Theory

In the BOD literatures, the RDT is acknowledged as one of the most influential theories used after the AT (A. I. Hillman & Dalziel, 2003; A. J. Hillman, Withers, & J.Collins, 2009). The RDT (Pfeffer & Salancik, 1978, 2003) is based on three main assumptions. First, the organization needs to consider the importance of the environment or social context before any decision is made to be competitive. Second, opportunities to do certain things exist despite the constraints, such as co-opting sources of constraint, more autonomy, and the ability to pursue organizational interests. Third, power is important as a construct in understanding the behaviour of both intra and inter-organizational dynamics.

Hence, the RDT advocated that the BOD, through its strong characteristics, has some power to reduce the environmental uncertainty and dependencies. In essence, there are four primary benefits, namely, advice and counsel; legitimacy; channel of communication to the external environment; and commitment and support from important elements outside the firm (A. J. Hillman, Albert A.Cannella, & Paetzold, 2000). According to RDT, the BOD's roles are divided into four main categories, namely, the insiders, business experts, support specialists, and community influences. Within these categories, the BOD has its own expertise, for it will provide the areas of resource that are needed by the organizations. An example is the insiders; this type of BOD will have specific knowledge of the firm, and thus would be able to contribute in terms of the organizational strategy. Hence, the BOD will consist of the current and former officers of the organization.

The RDT also provides a multidimensional definition of company performance, encompassing the financial, systemic, and social components (Zahra and Pearce, 1989, p. 299). Therefore, the

conceptual framework based on the RDT depicts a direct relationship between the board attributes and the performance, which has a broader definition compared to the definition provided by the AT. Nonetheless, the RDT has not been fully utilized, as the empirical research testing received little attention (Hillman et al., 2009). Apparently, this theory failed to inculcate the following aspects: first, the board strategic processes in relation to the firm's environment; second, the issue of board power with board composition and the change within the firm's environment; and third, the examination of the impact of the board towards the social performance (Casciaro & Piskorski, 2005; Zahra & Pearce, 1989).

The RDT categorization placed the SC under the category of the community influences, as a number of elected personnel are from the university faculty (Kasim, Ibrahim, & Sulaiman, 2009). Thus, under this classification, the SC is able to provide the non-business perspective on issues and legitimize the IFI existence. However, this is not the case, as the SC also plays the role of 'support specialists', as they provide specialized expertise on shari'ah matters (M. N. Mohamad, Husin, Salleh, & Yaakub, 2009). Notably, the RDT advocates that the importance of the BOD characteristics is similar to that of the Islamic perspective. The reason is that the IFI should ensure that the SC appointments are based on merit without any favouritism or nepotism (Beekun & Badawi, 2005; Chapra & Ahmed, 2002). This view is in accordance with Al Qur'an, Al Qasas (28: 26), As Sunnah, and the period of the four rightful guided caliphs. A number of narrations recorded how the Prophet Muhammad SAW was very particular in the selection of the appropriate personnel for a certain position without any prejudice and favour (Sin, 1997). This is because the repercussion is severe whenever the selection process is dented by favouritism<sup>9</sup>.

The following subsection will discuss on the ST together with the view from the Islamic perspective.

#### 3.2 Stakeholder Theory

The ST (Freeman, 1984; Freeman, Harrison, Wicks, Parmar, & Colle, 2010) is about value creation, trade, and how to manage a business effectively. This theory is built on two basic assumptions: the integration thesis and the responsibility principle. First, the integration thesis is about business and ethical decisions, which are interrelated. Moreover, this thesis is at the heart of human beings in creating value. Thus, the thesis involves strategic management for future development. The usefulness depends on the role of human beings and the business decision made with reference to the ethical aspects. Second, most people usually would want to and do accept responsibility for the effects of their action on others. Based on these central assumptions, the performance outcome has social orientations. This notion is that the board attributes have a direct relationship with the social performance.

Subsequently, Freeman's idea had spread to many disciplines, including accounting, business ethics, economics, finance, management, and political science (R. W. Roberts & Mahoney, 2004). However, the empirical evidence in terms of the role of the appointed external stakeholders to the BOD showed that a conflict of interest exists among these stakeholders (Michael C. Jensen, 2001). The conflict of interest arises as to whether they serve the need of the organization in which they become board members or the main organization where they reside. An example is the case of bankers appointed as the BOD, as they may act in the interest of their banks (Guner, Malmendier, & Tate, 2008).

The Islamic perspective of the ST differs on the grounds that Islam does not view all stakeholders as having equal claims (Beekun & Badawi, 2005; Dusuki, 2008; Iqbal & Mirakhor, 2004). The consensus is that Islam firmly upholds the principles of property rights, commitment to explicit and implicit contractual agreements, and implementation of an effective incentive system (Beekun &

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<sup>&</sup>lt;sup>9</sup> This hadith is recorded by Ibn Taymiyya (1966) as cited in Beekun and Badawi (2005, p. 137), which clearly states, 'Whoever delegates a position to someone whereas he sees someone else as more competent (for the position) verily he has cheated God and His Apostle and all the Muslims'.

Badawi, 2005; Iqbal & Mirakhor, 2004). However, the concept of property rights is to be understood as not an absolute right, and it must not violate the interests and rights of others (AbuSulayman, 1998; Beekun & Badawi, 2005). Apparently, the ST is favoured over the AT by the contemporary Islamic scholars. However, Chapra (2004) criticized that the theory is not viable, as the enabling environment<sup>10</sup> during the glorified period of Islam is currently virtually absent. Meanwhile, Dusuki (2008) suggested that the pyramid of maslahah<sup>11</sup> be applied to mitigate the conflict that arises in deciding the protection of stakeholder interest in the case of implicit contracts. However, the ST and the concept of maslahah (Michael C. Jensen, 2001; Laldin, 2010) are vulnerable in the absence of a proper control mechanism (Chapra, 2007). Thus, this case leads to accountability as another possible alternative, which is discussed in the following subsection.

#### 3.3 Accountability from the Conventional Perspective

Accountability involves the relationship between two parties that one needs to consider in legitimizing their action to another party<sup>12</sup>. Notably, the accountability has been the outcome of the board roles in most theories underpinning the corporate governance and performance of the corporation. These board roles are divided into the internal and external of the firm, which falls into three main roles, namely, the service role (advising), the monitoring role, and the strategic role (Huse, 2005). Notably, the widely used AT offers the accountability concept, which is limited to shareholders. The AT is extended to parties that have vested interests in the organization, rather than the shareholders under the ST theory. Meanwhile, the Accountability adds another dimension to the board roles because the increasing pressure from the institutional shareholders pushed forward the notion that the BOD needs to be involved in the strategic decision-making process (W. Q. Judge & Zeithaml, 1992). Although accountability includes a wider spectrum of players in an organization, it is yet to achieve a proper standing<sup>13</sup>.

Thus, accountability is redefined by Huse (2005), and is termed as 'redefined accountability' (RA) in this study. The RA has the upper advantage due to the behavioural perspective it offers in understanding the issue of the board effectiveness (Ees, et al., 2009). Basically, the RA acknowledges all three main roles of the board because its notion is about balancing various board role expectations (Huse, 2005). Therefore, the focus is on the board process and, thus, 'creating accountability is virtually aligning actual board task performance to board role expectations' (Huse, 2005, p. 74). Consistently, creating accountability is about creating value (Cadbury Code, 1992), which involves the entire value chain of an organization. Similarly, Huse, Minichilli, and Schoning (2005, p. 285) reaffirms that 'it is beyond the measures of earnings or corporate financial performance'.

The posited conceptual framework of a qualitative nature showed constructs, such as trust, emotions, politics, external actors, and the context understudy (Huse, 2005, p. 67). This conceptual framework differs from the AT, RDT, and ST because it has the mediating construct between the BOD attributes and the firm value. The mediator is the BOD involvement in discharging multiple roles through the board process. Hence, the RA offers a more dynamic and progressive behavioural perspective in understanding the board roles and its effectiveness. In addition, the value creation of the firm is broader, and includes the internal and external firm value, compared to the AT, RDT, and ST. Although the RA concept of value creation is broader nevertheless it is not aligned with the Islamic value creation.

Therefore, the following subsection discusses the Islamic accountability (IA) doctrine.

<sup>&</sup>lt;sup>10</sup> Refers to the internalization of Islamic values within market operators and the public.

Maslahah refers to 'human benefit and interest in both the worldly life and the hereafter. Therefore, generally, it is beyond the capacity of human intellect to deduce without guidance from the shari'ah. Human intellect may be able to deduce certain masalih. However, these will not be accepted unless they conform to the shari'ah. It is also feared that maslahah might be misused to satisfy human desires only' (Laldin 2010, p. 76).

<sup>&</sup>lt;sup>12</sup> See Rahman (1998) on the definitions of accountability from both Western and Islamic perspectives.

<sup>13</sup> It has a restrictive usage because it is denoted as making justified reasons for actions taken, which is highly subject to abuse as it is not related to the concept of creating value (Huse, 2005).

#### 3.4 Islamic Accountability Doctrine

Effective governance is an essential element of Islam as a way of life and also term as al siyasah al shari'yyah (al-Qudsy & Rahman, 2011). One<sup>14</sup> of the key elements in siyasah al shari'yyah is Islamic Accountability. The IFI has similar function with the CFI as it mobilizes funds from the surplus to the deficit units. This main function has been carried out as early as in the 1940s by either sarrafs (individuals) and djahbadh (states)<sup>15</sup>. Meanwhile, in the early 1970s at the dawn of the independence of the muslim countries, this function has been carried out in the form of cooperatives. It is only in the 1990s onwards that this function is being carried out by an institution; as seen today. Notably, the institutional dynamic has been identified (Choudhury & Hoque, 2006; Turnbull, 2012) and therefore there is a need to examine the SC effectiveness within this dynamicity.

Islam is a way of life and economics is a subset of man-to-man activities (muamalah). This worldly life is only a transition or merely temporal, because the world is not the final destination (Oasmi & Usmani, 2009). Even though, the Al Qur'an does not formulate any economic theory<sup>16</sup> because economics constitutes a small part of it. This does not mean that Islam does not acknowledge its importance. In fact, Islam places the importance of business as part of the economic activities. The Prophet Muhammad SAW placed importance of the merchant who hold good virtues as in the following; "The merchant who is honest and accountable will be placed with the al-Nabiyyin, al Siddiqin and al Syuhada' (Othman and Din 2005)<sup>17</sup>. Notably, Islam place the importance of the final destiny which is the hereafter. This is the added dimension of value creation as compared to the conventional economic system (Lewis, 2006). Thus, muslim should be highly motivated and would not rationally sacrifice his value in the long term to achieve a short-term value in this temporal world (Chapra, 2008). All muslims are accountable for their individual and collective actions in this world (Al-Safi, 1992). The collective IA is rather limited in the worldly affairs; in the hereafter, it is strictly individual. Al Safi (1992) quoted the following verses from the Al Ouran to reflect the accountability as an individual within one's capacity: Al Bagarah (2:233 and 286), An Nisa (4:84), Al An'am (6:52), and At Talag (65:7). Meanwhile, the following verses from the Al Ouran are about the accountability for individual deeds (good or evil), and indicate that nobody else would take the punishment or the reward for someone else, namely, Al Baqarah (2:281), Al Imran (3:185), Al-Anfal (8:24-25), Luqman (31:33), and Ash Shura (42:47).

In summary, the IA, taken individually, is based within the limits of one's capability (Al-Safi, 1992) for an individual is accountable for his own deeds. Essentially, the IA is applicable to every facet of life. Therefore, in addressing the issue of the SC effectiveness, which is the apex of the IFI, through IA simply means that the SC is accountable to Allah SWT, both muslims and the non-muslims, the society, and the environment. Consequently, the IA leads to value creation based on the maqasid al shari'ah. Naqvi (1990, p. 47) defines the IA as follows:

"...a dynamic principal in terms of human behaviour. The mankind has to strive in achieving perfectionism; which means the elimination of the "status quo" and therefore, mankind need not be tied up with the past or be imprisoned with the current obstacles."

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Tariq Ramadhan stated accountability as one of the six elements in effective governance during the 3<sup>rd</sup> Penang in Asia lecture series in his speech entitled "Islam, Democracy and Human Rights" on 17 July 2012.

<sup>&</sup>lt;sup>15</sup> See Hassan (2011) for a detailed history prior to the establishment of the IFI.

<sup>16 &#</sup>x27;The Al Quran did not detail out the events and things that happen to mankind. However, the Al Quran provided the principles and methods in general which will be able to be interpreted in accordance to time and place as long as it does not deviate from the fundamentals of Islamic jurisprudence', as iterated by Dr. Abdul Rahman Taj, cited in Abu Sin (1997, p. 41).

<sup>&</sup>lt;sup>17</sup> Othman and Din (2005) compiled the following hadiths which are narrated from Imam al Tirmidhi and Imam Ibn Majah.

The IA<sup>18</sup> existed during the time of the Prophet Muhammad SAW. It is empirically evidence during the era of his two companions Abu Bakr RA and Umar RA, and Khalifah Al Waleed (Pomeranz, 2004; Zaid, 2004). The IA is practised through the mechanism of book keeping, accounting, and auditing. Notably, (Ibrahim, 2000, 2003) stressed the importance of applying the Islamic accounting in Islamic organizations as a form of IA. In addition, the literature on Islamic accounting and accountability focuses on the financial reporting of Islamic business entities (Maali, Casson, & Napier, 2006). The evidence of IA is also seen in the accounting of non-profitable organizations, especially religious organizations (Afifuddin & Nabiha, 2010; Rahman & Goddard, 2003). The recent studies on shari'ah governance (Z. Hasan, 2011) and SC effectiveness (A. F. S. Hassan, 2012) put forth the evidence through qualitative approach of the importance of SC accountability in the governance framework of an IFI.

This paper proposes the conceptual framework from the IA doctrine to examine the relationship of the SC effectiveness towards creating value to the IFI. Thus, the following subsection depicts the conceptual framework derived from the IA doctrine within the context understudy.

#### 4. CONCEPTUAL FRAMEWORK FROM ISLAMIC ACCOUNTABILITY

The IFI is established to uphold two main contracts. The first is the nexus of contract with Allah SWT (Al Quran Al-A'raf 7:172), and second is the nexus of contract with mankind (muamalah), which refers not only to mankind (Al Quran Al-Hujurat 49:10, 49:13), but also the environment (Al Quran Al-Qasas 28:83). Thus, the purpose of IA is two-fold, namely, that to the Creator, Allah SWT, and that towards mankind, and its social and environmental aspects<sup>19</sup>. The conceptual framework based on the IA is depicted in Figure 1, which outlines that an effective board means that the SC must possess knowledge, skillfulness (R. Hassan, et al., 2010), and tawhidic values to undertake the task.

Insert Figure 1 about here

This IA is closely interrelated with the application of tawhid (AbuSulayman, 1998: Choudhury & Hoque, 2006; Kamla, et al., 2006; Omer, 2010). Al tawhid drives mankind to excel because it is a formation of the ethics of both intention and action. Thus, a true muslim is expected to be engaged in bringing about the desired transformation aligned with the will of the Creator, Allah SWT (Faruqi, 1992). The ethics of intention or that which is equivalent to one's conscience will be judged by the subject's own conscience and Allah SWT (Faruqi, 1992, p. 93). The ethic of action has a measurable effect because it 'disturbed the time space alas the nature's cosmic equilibrium', and the effects constitute merit or demerit (Faruqi, 1992, pp. 93-94). Ultimately, the tawhidic values could only be judged by Allah SWT, and this judgment will be revealed in the hereafter. Nevertheless, generally, the tawhidic values may be assessed relatively in terms of the muslims' worldview and their internalization of their daily activities (Hamzah et al., 2007). These values are also accessible through the various levels of ibadah performance, namely, the consistency in performing fardhu, sunah, or mandhub, and avoidance of the haram (Abdullah & Majid, 2003). In addition, a proper structure is important to facilitate the SC in discharging its roles effectively (Sin, 1997). This structure is the proper institution or organization structure and an effective shari'ah compliance research function to facilitate the SC effectiveness (Rusnah, 2011). Although the IFI is based on a religious foundation, it

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The accountability is termed as taklif (Safi, 1992) and hesab (Lewis, 2006).

<sup>&</sup>lt;sup>19</sup> For a devout Muslim, concern for others and the environment he lives in is deeply inscribed in the pillars of Islam, and is binding for every Muslim. Each Muslim is, in fact, considered a social being who cannot isolate or ignore his role and responsibility to society or to any of his fellow human beings. Thus, he is discouraged from isolating himself, even for the purpose of worshipping God (Majallat al Ahkam, 2001, as cited in Dusuki, 2008).

must demonstrate a proper framework for optimal governance, be it shari'ah or corporate. Hence, clients, its stakeholders, and the public of the IFI's are assured on the IFI commitment to uphold the principles of Islam in its financial dealings (Alchaar, 2009; A. Hasan, 2007; Wilson, 2009).

Essentially, the characteristics and structure not only lead to better performance, but is also a prerequisite towards better board process or task performance. According to Choudhury and Hoque (2006, p. 127), 'The most critical governance of the Islamic corporation is by its guidance toward the formation of behavioural preferences premised on the systemically organic meaning of unity of knowledge by pervasively relational complementarities and linkages'. Eventually, 'governance' is not confined only to the process of decision making and its implementation, but is also the substance therein that ends with the consequences (M. Z. Ismail & Badron, 2011). The consequences are the value creation aligned to the maqasid al shari'ah. Therefore, an effective SC needs to observe board processes that may impair their effectiveness (R. Hassan, et al., 2010) because it would ultimately affect the IFI value creation. Consistently, applying the maqasid al shari'ah means that it should be based on 'wisdom and people's welfare', which was summarized by Ibn al-Qayyim in his juridical methodology (748 AH/1347 CE), as cited in (Auda, 2010). The value creation based on maqasid al shari'ah<sup>20</sup> serves as an indicator of the quality of life (Auda, 2010; Wahid, Ahmad, & Kader, 2010). In the case of the IFI, it is the value that would be fruitful to the ummah; it is not merely material gain because it extends to the blessings received from Allah SWT.

The IFI was established to specifically achieve the magasid al shari'ah in two dimensions, namely, the preservation of religion (hifz al din) and the preservation of wealth (hifz al mal) (Dusuki & Bouheraoua, 2011). In the 20<sup>th</sup> century, the magasid al shari'ah is placed as an important branch of knowledge in addressing the issue on the ummah. Notably, the development of the magasid and its interpretation are highly dependent on the views of Islamic scholars in addressing the challenges faced by the ummah during their time (Auda, 2010). Thus, this paper highlights the magasid based on the discussion of a few scholars in relation to economics and finance. First, the preservation of religion is the essence of the tawhid, khilafah, risalah, and akhirah. These are transpired into the rules of behaviour and proper motivation, and resulted in continuous education (moral and material), as conceptualized by Chapra (2008). Second, the preservation of wealth is divided into five dimensions, namely, the protection of ownership, acquisition and development, damage, circulation, and the protection of its value (al-Najjar, 2006) cited in Dusuki and Bouheraoua (2011). These divisions are also similar to those by Ibn Ashur (2006), with slight differences in terms of terminology. However, Mohamad and Taib (2011) used Abu Zaharah's theory of magasid al shari'ah, namely, justice (al-adl), to promote the well-being of public interest (al maslahah) and achieve a viable education system (al fard) as a performance benchmark in assessing the IFI value creation.

It is imperative to uphold the trust and satisfaction of muslims and non-muslims in the IFI. The IFI serves a niche market as it should be in existence and as demanded by muslims based on tawhid eventually creates value (Al Anbiya 21:107). Therefore, if there is no effort to improvise the existing practice is observed, the IFI market perception and acceptance would be tarnished (A. Hasan, 2009). Thus, the theoretical propositions (*P*), which are unique under the IA are proposed as follows:

- **P1**: The SC characteristics (tawhidic, knowledge, and skills) are associated with the IFI value creation based on maqasid al shari'ah, in terms of the preservation of Islamic religion and wealth.
- **P2**: The SC characteristics (tawhidic, knowledge, and skills) are associated with the level of SC involvement in the SC board process.

<sup>20</sup> Islamic scholars have reached a consensus regarding the levels of the maqasid shari'ah, which are darurat, hajiyat, and tahsiniyyat (Auda, 2010). These levels are further classified into five dimensions, namely, the preservation of deen, nafs, mal 'aql, and nasl. Notably, these dimensions evolved, and are not in any particular order because they depend upon the need at the time of the said Islamic scholars (Auda, 2010; Chapra, 2008).

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- **P3:** The SC involvement in the SC board process is positively associated with the IFI value creation based on the maqasid al shari'ah, in terms of the preservation of Islamic religion and wealth.
- **P4**: The SC involvement in the SC board process mediates the SC attributes with the IFI value creation based on maqasid al shari'ah, in terms of the preservation of Islamic religion and wealth.

The Prophet Muhammad SAW and the four rightly guided caliphs were very knowledgeable. Nevertheless, they sought advice from the shuratic system. They set examples of effective governance by monitoring the conduct of their governors through active acquisition. In addition, they were proactively involved (strategy/advice) in discharging their roles (As-Sallabi, 2007; Sin, 1997). This dedication has made Islam prosper in the heyday of Islamic glory. The rightly guided caliphs set up structures or enabling environments (Chapra, 2002, 2004, 2009) that evolved over time to meet the needs and requirements of muslims and non-muslims within their period, even if these actions were not practised by the Prophet Muhammad SAW. This process is an innovation to meet the demands of muslims through ijtihad within the framework of shari'ah (Sin, 1997), as well as to the non-muslims in achieving the maqasid al shari'ah. Thus, it indicates the dynamism, progressiveness, and viability of Islam. However, reliving that particular era should not be overemphasized. The need to evaluate changes is continually increasing and demanding; the space factor and current needs of the ummah now have taken a different route from the historical path. Hence, 'blind and ignorant imitations are basically betraying the dynamic spirit of both the common sense and the perpetual message of Islam' (Omer, 2010, p. 73).

Thus, Section 5 presents a comparative analysis of the alternative board role theories which have been discussed extensively.

#### 1. COMPARATIVE ANALYSIS OF THE BOARD ROLE THEORIES

A summary of the alternative board role theories is presented in Table 4. The RA and IA acknowledge a wider scope of board roles, namely, strategic monitoring and advising, compared to the RDT and ST. Although the RDT and ST board roles are limited, both serve as a condition for ensuring an effective board. The RDT recognizes operational roles as connecting the firm with the environment through the board, thus positioning the firm. Meanwhile, the ST is concerned with the discharge of board roles within the social context. Thus, the dimensions of variable proxies are its composition and characteristics. These dimensions are not foreign to the Islamic civilization because they form part of the directive from the Al Quran and exemplified through the As Sunnah and the lives of the companions. Nonetheless, these theories are inadequate whether on their own as a theoretical lens or in a pluralistic approach that is the combination of the two for it does not conceptualize the SC board process. Moreover, the value criteria is not aligned with the IFI's raison d'être. Therefore, a more coherent theory is required as a theoretical lens.

Meanwhile, the RA discusses the concept of value, whether internal or external, through its active involvement in the board process. Hence, accountability is not confined to the end, that is, the firm value; rather, it emphasizes the accountability throughout the board process. The RA appears to be more acceptable in the conventional setting because it acknowledges the multiple roles of a board and the importance of the board process in creating value for an organization. Nevertheless, the RA is yet to be widely adopted. This situation may be due to the difficulty in gathering data, which is time consuming because the empirical study was carried out using qualitative measures (J. Roberts, McNulty, & Stiles, 2005).

Similarly, the IA also emphasizes the SC active involvement in the board process as khalifah to adhere to shari'ah to uphold the maqasid al shari'ah. Thus, the value creation here differs significantly from that in the RA because it includes both value of the worldly and the hereafter. The SC's effectiveness needs to be assessed in relation to the underlying objective of the IFI, the maqasid al shari'ah, within the proper theoretical lens to address the current challenges. Hence, this clearly indicates the strength of the IA theoretical dimensions in explaining the

phenomenon of interest in the context of the IFI. Therefore, the derived conceptual framework based on the IA is found to be the most appropriate as the theoretical lens in this study.

Insert Table 4 about here

#### 2. CONCLUSION

The IFI size of its assets is considered small as compared to that of the CFI. Nevertheless, it experiences a robust worldwide growth of 10% to 15% annually,<sup>21</sup> and is widely accepted by muslims and non-muslim alike<sup>22</sup>. Notwithstanding the robust growth, concerns that the IFI may deviate from its core foundation (Haniffa & Hudaib, 2010), that is, to adhere to the shari'ah in achieving the maqasid al shari'ah, have surfaced. The SC is the gatekeeper for the IFI; hence, the issue on SC effectiveness must be examined in relation to the IFI value creation. The issue is relatively new within the context of an institution. This paper cross-examined the issue on BOD effectiveness in the mainstream literature acknowledged that the widely used theoretical lens worldwide is the AT. Notwithstanding this fact, the current literatures have enclosed the weakness of the AT as the theoretical lens especially within the context of the Financial Institution. Subsequently, the alternatives theories; the RDT, ST and RA vis a vis with the Islamic perspective discussed earlier revealed that these conventional theories display inherent limitations within the Islamic Financial Institution. As a result, IA is found to be the most suitable theoretical lens attributed to the IFI uniqueness.

The IA is a doctrine which remains true and is applicable beyond the boundaries of time, societies, and culture; its value remains universal. This is an unchallenged statement, however, how would it be implemented effectively in an Islamic Financial Institution. The arguments set forth earlier raised concern that the IFI value creation may have not reach a sufficient level. Nonetheless, there always be a platform to improvise the current practice and how would it be within the current contextual arrangement. Thus, the conceptual framework proposes that the SC characteristic which is an important dimension is nevertheless being mediated by the SC board process in order to achieve the IFI value creation. Thus the IA theoretical dimensions encapsulate the underlying Islamic ethical values embedded throughout the entire governance process in the light of the SC roles. The IA begins with the conditions (antecedents), mediated by the process-oriented approach and, finally, the value brought to the ummah, non-muslims and the environment based on the magasid al shari'ah. Therefore based on the more appropriate theoretical lens, it is hoped that the examination of the SC effectiveness will be able to reveal the areas that need to be improvised in order to achieve the IFI magasid al shariah. In addition, the recommendation made would be able to address appropriately the areas to be improvised and the mechanism to be implemented. However, there is reservation to be made which is that the derived conceptual framework based on the contemporary structure of the IFI is subject to further refinement.

Finally, the following section discusses the limitations of the theorizing based on the Islamic precept, together with the recommendations.

#### 3. Limitations and Recommendations

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<sup>&</sup>lt;sup>21</sup> Estimation of the size, growth, and future prospects of Islamic Banking and Financial Institution was made by several agencies, namely, McKinsey 2007–2008, Asian Banker Research Group, and Bloominvest Bank Report February 2009, which produced varied statistical results.
<sup>22</sup> Islamic banking products have been widely accepted by non-muslims, and Malaysia has been cited as a good example

<sup>&</sup>lt;sup>22</sup> Islamic banking products have been widely accepted by non-muslims, and Malaysia has been cited as a good example (Blominvest Bank Report February 2009).

The literatures on governance in the Islamic finance are relatively few; conceptual and empirical studies compared to its more established counterpart, the CFI. Most of these papers are largely based on the theory borrowed from the conventional counterparts for a number of reasons. As iterated in the article, this knowledge may be borrowed, as long as the application does not deviate from the Al Quran and As Sunnah. However, the existing board theories are found to be inadequate in explaining the ontological issues affecting the SC effectiveness towards IFI value creation.

Consequently, the limitation is in terms of deriving the theoretical model based on the IA doctrine. The measurement of the tawhidic values will not be able to be measured accurately, thus the measurement will only provide some form of indicators relatively. In addition, the identification of the performance criteria based on the maqasid al shari'ah are subjective in nature as it must reflect the current context understudy which may be different due to time and place. Meanwhile, the SC board process also will only be able to be measured relatively. Thus, these dimensions only provide relative, but not absolute, measures. Hence, the proposed theoretical model based on the IA doctrine is only applicable within this contemporary structure.

Future studies are recommended to further refine and develop the dimensions proposed in this paper, and carry out empirical research on governance of IFI and also other Islamic institutions. This research direction would be fruitful because it would highlight the relevance of the IA doctrine in addressing other ontological issue affecting an Islamic Institutions on leadership effectiveness and organization value creation, specifically, and governance of Islamic Institutions, generally.

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#### **APPENDIX**

**Table 1: Governance issues in the Islamic Financial Institutions** 

-	IFI	Country	Reasons	<b>Amount of Losses</b>

Ihlas Finance House (IFH) (2000-2001)	Turkey	Lack of internal control and other external factors	Closure of IFH
Bank Islam Malaysia Berhad (BIMB) (2006)	Malaysia	Lack of internal control on Non- performing loans	RM2.2 billion
Dubai Islamic Bank (2004-2007)	United Arab Emirates	Lack of internal control: Fraud	USD501million
Shariah Governance Kuwait's Investment Dar (TIDK.KW 2009-2010)	Kuwait	TIDK. KW VS Lebanon's Bloom Bank – dispute on wakala	USD10.7million
Tabung Haji (2001, 2003)	Malaysia	Forex losses (a form of gharar)	RM 200 million
BIMB (2009-2011)	Malaysia	BIMB VS Tan Sri Khalid – dispute on <i>Bai Bithaman Ajil</i>	RM67.4 million

**Table 2: Inherent Limitations of the Agency Theory within the Conventional and Islamic Financial Institutions** 

No	Assumptions	Conventional Financial Institution	Islamic Financial Institution
1	The notion that managers' possess an opportunistic behaviour.	May not necessarily reflect this behaviour.	The managers of the IFI should have different value system which is based on the Islamic precept.
2	Two participants- managers and shareholders	To include other cash claimants.	To include investment account holders, muslim and non muslim.
3	Normal or competitive markets	Regulated and administrated market.	Similar with CFI, regulated and administrated market.
4	The nexus of information asymmetry is the principal agent relationships between managers and shareholders.	The agency problem is more complex as it includes a number of stakeholders namely the regulators and depositors.	Similar with CFI, as there are other stakeholders namely the regulators and the Investment Account Holder (IAH)
5	Optimal capital structure requires limited gearing.	Capital structure is highly geared reflecting the bank's function as an intermediary.	Not similar with CFI as it should be based on equity.

Table 3: Studies on BOD effectiveness in the Conventional Financial Institution in relation to financial performance

Author(s)	Sample	Variables

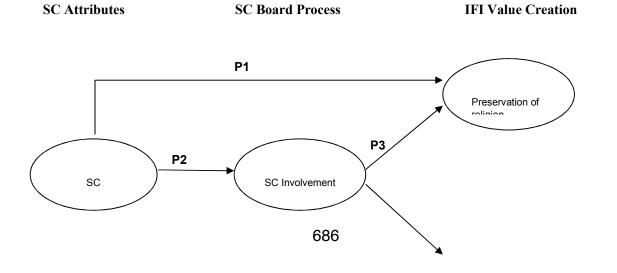
Year		
Adams & Mehran (2002, 2005, 2008)	35 US Bank Holding Companies (BHC): (1986- 1999)	<ol> <li>Size and BOD independence</li> <li>Tobin's Q</li> </ol>
Andres and Vallelado (2008) Dual role: monitoring and advising	69 Large Commercial Banks in Canada, US, UK, Spain, France & Italy	<ol> <li>Size and BOD independence</li> <li>Tobin's Q, ROA and annual market return of a bank shareholder</li> </ol>
Belkhir 2009	260 US (BHC), Savings and Loan Holding Companies (SLHC) (2002)	<ol> <li>Size and BOD Independence</li> <li>Ownership Structure</li> <li>Tobin's Q</li> </ol>

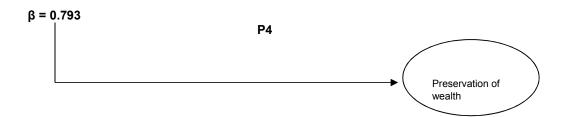
Table 4: A Comparative Analysis of the Board Role Theories: The RDT, ST, RA and IA

Dimensions	Resource Dependency	Stakeholder	Redefined Accountability	<i>Islamic</i> Accountability
Origin	Pfeffer and Salancik 1978	Freeman 1984	Huse 2005	Al Quran and As Sunnah
Board Roles	Strategic     Advising	<ol> <li>Strategic</li> <li>Monitoring</li> </ol>	<ol> <li>Strategic</li> <li>Monitoring</li> <li>Advising</li> </ol>	<ol> <li>Strategic</li> <li>Monitoring</li> <li>Advising</li> </ol>
Operational Definition of Boards	Scanning     environment     2.Represent	Defining the focal organization     Responsibility of	Engaged but non executive     Challenging but	Khalifah     Uphold the spirit     of maqasid al

Roles	the firm in community 3.Securing valuable resources	the firm adviso 3. Evaluation proposals reform	rs supportive of 3. Independent but for involved	shari'ah
Theoretical Origins	Sociology, strategy and organizational	Strategic Management	Embedded in other theories	Muamalat
Performance Criteria	Growth in Resources     Goal     achieve     ment     Relativ     Market  Position	CorporateSocial Performance	Value Creation a. Internal i. Valuefor employees i. Product innovation b. External i. Value for society ii. Impacton regional	Value Creation based on maqasid al shariah a. Hereafter b. Worldly i. Specific maqasid ii. General maqasid
Variables of Interest	Compositio     n     Characteristi     c	2. (	Com 1. Board process posit 2. Characteristics on 3. Board Structure Char acter stics	<ol> <li>Board process</li> <li>Characteristi cs</li> <li>Board Structure</li> </ol>

Figure 1: Conceptual Framework of Islamic Accountability





## THE REALITY OF (FDI) IN QATAR AFTER 2003 2003 واقع الاستثمار الاجنبي المباشر في قطر بعد

#### Dawood Asleman Amir Shaharuddin

#### الملخص

السنو اتالماضية العديدمنالتطور إتو التغير إتالاقتصادية التي شهدالاقتصاد في دولة قطر خلال والنهو ضبالتنمية الاقتصادية فيها ساهمتفياز دهار الاقتصاد القطري كمايشهدا لاقتصاد القطريفيالو قتالحاضر إصلاحاتاقتصادية وتغير اتهيكلية تهدفإلى قطر خصخصة بعضالقطا عاتالا قتصادية لتخفيفالعبء علىالقطا عالعامو إعطاء القطاعالخاصدور أكبر أفيالمسير ةالتنمو يةفيدولة المجالس للأستثمار كذلكتمانشاء العديد و الهيئاتالتيتعنيبالاستثمار مثل الترويج أدارة ونظر ألأهمية الاستثمار اتالأجنبية فيمشرو عاتالتنمية الاقتصادية فقدحرصت دو لة قطر علىجذبالمز بدمنهذهالاستثمار اتعنطر بقتحدبثنظامالاستثمار الأجنبيمنخلالمنحالعدبدمنالحوافز والامتباز اتللمستثمر الأجنبي، و تذليلالعقو بإتالنظاميةالتيتحدمنه، و إنشاء هيئة متخصصة تقو مبتو فير الإطار التسويقيالأمثلو اللاز ملاستغلالمقو ماتجاذبية الاقتصاد القطر يعلىالو جهالمطلو بفيو قتتشتدفيهالمنافسةبينالدو لللحصو لعلىامتياز اتاستثمارية و قدتناو لتالدر استماهية الاستثمار الأجنبيالمباشر و أنو اعه، ودو افعه، و أثر هعلىالدو لالمضيفة، والأراءالمؤيدة والمعارضة لهمنحيثأثر هعلىاقتصاداتالدو لالمضيفة ، والحوافز التيتقدمهادولة قطر لتشجيعالاستثمار الأجنبيالمباشر بشكلعام، والمقوماتالتيتمتلكها دو لة قطر دولة قطر لتهيئةالمناخالمناسبللاستثمار، وأنظمةالاستثمار الأجنبيالمباشر في وكانمننتائجالتحليلالوصفي واعتمدتالدر اسةعلىالتحليلالوصفيللاستثمار الأجنبي وأمريكيا ابريطانيا من كلاً وكذلكاستحوذت والصناعة والغاز النفط قطاعات في ازديادحجمالاستثمار الأجنبيالمباشرفي الاجنبية الاستثمارات منحيثإجمالي الاكبر النسبة على وأوصتالدر استبدر اسةالمعو قاتالتيتحدمنتدفقالاستثمار إتالأجنبيةسو اءمنالناحيةالقانونية أو الإجر ائية، و الإسر اعبحلها

#### المقدمة

يشكلالاستثمار الأجنبيالمباشر أحدالمتغير اتالمؤثر ةفيتطور البلدانونمو هاومؤشر علىانفتاحالاقتصادوقدر تهعلىالتعاملوالتكيفمعالتط لذلك فقد اتجهت دولة قطر الى تعزيز دور الاستثمار الاجنبي المباشر لمواكبة التطور الاقتصادي العالمي, وراتالعالمية، أبرز ومن الأجنبي، الاستثمار جذب مقومات من متكاملة مجموعة وتتميز دولة قطر بمميزات اقتصادية كبيرة متمثلة في ذات للصناعات نسبية مزايا تقدم التي الإنتاج عوامل من جملة وتوفر والاجتماعي، السياسي الاستقرار المقومات هذه اقتصاديا ثقلا يمثل مما العالم في المصاحب غير للغاز منفرد حقل أكبر قطر لدى يتوفر حيث للطاقة الكبير الاستهلاك عبر ممتدة جزيرة كشبه للدولة الجغرافي والتكوين الخليج منطقة مركز في المتواجد الجغرافي موقعها إلى بالإضافة للدولة لأن الدولة فرص من يزيد الذي الأمر الخليج مياه عبر ممتدة وسواحل بحرية منافذ وجود ميزة لها يضيف مما الخليج مياه الاقتصاد سياسة تتبع قطر أن إلى إضافة ، (2010 القطرية التجارة وزارة) الاستثمارية بالأعمال للقيام جيدا مركزا تصبح العالم دول كافة على المفتوح الاقتصادي التوجه هذا ودعم لإرساء بتحديثها وتقوم والتشريعات القوانين بسن وتقوم الحر فضلا الخارج إلى المالية والتحويلات المعاملات إجراء أو بالأعمال القيام على قيود أو جمركية أعباء أية هناك وليست

ربحية معدلات رفع شأنها من التي والتسهيلات الحوافز لتوفير والتشريعات القوانين بعض بسن قامت الدولة أن فيها تقام التي المشروعات

#### مشكلةالبحث

التي للقدرات نظراً والإجتماعية، الاقتصادية التنمية في العام القطاع على رئيس بشكل قطرولازالت دولة اعتمدت لقد هذه جراء مالي فائض من لديها تراكم وما الماضي القرن من السبعينات في البترول أسعار ارتفاع منذ القطاع هذا يتمتعيها والاقتصادية السياسية والأحداث الظروف أن إلا . الطفر قفي الاسعار والاحتياطي الكبير من النفط التي تمتلكه دولة قطر الاقتصادية التنمية في الدور هذا مواصلة على قادر غير القطاع هذا جعلت العالم دول كل في كما قطر دولة بها التيتمر قطر دولة توجهت والاجتماعية، الاقتصادية التنمية في يلعبه أن الخاص للقطاع يمكن الذي للدور ونظراً. والاجتماعية تشجيع إلى اتجهت كما استثماراته، زيادة على وشجعته الامتيازاتوالمميزات، من الكثير ومنحته القطاع، هذا دور لتعزيز هذا فإن ذلك وبناء على المضيفة للدول الاجتماعية و الاقتصادي النمو في ودورها المباشرة الأجنبية الاستثمارات سيتناول البحث سيتطرق كما الماضية سنوات العشر خلال جداً عالى بمستوى العالمية التنافسية معدل وارتفاع كبيرة قفزات من المباشر بسبب العربي الخليج دول في للدخل أساسي كمصدر النفط على الاعتماد وعدم الدخل مصادر تنويع حيث من فائدة إلى التنمية، في الخاص القطاع لدور وتفعيلها ذلك، عن الناتج السلبي الأثر وتجنب العالمية، الأسواق في النفط أسعار تقلبات التنمية، في الخاص القطاع لدور وتفعيلها ذلك، عن الناتج السلبي الأثر وتجنب العالمية، الأسواق في النفط أسعار وحقيق التنمية، في الخاص القطاع لدور وتفعيلها ذلك، عن الناتج السلبي الأثر وتجنب العالمية، الأسواق في النفط أسعار وحقيق

#### أهدافالبحث

فترة خلال قطر دولة إلى المباشرة الأجنبية الاستثمارات تدفقات حجم \_استعراض 1 لتشجيعها تمنحها التي والمميزات الاستثمارات، لهذه المنظمة والقوانين والأنظمة الدراسة قطر،سنة 2003 الى 2010 دولة في الاقتصادي النمو في ودورها المباشرة الأجنبية الاستثمارات أداء -تقويم 2

#### أهميةالبحث

كافية وجاذبية ميزة لها يتيح مما نسبياً جيدة تحتية وبنية الأساسية الطاقة ومصادر الأموال بتوافر قطر دولة تتمتع بدور يقوم اقتصاد أي في الأجنبية أو منها المحلية سواء الأموال رؤوس استثمار أن وحيث. والأجنبي المحلي للاستثمار استثمار تشجيع إلى الحكومات توجه ضرورة يحتم ذلك فإن فيه، والاجتماعية الاقتصادية التنمية لعملية الرئيس المحرك التنمية مشروعات في الأساسية الركيزة هي الوطنية الاستثمارات أن وبما الإنمائية المشروعات في الأموال رؤوس الأموال رؤوس الأموال رؤوس في يوجد قد الذي النقص لاستكمال معزز بدور تقوم الأجنبية الاستثمارات أن إلا والاجتماعية الاقتصادية الإنتاج فنون تقنيات نقل في سواء المضيفة الدول في المتطورة التقنية واستزراع نقل على قدرة من تحمله وما المحلية، مهارات الوطنية وإكساء الكوادر لتدريب إمكانيات من الاستثمارات هذه يصاحب ولما والتسويق؛ والإدارة التنظيم أوطرق البنيان وتطوير والمؤسسات، الأفراد إنتاجية ورفع التشغيل، فرص من يزيد مما المتقدمة والإدارة والتسويق الإنتاج الوطني وتنويعه، وبالتالي والاجتماعي الاقتصادي الوقتصادي ألأداء تحسن وتنويعه، وبالتالي والاجتماعي الاقتصادي

#### البحث نطاق

الاستثمار ودور أهمية نتناول سوف ولذلك قطر دولة في الاقتصادي النمو في ودورها الأجنبية الاستثمارات البحث يشمل سياسة اتباع بداية هذا البلد وهيمرحلة الاقتصاد تطور مراحل من مرحلة من وأكثر. تحكمه التي والأنظمة الأجنبي عام في الاستثمار على وتأثيرها العالمية المالية الازمة وكذلك ,2003 الخليج حرب بعد ما القطري الاقتصاد في الاستثمار وانحسارها، ركودها وفترة في دولة قطر، الأجنبية الاستثمارات وازدهار انتعاش فترة البحث سيشمل وعليه , 2008 العالمي الاقتصاد في والتطورات التغييرات وكذلك .

#### البحث منهج

بسنستخدم البحث هذا أهداف لتحقيق

.2010 الى 2003 قطر من دولة في المتعلقة والسياسات والأنظمة المباشرة، الأجنبية الاستثمارات لتطور الوصفي المنهج القطرية الحكومة والتقارير الدوريةالصادرة عن إلدولي النقد صندوق عن الصادرة واشتملتمصادرالبياناتعدداً منالتقارير طريق عن ماليزيا في القطرية السفارة من والاستفادة للأحصاء قطر ،ووزارتيالاقتصادوالتخطيطوالتجارة والصناعة وجهاز اللازمة بالبيانات لتزويدنا السفير مع المقابلات اجراء

#### السابقة الدراسات

والمحلينظر ألتأثير هاعلىاقتصادياتالدو لالمضيفةلها نالتدر اسة الاستثمار اتالأجنبية قدر أمنالبحثو التقصيعلى المستويينالعالمي الدر اسات تقسيم وسيتم وعليه سيتمفيهذا الفصلاستعر اضعدد منهذه الدر اساتو البحوث منحيثموضوعاتها، والنتائج التيتوصلت اليها الاجنبي الاستثمار مجال في المتبعة الاقتصادية والسياسات والتطبيقي النظري الجانب حيث من اقسام عدة الى السابقة والمعارضة التأييد حيث من الاجنبي الاستثمار في الاقتصاديين رأي الى الباحث يتطرق سوف وكذلك المباشر

الدراسات النظرية للأستثمار الاجنبي المباشر

دراسة من كلا دراسة ( Mallampally and Sauvant 1999) من كلا دراسة أوضحتهذهالدراسةمدياهتمامالبلدانالناميةبتحسينالمتغير اتالمؤثرة علىالمستثمر ينمنحيثتفضيلهملبعضالمواقعدونبعضها, الأخر، ثمقسمتمحدداتالاستثمار الأجنبيالمباشر إلىقسمين

سياساتالخصخصة، والسياسة الضريبية، والاستقرار السياسيو الاقتصادي: سياساتالاستثمار الأجنبيالمباشرنحو: القسمالأول المحدداتالاقتصادية، وقسمت الشلاثمجموعاتهي: القسمالثاني

. المحدداتالمتصلةبتو افر الموارد، والمحدداتالمتصلةبحجمأسو اقالسلعو الخدمات، والمحدداتالمتصلةبمز اياالتكلفة فيالإنتاج وخلصتالدر اسة إلى أنالأسو اقالعالمية الخاصة بالاستثمار الأجنبيالمباشر أصبحتنا فسية للغاية حيثانالسياساتالتقليدية لمتعدقا درة على جذب وخلصتالدر اسة أظهرت بينما معضلة أمامالبلدانالنامية الساعية إلى تطوير حزمة ملائمة منالمحدداتالجاذبة الاستثمار ممايشكل واعتمدت الارتباطالعكسيبينالاستثمار الأجنبيالمباشر والنمو الاقتصاديفيالعالمالثالث (1992)

الدراسة علىتحليلتأثير مستوىالاستثمار الأجنبيالمباشر علىمعدلنمو الناتجالمحليالإجماليفي

(وتوصلتالدانهناكار تباطعكسيبينالاستثمار الأجنبيالمباشر ومعدلنمو الناتجالمحليالإجماليفيالفتر ةمابين دولةنامية (75(

1980(1975 من كلا اما دراسة, كماتوصلتالدراسة إلىأنالنتائجالتطبيقية لاتتفقمعنظرية بعينها- 1980(1975 Ang, and Tcha 2000, (Groenewold عنمحددات 1985)1994)

وقدر بطالباحثانا لاستثمار الأجنبيالمباشر فيالنموذجالمستخدمبمحدداتا لاستثمار الأجنبي، وتوصلتالدر اسة إلى أن أهممحدداتا لاستثمار الأجنبيفياستر الياهيإجماليالناتجالمحلي، ومعدلاتا لاستثمار المحلي، والميز انالتجاري، والتجارة الخارجية كجزءمنا لإنتاجالمحلي، ون

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مطالصناعة فيها، وتكاليفا لأجور الحقيقية، ومعد لالتضخمفيالبلد المستضيف
كماتو صلتالدر اسةأيضاً إلىأنهنا كأثر أسلبياً للاستثمار اتالأجنبية إذاا تجهتا صناعاتمنا فسةللصناعاتالمحلية
                                                                                                   و تناو لت
                                                                                                                    در اسة
                                                 عنالأثر غير المباشر للاستثمار اتالأجنبية المباشرة علىتفاقممديونية الدو لالنامية
1988)عاطفالنقلي(
بينتهذهالدر اسةكيفيةتمو يلالاستثمار إتالأجنبيةالمباشر ةلتو سعافيالبلدانالناميةو ذلكعنالطريقر أسالمالالمتاحمحلياً،الأمر الذيأسهمو بـ
شكلكبير فيحر مانالاستثمار اتالو طنيةمنفر صةالتمو يلالمحليءو لجو ئهاإلىالاقتر اضالخار جيلتمو يلاستثمار اهاممانتجعنهتبعيةالدو لا
عتفعيلدور الاستثمار اتالأجنبية المباشرة وعلاقتها بالتجارة الخارجية أما لنامية للدو لالصناعية، ففاقمهذا منمشكلة مديونيتها
((Aizenman
فقدتو صلالباحث إلى أنهذها لاستثمار اتمحفزة ومشجعة للدولة المضيفة إذا استطاعتتحقيقمنا فعمنها لمتحققها فيمجا لآخر 1992
ولكييتمتحقيقهذ هالمنافعلابدمنتشجيعو جذبالاستثمار اتالأجنبية ،كماتو صىلإلىأنالشر كةالمستثمر ةءأو الفر دالمستثمر يتطلعانالممنافعو
أر باحباستغلالالميز ةالنسبيةللدو لالمضيفة، وأنهفي
حالة فتحالدولة المستثمر ةبابالتجارة الخارجية، فإنفر صالحصولعلى المنافعو الأرباح أفضلو أسرع
كماتو صلتالدر اسةإلىأنالنتائجالتطبيقية لاتتفقمعنظر يقبعينها
                                                              التي1997)عبداللهالسلامة، ( در اسة اما
                                                                                                                     كانت
حو لالاستثمار الأجنبيالمباشر و الدو لالنامية
                                                والتي
                                                             ركز تعلىالآثار الاقتصاديةللاستثمار الأجنبيالمباشر فيالدو لالنامية
و تحديداً علىالدو لحديثةالتصنيعو التياستطاعتاستقطايه،كماأشار تالناسبابنجاحالاستثمار الأجنبيالمباشر فيهذهالدولو منهاأنهذهالدوك
V
تفر ضقيو داً على الملكية بالنسبة للاستثمار الأجنبي، كماتت صفسياساتهذهالدو لالاستثمارية بالوضوحو الشفافية ووجودجهاز مستقلتعنب
الشؤونا لاستثمارية وتوافر المناخا لاستثمار يالملائم
وأظهر تالدر اسةالعو املالمحفز قللاستثمار الأجنبيالمباشر فيالبلدانالناميةو ذلكمنو جهةنظر الشر كاتالمختلفةمثلتعظيمالأر باحءو تقدي
مالحو افز ، والحصو لعلى المواد الخام، ومنثما لاستقر ار السياسي
                                                                                                            آلالشيخ(دراسة
                                                                               وبينت.
عنالاستثمار الأجنبيفيالسعو دية ودور هفينمو القطاعالصناعيدر استقياسية 2001)
                             (قامتالباحثة فيهذهالدر استبتقدير دالة الإنتاجباستخدامنموذج-1970)
(1999للفترة
                                                                                                              كو بدو جلاس
للمتغير التابعللناتجالصناعيو المتغير اتالمستقلةالتيتشملر أسالمالالمحليو الأجنبيءو العمل؛لتقييمأداءالاستثمار اتالأجنبيةو مدىمساهم
تهاالمباشر ةفينمو القطاعالصناعيباستخدامالطر قالقياسيةالحديثة
وتو صلتالباحثةالبأنالاستثمار اتالأجنبيةفيالسعو دبةسا همتفينمو الناتجالصنا عبخاصة عندماو جهتهذ هالاستثمار اتنحو مشر وعاتالبنب
قالأساسية، والمشر وعاتالتيتمتلكفيهاالدولةميزةنسبية
                                                          در اسة
                                                                       (وبينت
                                                                                      العبدالمنعمو المحبمبد،
                                                                                                                   (1999)
)عنالاستثمار اتالأجنبية المباشرة، والصادر اتغير النفطية خلالالفترةمن
                                                                                                                   1971-
قامالباحثانيبناءنمو ذجقياسيباستخداماختبار جذر الو حدةلدر استمديقدر ةالاقتصادالسعو ديعلىالمشار كتمعالاستثمار ات(1994
الأجنبية فيزيادة الصادر اتغير النفطية عنطريقمساهمة القطاعاتا لإنتاجية الأخريكالصناعة والزراعة والخدمات
وتوصلتالدر اسةإلىأنالشركاتالأجنبيةلمتساهمفيتو سيعوتنو يعصادر اتالمملكة غير النفطية
وذلكلعدة أسبابمناهمهاأنالمملكة لمتدركاهمية الاستثمار الأجنبيفيزيادة صادراتهاغير النفطية إلابعدتدنيإير اداتهاالنفطية الذلكاقترحتال
زودة) دراسة وجاءت دراسة تقليلالحواجز الضريبية معزيادة الإعاناتو القروضللمؤسساتا الأجنبية الموجهة إلىتنمية الصادرات،
                                الاخطاء
                                                 التي
                                                                         تقلل
2008)
                لتو ضح
                                                             يقع
                                                                                      نجاح
                                                                                                   الاستثمار
                                                                                                                     حيث
أدبالاستثمار الأجنبيالمباشر بشتنأشكالهكإنشاءمشر وعجديدبالكاملأو تملكأصو لمنشأةقائمةأو منخلالعمليةالدمج،خلالالنصفالثانيمنا
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القر نالماضيدور ا هامافيد عمنمو اقتصاداتالدو لالنامية ، لاسيماخلا لالعقدينالماضيناللذينشهداز يادة كبير قفيحجمالتدفقاتا لاستثمارية ، و تفسر التغير اتالتيطر أتعلد هيكلالاقتصاد العالميمعظمتلكالزيادة وهي :

الاتجاهنحو السوقفيمعظمالدو لالناميةوتحرير نظمالتجارة والاستثمار ،فضلاعنزيادةمساهمة هذهالدولفيالتكاملالاقتصاديالعالمي؟ وتلعبالشركاتمتعددة الجنسية القناة الرئيسية التيتدير تدفقاتا لاستثمار الأجنبيالمباشر حو لالعالم، وذلكمنخلالعملياتا لاندماجمعالشركاتو الدو لالأخريا والاستحواذ عليها)

( زودة) ويقول وتتبعكبرياتالشركاتمتعددةالجنسيةالدو لالمتقدمةكالو لاياتالمتحدةالأمريكية، وبعضالدو لالأوروبية واليابان النتبار المختلفةالدول ويقول ويقول وتتبعكبرياتالشروالدور الذييمكنأنيلعبهفيتحقيقمنافعهامةالدو لالمضيفةله، ومنتلكالمنافع انالتجار بالمختلفةالدول توفير مصادر متجددة وبشر وطجيدةالمحصولعلدالعمو لاتأور ؤوسالأمو الالأجنبيةاتمويلبر امجومخططاتالتنمية، والإسهامفيتنميةالملا كيةالوطنية ورفعمساهمةالقطاعالخاصفيالناتجالوطني، وخلقطبقة جديدة منرجالالأعمالعنطريقاستحداثمشر وعاتجديدة، أيضايسها على الدو لالمضيفة النامية الحصولعلالتقانة الحديثة والمطور قخاصة لبعضأنو اعالصناعات، توفير فرصعمل جديدة، فضلا عنالمساهم قفيتتماسو اردالبشرية، تذكية المنافسة بينالشركاتالمحلية منأجلت حسينالنو عية فيالخدماتو المنتجات، وبالتاليخفضالاحتكار، والمساهمة فيفتحأسو اقجديد قالتصدير وتحسينوضعية ميز انالمدفو عات، وهذاما يفسر تنافسالدو لالنامية للفوز بأكبر حصة ممكنة منالاستثمار اتالأجنبية المباشرة وإذاكانالمستثمر يتخذالقر اربالمفاضلة بينالمشرو عاتفيد اخلاقتصادبلد همنحيثدر ججدواها الاقتصادية والفنية وسلامتها المالية ومعد لالعائد الذيبتولدمنا لاستثمار فيها، فإنالمستثمر الأجنبيالذيبقر رفيالاستثمار المباشر خارجبلد هيقو مقبلذلك بالمفاضلة بينالدو لالتبير غبفيا لاستثمار فيأيمنها، منحيثتوا فرالشر وطوالمتطلبات الأساسية التيتضمنسلامة استثمار هو تدفقعائدات، أوقديتخذ مجتمعينحيث أنالا ثنينمتداخلان (الجدو بالمالية والمفاضلة بينالبلدان) القرارين مجتمعينحيث عنفينا الاستثمار الجدو بالمالية والمفاضلة بينالبلدان) القرارين

إذنيمكنالقو لأنقر ار الاستثمار الأجنبيالمباشر هو دالةلجملة معادلتين غير مستقلتين، حيث

المعادلة الأولىت تعلقبقر ار المفاضلة بينالدو لالمضيفة منحيث محددات جاذبية مناخها الاستثماريبا عتبار هذهالمحددات هيالمتغير اتالمفسرة لهذا القرار، أما المعادلة الثانية فتتعلقبقر ار المفاضلة بينمشاريعا لاستثمار المباشر منناحية جدواها الاقتصادية وسلامتها المالية عنطر ان (زودة) ويقول يقمعايير در اسة الجدو بالكلاسيكية المتعارفعليها اعتمادتو قفجاذبية الدول علىمديكفاء قمحدداتمنا خها الاستثماري، ومامديت أثير هاعلىمساروقرار الاستثمار الأجنبيالمباشر، حيثتوصلة الدر اسة إلى أنالوضع العياسيو الأمنيللدولة ومديماتمناز بهمناستقرار وتنظيماتها لإدارية، وماتتميز بهمنفعالية وكفاء قفينظامها القانوني، ومديم ونتهو وضوحه واتساقه وسياسات الدولة الاقتصادية وإجراء اتها وطبيعة السوقو آلياته وإمكانياته، وماتتميز بهالدولة منمنش آتقاعدية، وعناصر الإنتاج، وماتتميز بهالدولة منخصائص جغرافية وديمغرافية، كلذلكيشكلم حدداتما اصطلحعليه تسمية المناشرة المناخالاستثماري"

تبينالدر اسة أيضا أنهنش أتفيال عقود الأخير ةمؤسساتو منظمات تعملعلى مدر جالالأعمالفيالدولبمعلو ماتر قمية تساعد همفيات خاذالقر ار، مذ " ويطلقعليها تسمية "كلمة واحدة" أو "رقمواحد" خلالتطوير مؤشر اتتعكسنسبيا مناخالا ستثمار فيبلدما عنطريق "محسناتالقرار

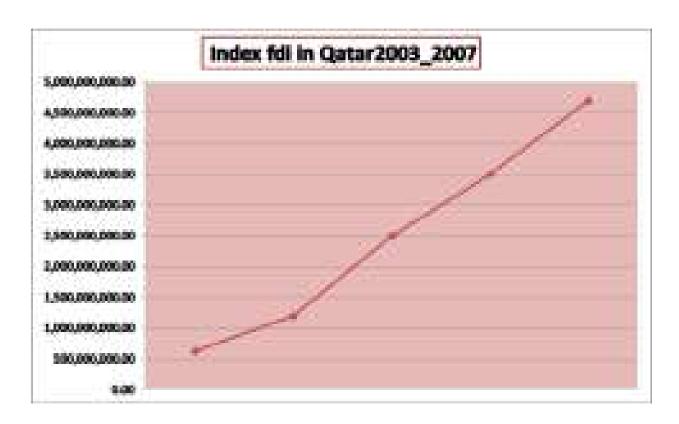
لغر ضمساعدة صانعيالقر ال فيتلكالدو للمعرفة وضعبلد همضمنالدو لالمختلفة، وماينقصلجذبالاستثمار الأجنبيالمباشر ؛ اتضحمنخ لالالدر اسة أنهبالر غممنالجهود المبذولة والمكر سقلتر قية وتشجيعا لاستثمار اتالأجنبية المباشرة والعربية البينية فيالجزائريبقدائمام ناخها الاستثماريغير جذاب، لأنحجمهذه الاستثمار اتالمسجلة فيالبلاد لمتكنتتنا سببأيحالمنا لأحو المعمستو بالطموحات، حيثكانتبعيدة كلالبعد عنماكانمتو قعامنوراء التوسعفيمنح الحوافز والتسهيلاتللمستثمرينا لأجانب، كما أنحجمها لميقتر بمنمستو بالاستفادة منالفر صالاستثمارية الهائلة التبيتو فرعليها الاقتصاد الوطني،

در استهم في الوصفي التحليل الباحثون واتبع المباشر الاجنبي للأستثمار النظري الجانب الدراسات هذه تناولت لقد

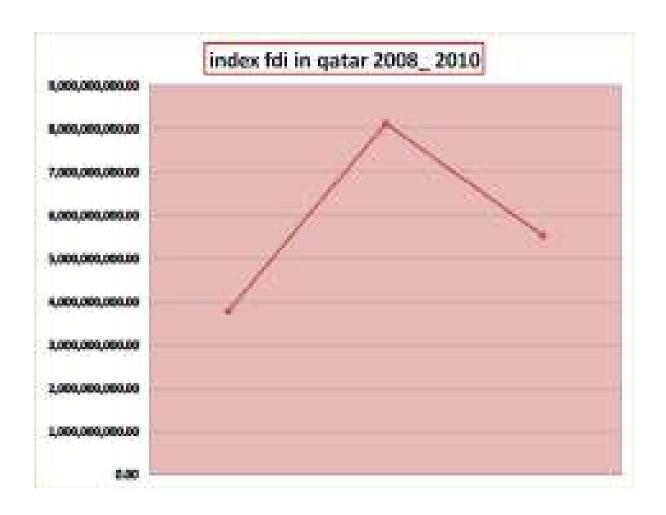
#### (2003 2010) قطر في الاجنبي الاستثمار من الوافدة صافيالتدفقات استعراض

ان سياسة الاستثمار في قطر شهدت تقدم سريع وقفزات ثابتة خلال العشر سنوات الماضية انها أثبتت نجاح مميز جعلها تنافس الدول المتقدمة حيث فبالإضافة الدماتم ايضاحه سابقاً منطر قوسياسات جنبالاستثمار اتالأجنبية الاستثمار ات نسبة وأن دولار بليون 26في مجال الاستثمار حيث بلغ حجم الاستثمار في قطاع النفط والغاز فقط حوالي في الاستثمارات تطوير على جاهدة عملت فقد والغاز النفط قطاع عند تتوقف لم قطر دولة ان الا بليون 1 هي الاجنبية والقطاعات جميع

اي 1198970000 الى قفز انه الا 624920000 قطر في المباشر الاجنبي الاستثمار تدفقات حجم بلغ20000 عام ففي الاستثمارات هذه استقطاب في نجحت فيقطر الاستثمارية السياسة ان على يدل مما 2004 عام في 45% يقارب بمعدل ان وصل الى الى وصل ان الى الاجنبي الاستثمار معدل ارتفاع واستمر المجال هذا في متقدمة مرحلة الى وصلت وانها 100% في عام 2005 حيث تعتبر قفزة كبيرة في مجال الاستثمار الاجنبي اذ وصلت الى 2006350000000, ثم جاءت سنة ان الا السابقة السنة من اقل نسبة وهي 50%بمقدار زيادة وهي 20063500000000 حيث بلغت نسبة تدفقات الاستثمار ارضها الى الاستثمارية الشركات جذب في التقدم في الاستمرار على قطر حافظت حيث يتراجع لم التدفقات في الارتفاع وتيرة وبقيت التدفقات اجمالي عن ينتج مما 50% بلغت التي السابق للعام الزيادة نفس وهي 2007 عام في ثابتة الارتفاع وتيرة وبقيت التدفقات اسبة في ملحوظ تقدم وهو 470000000 هي قطر الى دخلت التى التدفقات نسبة في ملحوظ تقدم وهو 470000000 هي قطر الى دخلت التي



تسهيلات من قطر دولة قدمته ما وكذلك , 2003 لعام القوانيين في التعديلات مع جاء التدفقات نسبة في الارتفاع ان الاستثمار نطاق توسيع الاستثمارية التدفقات مؤشر في المتسارع التقدم يبين كما ,المستثمرة الشركات لجنب مالية وضريبية بغت حتى الاستثمارية للتدفقات الاداء ارتفع فقد 2008 عام يخص فيما وأما .القطاعات جميع ليشمل قطر في وهو %25الى يصل تقريبي بمقدار الاستثمارية التدفقات في الاداء ليتراجع منخفضة نسبة وهي 3,778,626,373.63 للشركات الاقبال ظعف الى ادى مما العالمي الاقتصاد على وتأثير ها العالمية المالية الازمة بسبب وذلك قليل غير فارق فقط يقتصر لم التأثير هذا وأن ,المالية بالازمة المباشر التأثر بسبب الاستثمار على والاوربية الامريكية وخاصة الاجنبية جذب في دولى ثاني لتبقى مركزها على حافظت قطر ان الا العربي التعاون مجلس دول جميع شمل حيث قطر على وصل حيث و000 عام في يتحسن ان استطاع الاستثمارية للتدفقات الاداء ان الا .السعودية العربية المملكة بعد الاستثمار الاجنبية الاستثمارية التدفقات في الاكبر هي النسبة وهذه %120 تصل تقريبي بقدار وهوزيادة 43,124,736,263.74 الى السبب ويرجع 120,534,454,212.45 الى ليصل الى النسبة هذه تراجع الى الكبير التراجع هذا في السبب ويرجع 5,534,454,212.45 الى ليصل الى النسبة هذه تراجع الى الكبير التراجع هذا في السبب ويرجع 200,534,454,212.45 الى ليصل الى النسبة هذه تراجع الى الكبير التراجع اكتمالمشروعخطوطإنتاجالغاز الطبيعيالمساللشركة فطر للغاز فيالعامحيث



الاجنبي الاستثمار تدفقات نسبة في مستمر تقدم هناك ان 2010 الى 2003منذ قطر في تدفق الاستثمار مؤشرات من نستنج اذا طبيعي التأثير وهذا الاحيان بعض في الا التدفقات مستويات على تؤثر لم العالمية الاقتصادية العوامل وان وقطر في وهذا العربي الخليج دول وخاصة العالم دول مع مقارنة كبيرة غير التأثير نسبة فأن الاخرى العالم دول التأثير في قارناه ما ان على ساعدها مما الاقتصادية النشاطات جميع في قطر دولة اكملته الذي الاقتصادي للنجاح شهادة يمثل التقدم

العالمية المالية المشاكل جميع من الرغم على المباشر الاجنبي الاستثمالر جذب في العالم دول تنافس تدفق على وحافظت الاجنبية الشركات جذب القطرية القطاعات استطاعت العالم دول في المستثمرة الشركات وتأثر مما مرات خمس من بأكثر قطر أصدرتها التي السيادية السندات تغطية طريق عن المحلي الاقتصاد وتنشيط الاستثمارات وركود السيولة في نقص من تعاني كانت الذي العالم دول مع مقارنة النمو على وقدرته القطري للاقتصاد قوية شهادة يعد الدولية الأسواق على على أثرت التي الرئيسية كبير و هيالمشكلة اقتصادي

#### قطر في المستثمرة الاجنبية الدول

ساهمت الشركات المستثمرة في قطر في تطوير الحالة الاقتصادية والاجتماعية وساهمت ايظاً في تنمية الموارد البشرية من تدريب الموظفين والعمال في قطر و كذلك ساهمت هذه الشركات المستثمرة في تحسين ميزان المدفوعات عن طريق تدريب الموظفين والعمال في قطر وكذلك ساهمت هذه الشركات المستثمرة في تحسين ميزان المدفوعات عن طريق من تدريب الموظفين والعمال في قطر وكذلك ساهمت هذه الشركات المستثمرة في تحسين ميزان المدفوعات عن طريق

وعلى الرغم من نجاح دولة قطر في جذب الاستثمار الاجنبي الا ان مجموع الشركات التي استثمرت في قطر تركزت في خمسة دول فقط, وهذه الدول هي ابريطانيا والولايات المتحدة والامارات العربية المتحدة واليابان وكوريا الجنوبية, وكان مجموع نسبة الدول الخمسة المستثمرة في قطر 80.2 من مجموع الاستثمار الكلي.

	المستثمرة الدول
المباشر الاجنبي الاستثمار نسبة	
35.5	المتحدة المملكة
26.3	المتجدة الو لايات
7.7	العربية الامارات
7.0	اليابان
3.6	الجنوبية كورية
80.2	المجموع

#### القطاعات التي جذبت الاستثمار

على الرغم من تنوع الانشطة الاقتصادية في قطر الا ان خمس قطاعات فقط استطاعت جذب اكبر نسبة من حجم التدفققات وهذه القطاعات هي النفط والغاز الطبيعي والصناعة والاعمال والخدمات والبناء والقطاع المصرفي حيث استحوذت على نسبة 93.9 من مجموع نسبة الاستثمار الاجنبي في قطر الا ان قطاع النفط والغاز سيطر على 50.7 من هذه النسبة واختيار الشركات الاجنبية لقطاع النفط والغاز الطبيعي بسبب الاحتياط الكبير التي يتمتع به هذا القطاع.

لقد استطاعت الاستثمارات الاجنبية في هذه القطاعات على رفع المستوى الفني والانتاجي عن طريق استيراد الخبرات الفنية التي جائت مع الشركات الاجنبية الى قطر وزيادة نسبة العاملين في هذه القطاعات.

الاستثمار تدفقات نسبة	الاقتصادي النشاط
50.7	الغاز النفطوالطبيعي
25.8	الصناعة
7.3	والخدماتالأعمال
6.5	البناء
3.6	المصرفي القطاع
93.9	المجموع

نتائج الاستثمار الاجنبي المباشر في قطر

ساهم الاستثمار الاجنبي المباشر في دور كبير في النشاط الاقتصادي في دولة قطر حيث وصل صافي التدفق من الاستثمار الاجنبي المباشر في قطر الى 5.1 من مجموع الناتج المحلي وهذه النتيجة ليست سيئة مقارنة مع الاقتصاديات العالمية الاخرى وان هذه النتيجة مرشحة للارتفاع في المستقبل, وايظاً ساهم في تشغيل حوالي 94.4 الف عامل نتيجة أخر أحصائية لعام 2009 حيث يعادل حوالي 18%من نسبة المواطنين في قطر وهذه نسبة كبيرة جدا حيث استطاعت دولة قطر من تقليص حجم الانفاق على الاجور الشهرية.

ويمكن تلخيص هذه النتائج بعدة نقاط:

1-دور تدفقات الاستثمار الاجنبي المباشر في تحسين ميزان المدفوعات في قطر عن طريق تدفق رؤوس الاموال .
2- دور الاستثمار الاجنبي المباشر في تقليل نسبة البطالة في قطر عن طريق زيادة عدد العاملين في الشركات المستثمرة .
3- الدور الذي يقوم به الاستثمار الاجنبي المباشر في تقليل الاعتماد على النفط في الميزانية العامة .
4- تقليل مستوى الانفاق الحكومي في قطر عن طريق الاعتماد على الاموال الخارجية .
5- تطوير الخبرات الفنية للموظفين في قطر عن طريق استيراد الخبرات الاجنبية المتطورة التي تأتي مع الشركات .
6- تنشيط الروح التنافسية بين الشركات الاجنبية والشركات المحلية مما يتيح الفرصة للشركات الوطنية ان تتقدم فنياً مما يفتح الطريق أمام دولة قطر على الاعتماد على امكانيتها المحلية في المستقبل .

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# الصناديق الوقفية المعاصرة في ماليزيا: صندوق وقف الجامعة الإسلامية العالمية نموذجا عبد الكبير بللو أديلاني

### ملخص البحث

يتناول هذا البحث دراسة الصناديق الوقفية في ماليزيا: صندوق وقف الجامعة الإسلامية -ماليزيا نموذجا. فالصناديق الوقفية هي الإطار الأوسع لممارسة العمل الوقفي، ومن خلالها يتمثل تعاون الجهات الشعبية مع المؤسسات الرسمية في سبيل تحقيق أهداف التنمية الوقفية. حيث تمدف الصناديق الوقفية إلى المشاركة في الجهود التي تخدم إحياء سنة الوقف عن طريق طرح مشاريع تنموية في صيغ إسلامية للوفاء باحتياجات المجتمع، وطلب الإيقاف عليها، بالإضافة إلى حسن إنفاق ربع الأموال الموقوفة لتلبية الاحتياجات الاجتماعية والتنموية التي يفرزها الواقع. غطت أنشطة صندوق وقف الجامعة الإسلامية العالمية بماليزيا أوجه الحياة الاجتماعية وامتدت لتشمل المرافق التابعة لها من كفالة الضعفاء والفقراء والمساكين وطلاب العلم بتقديم المنح الدراسية والمساعدات المالية لطلابها. يتحدث هذا البحث عن الصناديق الوقفية، تعريفها، أهدافها، وإدارةا، ودور الصناديق الوقفية في إحياء سنة الوقف وإمكانيات التي تقدمها الصناديق الوقفية. وكما يمر البحث على حقيقة وقف النقود مرورا كراما، ويبين البحث إسهامات صندوق وقف الجامعة الإسلامية العالمية بماليزيا في دعم طلاب العلم.

الكلمات الأساسية: الصناديق الوقفية، وقف النقود، صندوق وقف الجامعة الإسلامية العالمية بماليزيا.

#### مقدمة

فإن الوقف مشروع نقلا، ومحبوب عقلا، بل هو قربة عظيمة من أفضل القرب، يثاب عليها المؤمن في العقبي، ويثني عليه الناس في الدنيا أطيب الثناء. وهو عبارة عن إيجاد موارد مالية ثابتة ودائمة لتلبية حاجات المحتمع الدينية والتربوية والغذائية والاقتصادية والصحية والأمنية، ولتقوية شبكة العلاقات الاجتماعية، وترشيخ قيم التضامن والتكافل، والإحساس بالأخوة والمحبة بين طبقات المحتمع وأبنائه.

فالصناديق الوقفية هي الإطار الأوسع لممارسة العمل الوقفي، ومن خلالها يتمثل تعاون الجهات الشعبية مع المؤسسات الرسمية في سبيل تحقيق أهداف التنمية الوقفية. تقدف الصناديق الوقفية إلى المشاركة في الجهود التي تخدم إحياء سنة الوقف عن طريق طرح مشاريع تنموية في صيغ إسلامية للوفاء باحتياجات المجتمع، بالإضافة إلى حسن إنفاق ربع الأموال الموقوفة لتلبية الاحتياجات الاجتماعية والتنموية.

وليست العقارات ذاتها هي الوقف ولا الأسهم. ومن ثم فإن محتويات هذا الصندوق ليست ثابتة بل تتغير بحسب سياسة ادارة الصندوق. ويعبر عن الصندوق دائماً بالقيمة الكلية لمحتوياته التي تمثل مبلغا نقديا. وهذا المبلغ هو الوقف وهو بمثابة العين التي جرى تحبيسها. فالصندوق الوقفي إذن هو وقف نقدي. يتألف هذا البحث من ثلاثة مباحث، المبحث الأول يتحدث عن الصناديق الوقفية، والمبحث

<sup>1</sup> سورة **المزمل**، الآية: ٢٠

الثاني حول حقيقة وقف النقود وأهميته، والمبحث الثالث عن إسهمات صندوق وقف الجامعة الإسلامية العالمية بماليزيا. وتندرج تحت كل مبحث مطالب.

## المبحث الأول: الصناديق الوقفية

المطلب الأول: تعربق الوقف لغة واصطلاحا

المطلب الثابي: تعربف الصناديق الوقفية وأهدافها

المطلب الثالث: إدارة الصناديق الوقفية

المطلب الرابع: دور الصناديق الوفقية في إحياء سنة الوقف

المطلب الخامس: الإمكانات التي تقدمها الصناديق الوقفية

## المبحث الثاني: حقيقة وقف النقود وأهميته

المطلب الأول: تعريف وقف النقود في اللغة والاصطلاح

المطلب الثاني: أهمية وقف النقود في الوقت الحاضر

المطلب الثالث: مشروعية وقف النقود

## المبحث الثالث: إسهامات صندوق وقف الجامعة الإسلامية العالمية بماليزيا

المطلب الأول: التعريف بالجامعة الإسلامية العالمية بماليزيا

المطلب الثانى: التعريف بصندوق الوقف بالجامعة الإسلامية العالمية بماليزيا

المطلب الثالث: مساهمات صندوق الوقف بالجامعة الإسلامية العالمية بماليزيا

## الخاتمة ونتائج البحث

## المبحث الأول: الصناديق الوقفية

المطلب الأول: تعريف الوقف لغة واصطلاحا

أولا: تعريف الوقف في اللغة:

## ثانيا: تعريف الوقف في الاصطلاح:

والوقف في الاصطلاح (Waqf): تعددت عبارات الفقهاء في تعريفه بناء على اختلاف آرائهم في لزومه، وتأبيده، وملكيته.

## التعريف الأول:

مذهب الحنفية: هو حبس العين على حكم ملك الله. وإلى هذا التعريف ذهب أبو يوسف ومحمد صاحبا أبي حنيفة<sup>7</sup>.

## التعريف الثاني:

<sup>2</sup> ابن منظور، جمال الدين محمد بن مكرم، **لسان العرب**، "مادة وقف" (بيروت: دار صادر د.ت.)، ج 9، ص 359 - 362

<sup>&</sup>quot; ابن منطور، جمال الدين محمد بن محرم، **لسان العرب**، ماده وقف (بيروت: دار صادر د.ت.)، ج 9، ص 939 – 502. <sup>3</sup> سورة **الصافات**، الأية: 24

<sup>4</sup> ابن عاشور، محمد الطاهر، **تفسير التحرير والتنوير**، (تونس: الدار التونسية للنشر، د. ط. 1984م)، ج 22، ص 102

 $<sup>^{5}</sup>$  انظر: مادة حبس: الزييدي، تاج العروس، ج 15، ص  $^{5}$ 0، ص  $^{5}$ 0 وانظر: مادة حبس: الزييدي، تاج العروس، ج

<sup>6</sup> انظر: ابن حجر العسقلاني، أحمد بن علي، فتح الباري بشرح صحيح البخاري، (بيروت: دار الفكر للطباعة والنشر والتوزيع، د.م، د.ط.)، ج 3 ص 33 -57 331، وانظر: النووي، أبو زكريا يحيي بن شرف، صحيح مسلم بشرح النووي، (بيروت: دار الكتب العلمية، د.ط.)، ج 7، ص 56 -57

<sup>7</sup> الكلوذاني، أبو الخطاب محفوظ، الهداية، (قصيم: مطابع القصيم، د. ط، 1391هـ)، ج 3، ص 13

مذهب المالكية: عرفه ابن عرفة المالكي وكثير من المالكية: بأنه: اعطاء منفعة شيء مدة وجوده لازما بقاؤه في ملك معطيه ولو تقديرا<sup>8</sup>.

## التعريف الثالث:

مذهب الشافعية والحنابلة: هو تحبيس مالك مطلق التصرف ماله المنتفع به مع بقاء عينه بقطع تصرف الواقف وغيره في رقبته، يصرف ريعه إلى جهة بر تقربا إلى الله تعالى $^9$ . وعرفه بعض أصحاب هذا القول بأنه: " تحبيس الأصل وتسبيل المنفعة " $^{10}$ .

## المطلب الثاني: تعربف الصناديق الوقفية وأهدافها

الصندوق الوقفي: عبارة عن تجميع أموال نقدية من عدد من الأشخاص عن طريق التبرع أو الأسهم، لاستثمار هذه الأموال، ثم إنقافها أو إنفاق ريعها وغلتها على مصلحة عامة تحقق النفع للأفراد والجمع ألله والمجتمع ألى والمجتمع ألى والمجتمع ألى المختلفة وتمويل المختلفة وتمويل العمليات التجارية لا يغير من طبيعة هذا الصندوق لان كل ذلك إنما هو استثمار لتحقيق العائد للصندوق.

## أهداف الصناديق الوقفية

تهدف الصناديق الوقفية إلى دعوة المسلمين عامة، وأصحاب الخير والثراء خاصة، ورجال الأعمال والأفراد على وجه أخص، إلى المساهمة في وقف أموالهم بالتبرع والتصدق بمبالغ نقدية مهما كان مقدارها. تتركز أهداف الصناديق الوقفية من الآتية:

1 - إحياء سنة الوقف بالدعوة إلى مشروعات تكون أقرب إلى نفوس الناس وأكثر تلبية لحاجاتهم.

2 - تحديد الدور التنموي للوقف.

<sup>18</sup> انظر: المغربي، محمد بن محمد، مواهب الجليل، (بيروت: دار الفكر، ط31412هـ)، ج6، ص8

 $<sup>^{9}</sup>$  الهيتمي، أحمد بن حجر، تحفة المحتاج، ج $^{6}$ ، ص $^{9}$ 

<sup>597</sup> بن قدامة، عبد الله بن أحمد، المغنى، (مصر: دار هجر، ط1، 14-10)، ج5، ص $^{10}$ 

<sup>11</sup> الزحيلي، محمد، الصناديق الوقفية المعاصرة – تتكييفها، أسكالها، حكمها، مشكلاتها، ص 4

- 3 تطوير العمل الخيري من خلال طرح نموذج جديد يحتذى به.
- 4 تلبية احتياجات الجحتمع والمواطنين في الجالات غير المدعومة بالشكل المناسب.
  - 5 إيجاد توازن بين العمل الخيري الخارجي والعمل الخيري الداخلي.
    - 6 تحقيق المشاركة الشعبية في الدعوة للوقف وإدارة مشروعاته.
- 7 انطلاق العمل الوقفي من خلال تنظيم يحقق المرونة مع الانضباط في آن معا $^{12}$ .

# المطلب الثالث: إدارة الصناديق الوقفية

يتولى عادة إدارة كل صندوق وقفي مجلس إدارة للإشراف عليه، وإقرار سياسيه وخططه وبراجحه التنفيذية، والعمل على تحقيق أهدافه في نطاق أحكام الوقف، والأنظمة المرعية، والقواعد المتبعة في إنشاء الصندوق. ويتكون مجلس الإدارة من عدد ما بين الخسمة إلى تسعة أعضاء من العناصر الشعبية، وتتارهم رئيس المجلس الأعلى لشؤون الوقف أو غيره، ويجوز إضافة ممثلين لبعض الجهات المختصة في مجلات عمل الصندوق، ويختار المجلس رئيسا له، ونائبا للرئيس من بين الأعضاء. ويشرف مجلس الإدارة على أعمال الصندوق، والإشراف على سياسته، وبرامجه، التنفيذية، والعمل على تحقيق أهدافه في نطاق أحكام الوقف، والأنظمة المرعية، وعند التساوي يرجح الجانب الذي فيه الرئيس. يقوم المدير بتعيين الموظفين، وقبول المتطوعين، وتشكيل اللجان وفرق العمل، وتكاليف من يؤدي عملا مؤقتا للصندوق، والاحتصاص. ويتولى المدير الإدارة التنفيذية، ويتخذ كافة الإجراءات اللازمة لتنفيذ قرارات المجلس وتوصياته، وبمارس الصلاحيات المالية المخولة له بموجب اللوائح 13.

# المطلب الرابع: دور الصناديق الوقفية في إحياء سنة الوقف

فالوقف في الإسلام توسع نطاقه في المال الموقوف، بتوسع الغرض في الوقف. فإن دور الصناديق الوقفية في إحياء سنة الوقف ما يلي:

 $<sup>^{12}</sup>$  الأسرج، حسين عبد المطلب، الصناديق الوقفية كآلية لتمويل وتنمية المشاريع الصغيرة والمتوسطة، ص  $^{12}$ 

<sup>&</sup>lt;sup>13</sup> الزحيلي، محمد، الصناديق الوقفية المعاصرة – تتكييفها، أسكالها، حكمها، مشكلاتها، ص 8 – 9

# - الوقف على التعليم

للوقف دور فعال في تنمية التعليم سواء داخل المساجد أو في المدارس أو في المكتبات أو غيرها من المؤسسات الخيرية الأخرى. ومن أهم هذه الجوانب إنشاء المدارس وتجهيزها وتوفير العاملين فيها من معلمين وغيرهم، وتشجيع طلاب العلم على الانخراط في عملية التعليم من خلال التسهيلات التي وفرت لهم، بالإضافة إلى إنشاء المكتبات وتجهيزها وغير ذلك من الجوانب الأخرى 14.

### - الوقف على دعم خدمات الرعاية الصحية

لنظام الوقف الإسلامي أثر كبير في دعم خدمات الرعاية الصحية للمواطنين والسكان على اختلاف مذاهبهم ونحلهم، وبلغ عناية المسلمين بالرعاية الصحية وتطوير خدماتها، أن خصصت أوقاف لبناء إحياء طبية متكاملة.

### - الوقف على بعض الجوانب الاجتماعية

ساهم الوقف الإسلامي في تقديم الخدمات العامة للإنسان في مختلف جوانب الحياة، فقد استغلت أموال الأوقاف في إيواء اليتامى واللقطاء ورعايتهم، وكانت هناك أوقاف مخصصة لرعاية المقعدين والعميان والشيوخ، وأوقاف لإمدادهم بمن يقودهم ويخ دمهم، وأوقاف لتزويج الشباب والفتيات ممن تضيق أيديهم وأيدي أوليائهم عن نفقاتهم، والقيام على حدمتهم 15.

# المطلب الخامس: الإمكانات التي تقدمها الصناديق الوقفية

### - تهيئة الفرص لجمهور المسلمين للوقف

إن بعض من الناس لم يتوافر لديهم الأموال الكثيرة والثروة التي تمكنهم من إنشاء الأوقاف المستقلة مثل المدارس والمستشفيات والمعاهد وغيرها من الممتلكات الوفقية. إلا أنهم يتمتعون بمستوى جيد من المعيشة، ودخلهم متواسط ويمكنهم ادخار نسبة من دخلهم الشهرية لفعل الخيرات بأن يتهيأ الوقف

www.kantakji.com/fiqh/Files/Wakf/ pdf 2075 اعوجان، وليد هويمل، وقف النقود وصيغ الاستثمار 140 www.kantakji

<sup>15</sup> ابن أحمد محمد الصالح، الوقف الخيري وتميزه عن الوقف الأهلي 26 www.al-islam.com/arb/Nadwa/doc/book doc

بطريقة يمكن لهم من جهة المساهمة بمبالغ قليلة تجتمع لتصبح كثيرة مؤثرة، ومن جهة أخرى أن يساهموا مساهمات مستمرة عبر الزمن ومنتظمة كانتظام دخلهم من وظائفهم وأعمالهم 16.

# - إحكام الرقابة على الأوقاف:

والمعروف أن ضعف الرقابة العامة أو انعدامها كان سببا لتدهور مؤسسة الوقف ولإساءة استخدامها من قبل النظار وسواهم والاستيلاء عليها وضياعها. وأن صيغة الصناديق الوقفية تمكن من إحكام الرقابة الشعبية والحكومية على الأوقاف. ذلك أن سبل المراجعة المحاسبية وطرائق الضبط في الأعمال المالية والمصرفية قد تطورت تطورا عظيما في الزمن الحديث مما يمكن أن يستفاد منه من هذه الناحية. كما أن القوانين المنظمة لعمل المصارف والمؤسسات المالية وصناديق الاستثمار والمؤسسات المالية ومناديق الاستثمار والمؤسسات العامة المشرفة على نشاطاتها يمكن أن تكون نموذجاً يستفاد منه.

# - النهوض بحاجات المجتمع:

ليس للوقف غرض محدد بل هو جائز في كل ما لا معصية فيه. وكما أنه يجوز على الفقراء والمساكين يجوز الوقف على جميع أفراد المجتمع بما فيهم الأغنياء، إذا لم يخص الأغنياء دون الفقراء. وتاريخ المسلمين يزخر بأنواع الأوقاف التي كانت شاملة لكل غرض نافع مفيد. وفي الوقت الحاضر تمس حاجة المسلمين إلى نشاطات تعد من الحاجات الأساسية للمجتمعات المعاصرة والتي يمكن أن يقوم الوقف بتوفيرها 17.

### المبحث الثاني: حقيقة وقف النقود وأهميته

#### تمهيد:

إن من الوسائل المهمة في موضوع الأوقاف مسألة وقف النقود، وهي ليست من المسائل المستحدة، ونحد في وقتنا الحاضر الدعوة إلى الوقف النقدي، لأنه متاح للناس بدرجة أكبر من غيره، وهو أكثر قابلية لإنشاء الوقف المشترك الذي يوفر موارد وقفية تمكن من إقامة المشروعات الاقتصادية.

doc www.al-islam.com/arb/Nadwa/doc/book47 هود الشثري، عبد العزيز بن، الوقف ودعم مؤسسات الرعاية الصحية 16

<sup>17</sup> حمود الشثري، عبد العزيز بن، الوقف ودعم مؤسسات الرعاية الصحية www.al-islam.com/arb/Nadwa/doc/book doc47

# المطلب الأول: تعريف وقف النقود في اللغة والاصطلاح

فقد سبق القول عن تعريف الوقف في المطلب السابق، وأما هنا فتعريف النقود ثم تعريف وقف النقود.

### أولا: مفهوم النقود The meaning of Cash:

النقود: هي جمع النقد، ويطلق النقد في اللغة على عدة معان منها:

- هو خلاف النسيئة، والنقد والتنقاد: تمييز الدراهم وإخراج الزيف منها 18.
- 2. قال ابن فارس: نقد الدرهم، وذلك أن يكشف عن حاله في جودته أو غير ذلك، ودرهم نقد: وازن جيد، كأنه قد كشف عن حاله فعلم 19.
  - العملة من الذهب والفضة وغيرهما مما يتعامل به الناس<sup>20</sup>.

#### النقد اصطلاحا:

هو العملة من الذهب أو الفضة <sup>21</sup>، وعرّفه البعض بأنه: "الدراهم والدنانير ونحوها مما جرت العادة أن تقوم مقامها مما اصطلح الناس عليه نقدا"<sup>22</sup>. وأما المراد بالنقد عند الفقهاء، هو: "الدارهم والدنانير، ويعبرون عنهما أيضا بالأثمان"<sup>23</sup>. وعرّف الفقهاء المعاصرون النقود بأنها: "الأداة التي بما يتوصل الناس إلى إشباع رغباتهم والوصول إلى حاجاتهم مما في أيدى الناس وتحت سلطانهم"<sup>24</sup>.

### وأما تعريف وقف النقود The meaning of cash waqf

<sup>425</sup> من أنقد" ج3، ص $^{18}$  ابن المنظور، جمال الدين محمد بن مكرم، لسان العرب، مادة "نقد" ج

<sup>&</sup>lt;sup>19</sup> ابن فارس، أحمد زكريا، **معجم مقاييس اللغة**، ج 5، ص 467

<sup>&</sup>lt;sup>20</sup> انظر: ابن المنظور، جمال الدين محمد بن محرم، لسان العرب، ج 6، ص 4517، وانظر: الرازي، محمد بن ابي بكر بن عبد القادر، مختار الصحاح، ص 675

<sup>358</sup> أبو حبيب، سعدي، القاموس الفقهي، (بيروت: دار الفكر، د. ط، د. ت)، ص

<sup>&</sup>lt;sup>22</sup> قلعجي، محمد، معجم لغة الفقهاء، (بيروت: دار النفائس للطبلغة والنشر والتوزيع، ط 2، 1408 هـ - 1988م )، ص 486

<sup>23</sup> انظر: تحرير الفاظ التنبيه، ص 114

<sup>&</sup>lt;sup>24</sup> الشاذلي، حسن على، الاقتصاد الإسلامي، مصادره وأسسه، ص <sup>202</sup>

من خلال ما قد سبق من التعريفات للوقف وللنقود، يمكن تعريف وقف النقود في الاصطلاح، بأنه: "حبس النقود وتسبيل منفعته المتمثلة في الأرباح الناتجة عن استثماره". أو "أن يقوم المتبرع بوقف مبلغ من النقود ليستفاد منه". وقد أجازها مجمع الفقه الإسلامي المنبثق عن منظمة المؤتمر الإسلامي المنعقد في دورته الخامسة عشرة في مسقط<sup>25</sup>.

### المطلب الثالث: أهمية وقف النقود في الوقت الحاضر

اكتسب وقف النقود أهمية كبيرة في الوقت الحاضر، وذلك لما يتيحه من مزايا كثيرة، وسيتم ذكر أوجه الأهمية المعاصرة لوقف النقود، وذلك على النحو الآتي:

# أولا: قدرته على تفادي أغلب مشكلات وقف العقار:

إن بعض أهم مجالات الوقف لا يمكن إلا أن تكون عقارا، كالمساجد والمدارس والمستشفيات، إلا أنما لا تمنع من القول بإهمال ما عداه من الأموال التي يمكن وقفها، وبخاصة النقود، ولظهور بعض المشكلات التي كادت أن تؤدي بنظام الوقف بكليته في الوقت الحاضر. ونرى أن وقف النقود يمكنه تفادي هذه المشكلات، مما يعني أهمية وقف النقود، وأهمية التوسع فيه ما أمكن، ومن هذه المشكلات:

### 1. غلاؤه وقلة القادرين على وقفه:

من المعلوم أن العقار – أرضا أو بناءا – من أكثر الأموال غلاء وكلفة، وكثير من الناس لا يملكون ما يكفيهم منه، مما يعنى عدم وجود القدرة على البعض. وعدم رغبة وقدرة هؤلاء تؤدي إلى الإقلال من الأموال الموقوفة على أوجه الخير والمصلحة العامة<sup>26</sup>. ويعد وقف النقود من أهم الوسائل تفادي مشكلة الإحجام عن وقف العقار بسبب غلائه. لأن النقود الموقوفة لا يشترط أن تكون مبلغا كبيرة، بل يمكن للراغب المشاركة بأي مبلغ مقدور عليه، مهما كان قليلا.

### 2. ارتفاع تكاليف عمارة العقار وصيانته:

<sup>25</sup> انظر: قرار مجمع الفقه الإسلامي المنبثق عن منظمة المؤتمر الإسلامي المنعقد في دورته الخامسة عشرة في مسقط رقم 15، 6، ص 140

<sup>&</sup>lt;sup>26</sup> البدوي، إسماعيل إبراهيم، ا**لوقف مفهومه وفضله وشروطه وأنواعه**، ص 22

لا بد من عمارة وصيانة العقار دورية ومستمرة، وقد ذكر الفقهاء أن هذه العمارة من أهم وظائف الناظر، واتفقوا على أنها أول واجب يقوم به 27. ومعلوم أن عمارة العقار مكلفة، وقد يؤدي إلى الاستئثار بكامل الغلة أو جزء كبير منها، مما يؤدي إلى مزاحمة العمارة للمستحقين، بل وتقديمها عليهم 28. ويمكن تفادي هذه المشكل أو جزء كبير منه لو كان الوقف نقودا، لأن النقود يمكن استثماره في أوجه كثيرة ومختلفة لا تحتاج لعمارة وصيانة عالية التكاليف.

### 3. انحصار طرق استثمار العقار ومحدوديتها:

تنحصر طرق استغلال العقار في طرق محدودة، أهمها الإجارة، أو الاستغلال المباشر، كما في الأرض الزراعية، مما يعنى إعاقة قدرة إدارة الوقف على التصرف أو البحث عن بديل أفضل. وهذا بخلاف وقف النقود، لأن طرق استثماره عديدة، وبالتالى فإن إدارة الوقف تملك حرية أوسع في التصرف واختيار الأفضل من بين مجموعة البدائل المتوفرة.

### ثانيا: إمكان ظهور مؤسسات وقفية كبرى أكثر نجاحا:

ومن أوجه الأهمية لوقف النقود في الوقت الحاضر أيضا، أنه يمكن بواسطته تكوين مؤسسات وقفية كبرى وناجحة إداريا واقتصاديا. ويمكن لوقف النقود في الوقت الحاضر أن ينقل الوقف من وقف أفراد مستقلين إلى وقف واحد كبير ومتعدد الواقفين، حيث أمكن إيجاد أوعية "الصناديق الوقفية" تجتمع فيها أوقاف أعداد كبيرة من الناس<sup>29</sup>.

### ثالثا: إمكان إيجاد مؤسسة للقرض الحسن:

لقد حرم الإسلام الربا في القروض، وهذا التحريم يبين الأهمية التي يمكن أن يقوم بما القرض الحسن في الإسلام. وهذا يعني أهمية قيام مؤسسة أو جهة عامة في الدولة الإسلامية تتولى القيام بمذه الحاجة العامة 30. ويمكن لوقف النقود أن يقوم بمذا الدور، حيث إن من أهم أغراض الوقف النقدي الوقف

<sup>&</sup>lt;sup>27</sup> الخرشي، محمد بن عبد الله، شرح الخرشي على مختصر خليل، ج 4، ص 93

<sup>28</sup> انظر: الدسوقي، شمس الدين محمد، حاشية الدسوقي على شرح الكبير، ج 4، ص 90،: وانظر: ابن عابدين، محمد أمين الشهير، حاشية رد المختار، ج 4، ص 366، وانظر: المرداوي، على بن سليمان، الإنصاف، ج 8، ص 73

<sup>&</sup>lt;sup>29</sup> البدوي، إسماعيل إبراهيم، **الوقف مفهومه وفضله وشروطه وأنواعه**، ص 26

<sup>&</sup>lt;sup>30</sup> المرجع نفسه، ص <sup>38</sup>

لغرض الإقراض، وهو مما يؤكد أهمية الوقف النقدي حيث يعد هذا الدور فكرة مهمة وعملا جديدا يضيفه وقف النقود لنظام الوقف الإسلام.

### المطلب الثالث: مشروعية وقف النقود

بالتتبع لأقوال الفقهاء في هذه المسألة نجد أن لهم قولين رئيسيين، وهما: الأول: القول بجواز وقف النقود والثاني: القول بعدم جواز وقف النقود. يعرض الباحث في هذا المطلب أقوال العلماء ومذاهبهم من الجيزين والمانعين لوقف النقود، والترجيح بين الأقوال.

# أولا: أقوال الفقهاء في جواز وقف النقود

وهو المذهب عند الحنفية والمالكية، ووجه مرجوح عند الشافعية، ورواية مرجوحة عند الحنابلة، واختارها ابن تيمية، وهو مذهب الزهري<sup>31</sup>.

وذكر المالكية: أن فى وقف المثلي كالطعام والنقد ترددا، وأحد الترددين هو الجواز، إذا وقفت للقرض أو نحوه، وذكر الخرشي أن هذا هو المذهب<sup>32</sup>. وذكر بعضهم أن التردد فى غير النقود كالطعام، أما النقود فلا تردد فيها، فيجوز وقفها قطعا، للسلف ونحوه 33.

وعند الشافعية: القول بجواز وقف النقود وجه مرجوح، والمذهب عدم الجواز، وقال في الحلية عن هذا الوجه: "وليس بشئ "34".

وعند الحنابلة: وهو كذلك رواية مرجوحة واخارها ابن تيمية 35.

مذهب الحنفية: يجوز وقف النقود إذا جرى العرف بوقفها، وهو قول محمد بن الحسن صاحب الإمام أبي حنيفة، وذلك بناء على قوله في جواز وقف المنقول إذا جرى به عرف الناس، وتبعه على ذلك عامة فقهاء الحنفية<sup>36</sup>. والفتوى في مذهب الحنفية على قوله<sup>37</sup>.

<sup>36</sup> انظر: ابن عابدين، محمد أمين الشهير، حاشية رد المختار، ج 4، ص 363 – 364

<sup>&</sup>lt;sup>32</sup> انظر: الخرشي، محمد بن عبد الله، **شرح الخرشي على مختصر خليل**، ج 7، ص 70

<sup>&</sup>lt;sup>33</sup> انظر: الدسوقي، شمس الدين محمد، حاشية الدسوقي على شرح الكبير، ج 4، ص 77

<sup>34</sup> القفال، أبو بكر محمد بن أحمد، حلية العلماء في معرفة مذاهب الفقهاء، تحقيق الدكتور ياسين درادكة، (الأردن: مكتبة الرسالة الحديثة، ط 1،

<sup>1988</sup>م)، ج 6، ص 11، وانظر: الشيرازي، أبو إسحاق إبراهيم بن على، المذهب، ج 1، ص 575

<sup>11</sup> وانظر: ابن قدامة، المغنى، ج8، ص229، وانظر: المرداوي، على بن سليمان، الإنصاف، ج7، ص $^{35}$ 

# ثانيا: أقوال الفقهاء في عدم جواز وقف النقود

وإليه ذهب أبو حنيفة، وأبو يوسف، والشافعية في الوجه الصحيح، والحنابلة في قول هو المذهب. فأبو حنيفة: لا يرى جواز وقف المنقول مطلقا، حتى وإن كان مما يمكن الانتفاع به مع بقاء عينه كالحيوان والسلاح، وعليه فهو لا يرى جواز وقف النقود من باب أولى. وأبو يوسف: لم يستثن من المنقول إلا الكراع والسلاح للجهاد، وما عداه من المنقول لا يجوز وقفه، نقودا أو غيرها 38.

وعند الشافعية: في المسألة وجهان، أصحهما عدم الجواز، سواء أكان وقفها للتزيين بها، أم للإتجار وصرف الربح للفقراء 39.

ومـذهب الحنابلة: عـدم جـواز وقـف النقـود، سـواء وقفها للزينـة أو لغيرها كالقرض، قـال في الإنصاف: "على الصحيح من المذهب"<sup>40</sup>.

# تحرير مسائل النزاع في وقف النقود

لا يوجد نص صريح فى حكم وقف النقود، سواء بالمنع أو الإجازة، وقد بنى الفقهاء خلافهم فى هذه المسألة على مسألة أخرى من مسائل الوقف وهي "شرط التأبيد" فهذا الشرط هو أحد شروط الصيغة عند جمهور الفقهاء من الحنفية والشافعية والحنابلة.

عند الحنفية والشافعية والحنابلة: فلا يصح الوقف إلا مؤبدا، فإن وقته لم يصح 41. وأما المالكية: قد خالف في هذا الشرط فلم يشترطوه، وأجازوا الوقف مؤبدا ومؤقتا بمدة معينة 42. وقد أصبح موقف الفقهاء من وقف النقود – بناء على هذا الشرط – على ثلاث درجات:

<sup>&</sup>lt;sup>36</sup> انظر: ابن الهمام، كمال الدين محمد بن عبد الواحد، فتح القدير، ج 6، ص 202، وانظر: ابن نجيم، الحنفي، البحر الرائق شرح كنز الدقائق، ج 5، ص 18، ص 218، وانظر: الكلوذاني، أبو الخطاب محفوظ، الهداية، ج 3، ص 18

<sup>&</sup>lt;sup>37</sup> انظر: نظام وجماعة منة علماء الهند، الفتاوي الهندية، (بيروت: دار الكتب العلمية، ط 1، 1421هـ)، ج 2، ص 364

<sup>&</sup>lt;sup>38</sup> انظر: نظام وجماعة منة علماء الهند، **الفتاوي الهندية**، ج 6، ص 259 وانظر: الكلوذاني، أبو الخطاب محفوظ، **الهداية**، ج 5، ص 50

<sup>&</sup>lt;sup>39</sup> القفال، أبو بكر محمد بن أحمد، حلية العلماء في معرفة مذاهب الفقهاء، ج 6، ص 11، وانظر: الشيرازي، أبو إسحاق إبراهيم بن على، المذهب، ج 1، ص 575، وانظر: الهيتمي، أحمد بن حجر، تحفة المحتاج، ج 6، ص 238

<sup>229</sup> من المختى، ج 8، ص 11، وانظر: ابن قدامة، عبد الله بن أحمد، المغتى، ج 8، ص  $^{40}$ 

<sup>&</sup>lt;sup>41</sup> انظر: الرملي، محمد بن أبي العباس، نهاية المحتاج في شرح المنهاج، ج 4، ص 270، وانظر: الطرابلسي، إبراهيم بن موسي، الإسعاف في أحكام الأوقاف، ص 25، وانظر: المرداوي، على بن سليمان، الإنصاف، ج 7، ص 35

1- المالكية الذين لا يرون شرط التأبيد في صيغة الوقف، وبالتالي لا يوجد لدينهم ما يمنع من وقف النقود، لأنه - إذ سلّم - بأن النقود لا تتأبد وتستهلك عند استخدامها، فهذا لا يكفى مانعا لصحة وقف النقود، لأن التأبيد ليس شرطا للوقف عندهم، فالوقف نوع من الصدقات، يجوز مؤبدا ويجوز مؤقنا، وإذا جاز التأقيت في وقف العين، جاز وقف العين التي لا تتأبد كالنقود، وسائر المنقولات. وموقف المالكية هذا من جواز وقف النقود ينسجم مع موقفهم من شرط التأبيد، فوقف النقود جائز لعدم المانع، ودخوله تحت الأدلة العامة على مشروعية الوقف.

2- المانعون لوقف النقود من الحنفية والشافعية والحنابلة، فهؤلاء من شروط صيغة الوقف عندهم التأبيد - كما تقدم - وبناء على هذا اشترطوا في العين الموقوفة شرطا ينسجم ويتوافق مع شرط الصيغة، وهو: "أن تكون العين الموقوفة يمكن الانتفاع بها مع بقاء عينها"، وبالتالي لا يصح وقف النقود عندهم لأن النقود لا تتأبد، ولا يمكن الانتفاع بها إلا باستهلاك أعيانها، وقد انحصر استدلال المانعين في هذا المعنى فقط. والمبني على أن أصل الوقف هو تحبيس الأصل، أي التأبيد، وأن النقود لا تتأبد، لأنه لا يمكن الانتفاع بها إلا بإتلاف أعيانها.

3- المجيزون لوقف النقود من الحنفية والشافعية والحنابلة، فهؤلاء يسلمون بأن التأبيد شرط للوقف، إلا أنهم لا يرون أن وقف النقود يتعارض مع هذا الشرط، لأن النقود - وإن كانت من المنقولات التي تستهلك عند الانتفاع بها - إلا أن وقفها لا يقصد منه منحها لمن يستهلكها إلى غير بدل، بل المقصود منه الانتفاع إلى بدل يقوم مقام ما استهلك منها بإقراضها ثم رد بدلها، أو المتاجرة بها والإنفاق من الربح. وبالتالي لا تعارض بين القول بجواز وقف النقود، وبين شرط التأبيد وبقاء العين، لأن البدل يقوم مقام المبدل وكأنه لم يستهلك، وقد نص على هذا المعنى أغلب الفقهاء الذين أجازوا وقف النقود من الحنفية والمالكية وابن تيمية وغيرهم 43. كما أشار لهذا المعنى المالكية - بالرغم من عدم

<sup>&</sup>lt;sup>42</sup> انظر: الخرشي، محمد بن عبد الله، شرح الخرشي على مختصر خليل، ج 7، ص 91، وانظر: الدردير، أحمد بن محمد، الشرح الكبير، ج 4، ص 87

<sup>43</sup> العمادي، أبو السعود محمد بن محمد، رسالة في جواز وقف النقود، (بيروت: دار بن حزم، ط 1، 1417ه – 1997م)، ص 31

اشتراطهم التأبيد - يقول الدردير: "والمراد وقفه للسلف، وينزل رد بدله منزلة بقاء عينه"<sup>44</sup>. ويقول ابن تيمية "ومعلوم أن القرض والقراض (المضاربة) يذهب عينه، ويقوم بدله مقامة <sup>45</sup>

# الترجيح بين الأقوال

إن الباحث ليس في موقف الترجيح بين أقوال الفقهاء، ولكن بعد النظر في مذاهبهم وأقوالهم في جواز وقف النقود وآراءهم من كل من الجيزين والمانعين، فإن الخلاف في المسألة يعطينا سعة في الاختيار. وفي رأي الباحث المتواضع الميل إلي أصحاب القول بجواز وقف النقود مطلقا، وذلك لقوة أدلته. ويتأيد هذا الترجيح الأمور الآتية:

أن الذين منعوا وقف النقود لم يذكروا أي نص أو إجماع أو قياس صحيح يمنع من وقف النقود، ولم يستدلوا بأكثر من الدليل العقلى المتمثل في شرط التأبيد في الصيغة.

2- إن الذين أجازوا وقف النقود تمسكوا بالأصل، وهو مشروعية الوقف بصفة عامة، وجواز المعاملات ما لم يرد دليل الحظر، ولا دليل على منع وقف النقود، بل إن دليل المصلحة يقتضى الجواز<sup>46</sup>.

5- ولأن القول بجواز وقف النقود يحقق مصالح جمة، إذ يتحقق به مقاصد الوقف من حصول النفع للناس، وانتفاع الواقف بجرحان العمل الصالح له بعد وفاته، من غير أن يكون فيه ارتكاب المفسدة، ولا مخالفة لشرع الله سبحانه وتعالى، في عين يتحقق فيها تحبيس أصلها وتسبيل منفعتها، إذ أن بدلها يقوم مقامها. والقول بجواز وقف النقود هو ما توصل إليه مجمع الفقه الإسلامي في دورته الخامسة عشرة المنعقدة بمسقط، عام 1425ه، ضمن القرار ذي الرقم: "140"، وهذا هو نص القرار بهذا الخصوص:

1- "وقف النقود جائز شرعا، لأن المقصد الشرعي من الوقف وهو حبس الأصل وتسبيل المنفعة متحقق فيها، ولأن النقود لا تتعين بالتعيين، وإنما تقوم أبدالها مقامها".

2- "يجوز وقف النقود للقرض الحسن، وللاستثمار إما بطريق مباشر أو بمشاركة عدد من الواقفين في صندوق واحد، أو عن طريق إصدار أسهم نقدية وقفية تشجيعا على الوقف، وتحقيقا للمشاركة الجماعية فيه.

<sup>&</sup>lt;sup>44</sup> الدردير، أحمد بن محمد، الشرح الكبير، (مطبوع بمامش حاشية الدسوقي)، ج 4، ص 77

 $<sup>^{45}</sup>$  ابن تيمية، شيخ الإسلام، مجموع فتاوى، ج $^{45}$ 

<sup>46</sup> انظر: الزرقا، مصطفى، أحكام الأوقاف، ص 15

3- "إذا استثمر المال النقدي الموقوف في أعيان كأن يشترى الناظر به عقارا أو يستصنع به مصنوعا، فإن تلك الأصول والأعيان لا تكون وقفا بعينها مكان النقد، بل يجوز بيعها لاستمرار الاستثمار، ويكون الوقف هو أصل المبلغ النقدي"<sup>47</sup>.

### المبحث الثالث: إسهامات صندوق وقف الجامعة الإسلامية العالمية بماليزيا

في هذا المبحث يجعل الباحث صندوق الوقف بالجامعة الإسلامية العالمية بماليزيا "IIUM" في هذا المبحث يجعل الباحث صندوق الوقف بالجامعة الإسلامية العالمية.

### المطلب الأول: التعريف بالجامعة الإسلامية العالمية بماليزيا

الجامعة الإسلامية العالمية بماليزيا هي الحلم الكبير الذي تحقق للعالم الإسلامي وذلك من خلال توحيد الوحي والعقل، والعلم والدين، والأخلاق والتأهيل الأكاديمي. وهي المكان الذي يتربي ويترعرع قادة المستقل، هذا بجانب أذكائها لروح التفاؤل والاعتدال. وتعتبر الجامعة الإسلامية العالمية بماليزيا من أكبر الجامعات الماليزية، قد تم اتخاذ قرار تأسيس الجامعة الإسلامية العالمية بماليزيا في 12 يناير 1982م، من قبل رئيس الوزراء الماليزي الدكتور مهاتير محمد، كما ساهمت منظمة المؤتمر الإسلامي "Organization of the Islamic Conference OIC" وبعض الدول الإسلامية مثل المملكة العربية السعودية، باكستان، ليبيا، مصر، مالديف، تركيا، وبنغلاديش في دعم هذا الصرح العلمي، وقد صادق عليها مجلس الوزراء الماليزي في 12 فبراير 1982م، وبدأ العمل بما رسميا في 10 مايو 1983م، وتم تعيين سلطان ولاية بمنج كرئيس فخري للجامعة في 1 يوليو 1983م، وقد تم افتتاح الجامعة في منطقة بتعين سلطان ولاية بمنج كرئيس فخري للجامعة في 1 يوليو 1983م، وقد تم افتتاح الجامعة في منطقة بتلنج جاية "Petalin Jaya" ثم انتقلت إلى المبنى الجديد والضخم في منطقة جومبك "Petalin Jaya" في العاصمة الماليزية في عام 1996م، وأول حفل تخرج ضم 135 طالبا وطلبة وكان في عام 1984م.

في العام الدراسي 2012/2013م قد بلغ عدد طلاب الجامعة 22,583 طالب وطالبة، في جميع كليات الجامعة بالتخصصات المختلفة من كليات الطب، والهندسة، والصيدلية، والعلوم المتعلقة

<sup>&</sup>lt;sup>47</sup> قرار مجلة مجمع الفقه الإسلامي، الدورة الخامسة عشرة، العدد الخامس عشر، ج 3، ص 527، قرار رقم 140

<sup>&</sup>lt;sup>48</sup> انظر: الصلاحات، سامي محمد، دور الوقف في مجال التعليم والثقافة في المجتمعات العربية والإسلامية المعاصرة دولة ماليزيا المسلمة نموذجا، ص 39

بالصحة، والعلوم، والهندسة المعمارية وتصميم البيئة، وتكنولوجيا المعلوات والاتصالات، والقانون، وكلية معارف الوحي والعلوم الإسلامية. عندما كان عدد الطلاب في مرحلة البكلوريس "Undergraduate" هو "18,302" طالبا وطلبة <sup>49</sup>، وأن عدد الطلاب في مرحلتي الماجستير والدكتوراه "Postgraduate" هو "4,281" طالبا وطلبة <sup>50</sup>.

يتخرج عدد الطلاب من مرحلة البكالوريس حوالي 3700 طالبا وطلبة من جميع المراحل التعليمية سنويا. وكما يتخرخ عدد غفير من طلاب الدراسات العليا سنويا. وأما عدد طلاب الأجاب أو الوافدين "Foreign Students" من الدول الإسلامية والعربية وغيرها قد بلغ "4,905" طالبا وطالبة من أكثر من 103 دولة في العالم، يمثلون نسجا مختلفا من العادات والقاليد يجمعهم الدين الإسلامي.

# المطلب الثاني: التعريف بصندوق الوقف بالجامعة الإسلامية العالمية بماليزيا

أسس صندوق الوقف الخيري في الجامعة الإسلامية بماليزيا "IIUM Endowment Fund" في المسلامية الإسلامية باليزيا "1999م كقسم من أقسام الجامعة. فإن مجلس الجامعة العالى في لقائه برقم48 وافق على قائمة قوانين الوقف المتبعة في الجامعة لعام 1999م، والتي بدأ العمل بها في 16 يونيو 1999م.

يحد صندوق وقف الجامعة الإسلامية العالمية بماليزيا، حذو وقف جامعة الأزهر، وصناديق التبرعات للجامعات المرموقة في بريطانيا، والولايات المتحدة الأمريكية، والهدف الرئيسي من تأسيس الصندوق هو مساعدة الطلبة الفقراء والمحتاجين، ذوي الأداء الدراسي المتميز ولكنهم غير قادرين على تسديد رسوم الدراسة أو تكاليف المعيشة.

شرع صندوق وقف الجامعة "IEF" في عدة أنشطة لجمع التبرعات للطلبة من داخل ماليزيا وخارجها، وتشمل هذه الأنشطة التبرعات العامة من الأفراد والشركات والمنظمات، وبرنامج الكفالة،

Madam, Abazaimah Mohm : حصل الباحث على هذه الإحصائيات عند المقابلة الشخصية في يوم الإثنين 2012/12/10 مع: Abass, (Senior Deputy Directir, Center for Postgraduate Students (Academic and Research) IIUM

Academic Management and Admission Division, IIUM, Statistics :حصل الباحث على هذه الإحصائيات من 49 2013/2012, 10f Undargraduate Students, Semester

<sup>&</sup>lt;sup>51</sup> انظر: الصلاحات، سامي محمد، دور الوقف في مجال التعليم والثقافة في المجتمعات العربية والإسلامية المعاصرة دولة ماليزيا المسلمة نموذجا، ص 41

وحملة رنجت واحد، وجمع الزكاة من خلال التعاون مع مؤسسة زكاة سلانجور، وكذلك مساهمة في بعض الأعمال لزيادة قدرة الصندوق. وإن صندوق الوقف للجامعة بما قدمت إليه من المبالغ، مثل تلك المبالغ التي ساهمت بما جمعية اقرأ الخيرية. وهذه المبالغ، في بعض الحالات التي أشار إليها الجهات المانحة تستثمر مع الأرباح، وتستخدم هذه الأرباح لتمويل الأغراض الفردية المختلفة 52.

إن استثمار الأموال في صندوق الوقف للجامعة يعهد إلى لجنة الاستثمار التي رئيسها هو الأستاذ الدكتور أوبية الله، ويشرف عليها المجلس التنفيذي لصندوق الوقف، تمشيا مع الممارسة المقبولة لاستثمار، الوقف أكثر رسوخا، وكذلك يدرس صندوق الوقف للجامعة إمكانية تكوين اللجنة الزائرة للاستثمار، وهذه اللجنة مكونة من ثلاث الشخصيات والشركات ورجال الأعمال البارزين. وسيتم استثمار المساهمة وردت في صندوق الوقف للجامعة في أي وسيلة الاستثمار، وتستخدم العائدات فقط لمساعدة الطلاب.

### المطلب الثالث: مساهمات صندوق الوقف بالجامعة الإسلامية العالمية بماليزيا

إن من مساهمات صندوق الوقف بالجامعة الإسلامية العالمية بماليزيا تقديم المساعدات المالية للطلاب المحتاجين Financial Assistant to the needy Students قدّمت الجامعة مساعدات مالية لطلابحا من مختلف دول العالم الإسلامي. قد تغطي المساعدات المالية رسوم الدراسة والسكن، وقد تشمل مصاريف المعيشة، حسب حالة الطالب المالية 54.

في عام 2008م، قد بلغ عدد الطلاب الذين حصلوا على المساعدة المالية 1319 طالب وطالبة. Pesessional & " طالب وطالبة مرحلة الدراسات الأساسية والدورية " Foundation Studies ومنهم 978 طالب وطالبة من طلبة المرحلة الجامعية (البكالوريس)

IIUM Endowment fund, Level, 3 Administration Building, Central Complex. International Islamic University Malaysia

IIUM Endowment fund, Level, 3 Administration Building, Central Complex. International Islamic University Malaysia. Email: ief@iiu.edu.my

<sup>52</sup> انظر: مطبوعة صندوق الوقف - الجامعة الإسلامية العالمية بماليزيا.

http://www.iium.edu.my/ief/product-services 53

<sup>&</sup>lt;sup>54</sup> انظر: مطبوعة صندوق الوقف - الجامعة الإسلامية العالمية بماليزيا.

"Undergraduate Students" والعدد 186 طالب وطالبة من طلبة مرحلتي الماجستير والدكتوراه "Postgraduate Students".

وفي عام 2009م، قد زاد عدد الطلاب الذين حصلوا على المساعدة المالية إلى 1844 طلب Pesessional & "180 منهم 180 طالب وطالبة، من طلبة مرحلة الدراسات الأساسية والدورية "Foundation Studies" ومنهم 1329 طالب وطالبة، من طلبة المرحلة الجامعية (البكالوريس) "Foundation Studies" والعدد 335 طالب وطالبة من طلبة مرحلتي الماجستير والدكتوراه، "Vndergraduate Students". كل المساعدات المالية يشمل الطلاب المحتاجين من المالزيين والوافدين.

### ومن إسهامات صندوق وقف الجامعة

توفير أنواع المنح الدراسية والمساعدات المالية المختلفة لطلاب المحتاجين من طلاب الجامعة المسجلين بالدوام الكامل "Full-Time" لجميع المراحل الجامعية، (بكالوريس، ماجستير ودكتوراه)، منها:

1- منح الجامعة الاسلامية العالمية الدراسية الأمتكية "IIUM Ummatic Scholarship".

هذه المنح الدراسية خاصة لطلاب مرحلة البكالوريس في الجامعة الإسلامية العالمية، منحت للطلاب الفقراء والمحتاجين والمتستحقين أكاديميا، تقديرا لجهودهم في الدراسة. يقدم كل طالب ممتاز أكاديميا حصل على (المعدل التراكمي 3.6) أو أكثر في مجال الدراسة في نتيجة الفصل الدراسي الأول، على السياسة العامة في عبء العمل الأكاديمي بالجامعة. تشمل هذه المنح الدراسية كافة الرسوم من قبل الجامعة، من رسوم التسجيل، رسوم الدراسة، والرسوم ذات الصلة، والمكافأة الشهرية، ورسوم السكن، وبدل الكتب 55.

2- جائزة الجامعة الاسلامية العالمية الأكاديمية الممتازة "IIUM Academic Excellent Award"، يقدم لهذه المنح الطلاب توفرت عليهم الشروط التالية:

- أن يكون الطلاب مسجّلين بالدوام الكامل سواء كانوا القدماء أو طلاب الجدد.

- أن يكون الطلاب ممتازيين أكاديميا حصلوا على المعدل التراكمي 3.8 أو أكثر، على أساس السياسة العامة في عبء العمل الأكاديمي بالجامعة.
- أن لا يكون الطالب ممنوحا بأي منح دراسية "Self Sponsor" و يكون متلقيا بالقرض فقط. تغطى هذه المنح الإعفاء من الرسوم الدراسية فقط.
  - "Postgraduate Scholarship" المنح الدراسية لطلاب الدراسات العليا
  - منح الجامعة الاسلامية العالمية الدراسية الأمتكية "IIUM Ummatic Scholarship"
    - صندوق وقف الجامعة الاسلامية العالمية "IIUM Endowment Fund"
  - منح الجامعة الإسلامية العالمية في مجال متخصص "IIUM Scholarship Niche Area" منح الجامعة الإسلامية العالمية

4- المنح الجزئية "Partial Scholarship" يقدم لهذه المنح جميع طلاب الجامعة المحتاجين، وإذا تمت الموافقة على طلب أي طالب فتدفع الجامعة بعض ما عليه من رسوم الدراسة، ويحصل على هذه المنح عدد كبير من الطلاب في كل الفصل الدراسي. وغيرها من المنح الدراسية والمساعدات المالية.

### ومن إسهامات صندوق وقف الجامعة

من بين أنشطة صندوق وقف الجامعة برنامج الكفالة، وهو برنامج حصري، تسعى من خلاله إلى وصول إلى المحسنين وفاعلي الخير من الافراد والمنظمات (الكفيل) لتمويل تكاليف المعيشة، ومصاريف الدراسة لطلاب الجامعة المحتاجين من الماليزيين والوافدين.

### وبرنامج إعطاء الزكاة للفقراء والمساكين والمحتاجين من طلاب الجامعة

تعلن مكتب الزكاة داخل الجامعة تحت رعاية صندوق الوقف تقديم الطلب الأموال الزكاة في كل شهر طول العام الدراسي، وكل من تمت شهر طول العام الدراسي، وكل من تمت

الموافقة على تقديمه من الطلاب يدفع مكتب الزكاة ألف رنجت ماليزي " $1000 \mathrm{RM}$ " في حسابه البنكى الخاص بالطالب أقساطا بالمبلغ  $250 \mathrm{RM}$  في كل شهر للإعاشة لمدة أربعة أشهر  $^{56}$ .

### ومن إسهامات صندوق وقف الجامعة

بناء مبني عزمان هاشم التجاري داخل الجامعة "Azman Hashim Complex" قد حصل صندوق وقف الجامعة الإسلامية العالمية بماليزيا على وقف النقود بالمبلغ 7 مليون رنجت ماليزي من قبل الواقف تان سري عزمان هاشم million 7RM من قبل الواقف تان سري عزمان هاشم الواقف، لدعم الطلاب المحتاجين.

في يوم 8 سبتمبر عام 2008، تم اطلاق بدأ العمل على بناء هذا المبني، ويحتوي على القاعات للأغراض المتعددة، من الخدمات التجارية، مع ثلاثة بنوك، بنك إسلام Bank Islam Malaysia Bhd للأغراض المتعددة، من الخدمات التجارية، مع ثلاثة بنوك، بنك إسلامي Bank Islam Malaysia Bhd و إي أم بنك إسلامي و Bank Islam Malaysia Bhd و إي أم بنك إسلامي عزمان هاشم في يونيو Bhd، ومستودع الكتب للبيع، والمقهي، قد بدأ النشاط التجاري رسميا في مبنى عزمان هاشم في يونيو 2010م 57. ويتم استخدام الدخل من إيجار مبني عزمان هاشم، لدعم الطلاب المحتاجين من المالزيين والوافدين من طلاب الجامعة الإسلامية العالمية بماليزيا.

وكما قال رئيس مؤسسة عزمان هاشم، تان سري عزمان هاشم، بأن إيرادات الإيجار من العمل التجاري من المبني والإيرادات من القاعة، تستخدم لرعاية 15 طلاب المستحقين من صندوق وقف الجامعة الاسلامية العالمية، بحيث يساعد على تخفيض نسبة من الطلبة المتفوقين، الذين لهم حق المساعدة لتطوير الأمة في مختلف أنحاء العالم، لكي لا يستقلوا من دراستهم. وقال رئيس المؤسسة تان سري عزمان هاشم في أثناء كلمته في يوم افتتاح المبني، "أن المنح الدراسية بالمبلغ حوالي 500,000 سنويا من دخل المبني، تشمل جميع الرسوم للطلاب المستحقين بما في ذلك رسوم التسجيل والدراسة والسكن وبدل الكتب، وكذلك المكافأت الشهرية"<sup>58</sup>.

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IIUM Endowment Fund, Bulletin (New Landmark for IIUM Gombak Campus). Issue: 3/2010 <sup>57</sup> http://biz.thestar.com.my/news/story.asp?file=/ 15/7/2010 bussiness 3698666 <sup>58</sup>

### الخاتمة ونتائج البحث

لقد توصل الباحث بعد جولته العلمية على جملة من النتائج أعرج على أبرزها على النحو التالي:

- 1. أن الصناديق الوقفية هي الإطار الأوسع لممارسة العمل الوقفي، ومن خلالها يتمثل تعاون الجهات الشعبية مع المؤسسات الرسمية في سبيل تحقيق أهداف التنمية الوقفية.
- 2. تهدف الصناديق الوقفية إلى المشاركة في الجهود التي تخدم إحياء سنة الوقف عن طريق طرح مشاريع تنموية في صيغ إسلامية للوفاء باحتياجات المجتمع.
- 3. يعبر عن الصندوق بالقيمة الكلية لمحتوياته التي تمثل مبلغا نقديا، وهذا المبلغ هو الوقف وهو بمثابة العين التي جرى تحبيسها، فالصندوق الوقفي هو وقف نقدي.
  - 4. اختلف الفقهاء في حكم وقف النقود أقوال، والرأي الراجح هو أن وقف النقود جائز.
- 5. أن للوقف هدفا عاما يتمثل من القيام بما أوجبه الله على المسلمين من التعاون والتكافل والتراحم، وهدفا خاصا يتمثل في تحقيق رغبة خاصة قائمة في نفس المسلم يدفعه إلى تحقيقها دوافع دينية وغريزية وواقعية واجتماعية.
- 6. تتميز دولة ماليزيا بالأفكار الإسلامية الرائدة ومن هذه الأفكار النافعة وغير التقليدية، إنشاء الصناديق الوفقية المعاصرة مثل: صندوق الوقف لجامعة الإسلامية العالمية بماليزيا.
- 7. لصندوق وقف الجامعة الإسلامية العالمية بماليزيا المساعدات المالية المتنوعة لطلابها من مختلف دول العالم الإسلامي.

#### توصيات

في ضوء ما أسفر عنه هذا البحث من نتائج، يمكن تقديم هذه التوصيات كما يليق:

- 1- فتح باب المساهمة في الأوقاف الجماعي، يمكن أن يساهم الراغبون في الخير بمبلغ بسيط، وهذا السبيل من أنجح الوسائل، بل هي أفضلها على الإطلاق.
- 2- تعيين الرجل المتخصص مديرا لإدارة الصناديق الوفقية، فكان مسئولا عنها، ومعه أشخاص مؤهلون الذين لهم الكفاءة والدراية والإخلاص والأمانة.

3- عقد المؤتمرات والندوات واللقاءات عن الصناديق الوقفية، والاهتمام بتوصياتها ونتائجها، ستكون وسيلة لتنظيم واصلاح حالة الصناديق الوقفية من الإشكالات والتساؤلات التي لا يمكن حلها إلا في عقد مثل هذه المؤتمرات والندوات دولية كانت أو أهلية.

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### تنمية الموارد البشرية من منظور اسلامي

#### Nasir Massoud Hassan

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#### إدارة الموارد البشرية من منظور اسلامي

اهتم الإسلام بالموارد البشرية ونظر إليها على اعتبار أنها الحياة الطيبة، فهو بهذه النظرة قد سبق وفاق كافة المفاهيم السابقة لها وما ألت إليه وما اختلف في مسماها، فهو لا يولى الثروة اهتمامه بقدر ما ينظر إلى صانع تلك الثروة وهو الإنسان الخلاق المبدع. ذلك المخلوق الذي بيده صنع الثروة و في الوقت ذاته لا تصنعه الثروة. وكونه أكرم مخلوق خصه الله تعالى على وجه الكرة الأرضية وسخر له الله الكون خادماً لا مستخدماً فقال تعالى: { وَلَقَدْ كُرَّمْنَا بَنِي آدَمَ وَحَمَلْنَاهُمْ فِي الْبَرِّ وَالْبَحْرِ وَرَزَقْنَاهُمْ مِنَ الطَّيِّبَاتِ وَفَضَّلْنَاهُمْ عَلَى كَثِيرٍ مِمَّنْ خَلَقْنَا تَفْضِيلًا}. [سورة الإسراء:70].

وتتجلى الرؤية التنموية في الإسلام من فكرة استخلاف الإنسان وفلسفته في العلاقة الكامنة بين الإنسان والكون والخالق. فهذا المفهوم يجمع بين كلاً من التنمية الروحية والمادية ويرفع من شأن النفس الإنسانية إلى أعلى المراتب، ويجعلها موضع التكريم الذي يليق بحا، والذي يمكنها من أداء دورها في إعمار الكون واخلاص العبودية للخالق عز وجل وحده لا أحد سواه (حسن،2000).

أشار عبده (1984) إلى أن العمل هو الذي تدور عليه عملية إدارة الموارد البشرية، حيث أن الإنسان الذي يؤدي عمله يتطلب منه كشرط مسبق أن يكفؤ مهنياً وعقلياً وتربوياً بحيث يمكنه ذلك من القيام بدوره في المهام والوظائف العملية. وبحد أن الإسلام اهتم بحذا الموضوع وحث عليه سواء كان عملاً تعبدياً أو مهنياً ورفع قيمة العمل لقولة تعالى: { إِنَّ اللَّذِينَ آمَنُوا وَعَمِلُوا الصَّالِحَاتِ إِنَّا لا نُضِيعُ أَجْرَ مَنْ أَحْسَنَ عَمَلا . أُوْلَئِكَ لَهُمْ جَنَّاتُ عَدْنٍ تَجْرِي مِن تَحْتِهِمُ الأَنْهَارُ يُحَلَّوْنَ فِيها مِنْ أَسَاوِرَ مِن ذَهَبٍ وَيَلْبَسُونَ ثِيَابًا خُضْرًا مِّن سُندُسٍ وَإِسْتَبْرَقٍ }. (الكهف:30).

وحث النبي (صلى الله عليه وسلم) على العمل فقال" ما كسب الرجل كسباً أطيب من عمل بيده، وما أنفق الرجل على نفسه وأهله وولده وخادمه فهو صدقة"(صحيح ابن ماجه).

ويرى العاني (2002) بأن التغيير هو سنة هذه الحياة ومطلب أساسي فيها ولكن التغيير الذي نقصده هنا هو ما يحقق النفع والخير والصلاح على الإنسان، فهو ليس مطلباً لذاته وإنما لغاية ايجابية سامية يعمل من أجل تحقيقها، ولهذا فقد أوجد

الله إداره التغيير فهو القادر على كل شي بإرادة الإنسان ، فقال تعالى: إنَّ اللَّهَ لا يُغَيِّرُ مَا بِقَوْمٍ حَتَّى يُغَيِّرُوا مَا بِأَنْفُسِهِمْ. (الرعد:11).

وأشار عويضة (2000) أن مهمة إدارة الموارد البشرية تعتمد على إصلاح الفرد من ذاته بحيث يكون عنصراً فاعلاً لخدمه دينه ومجتمعه والبشرية جمعاء، وأتخذ مفهوم إدارة الموارد البشرية في كل بلدان العالم بالانتشار وأصبح للجميع رؤية واحدة حوله في أن الغاية التي تسعى لها التنمية هي إصلاح الإنسان، ولكن المجتمعات تختلف في مفهومها للإصلاح ، فإذا كان المقصود للجميع إصلاح مهاراته ومعارفه وإمكاناته، إلا إن الإسلام كان له نظرة أخرى للإصلاح حيث نظر إليه نظرة شاملة إذ يمتد الإصلاح إلى ايمانه وأخلاقه وسلوكه ومعاملاته، ولذا نجد أن رسالات الأنبياء جميعاً نادت بالإصلاح انطلاقاً من قوله تعالى { قَالَ يَا قَوْمٍ أَرَأَيْتُم إِنْ كُنْتُ عَلَىٰ بَيِّنَةٍ مِنْ رَبِّي وَرَزَقَنِي مِنْهُ رِزْقًا حَسَنًا وَمَا أُرِيدُ أَنْ أُخالِفَكُم إلَىٰ مَا أَنْهَاكُم عَنْهُ إِنْ أُرِيدُ إِلَّا الْإِصْلَاحَ مَا اسْتَطَعْتُ وَمَا تَوْفِيقِي إِلَّا بِاللَّهِ عَلَيْهِ تَوَكَّلْتُ وَإِلَيْهِ أُنِيبُ }.(هود: 88).

إن مفهوم إدارة الموارد البشرية من منظور إسلامي يتخطى المنظور المادي وتحقيق الرفاهية التي تتجلى فكرتما في العمل على إشباع متطلبات الجسد ويمتد إلى طلبات الروح والعقل التي لا تقل عن الناحية المادية في الحياة. فالإنسان بواسطه علقة يصنع الماديات فقد نجد الماديات إلا أننا نفتقر إلى الإنسان المفكر المتحضر فقد سبق الفكر المادة (حسن، 2000).

#### هدف إدارة الموارد البشرية:

تغير هدف إدارة الموارد ليكون محوره الإنسان وقد ظهر ذلك في تقرير الموارد البشرية (1990) وتقرير التنمية الإنسانية (2002) الصادران عن البرنامج الإنمائي للأمم المتحدة، وما تلاهما من تقارير. كما أن البنك الدولي الذي كان يساند النمو الإقتصادي الكمي منذ الثنمانينيات كهدف رئيس للتنمية أعلن في تقريره عن التنمية لعام 1991:" إن التحدي أمام التنمية هو تحسن نوعية الحياة، خاصة في الدول الفقيرة، إن أفضل نوعية لحياة هي التي تتطلب دخولاً عاليه، ولكنها في نفس الوقت تتضمن أكثر من ذلك، تتضمن تعليماً جيداً ومستويات عالية من التغذية والصحة العامة وفقراً أقل، وبيئة نظيفة، وعدالة في الفرص، وحرية أكثر للأفراد وحياة ثقافية غنية". (فرحانة،1995)

وتهدف إدارة الموارد البشرية في الإسلام بشكل عام في ايجاد وتحقيق الأمن المادي المتمثل بالجوع والمعنوي المتمثل بالخوف لقوله تعالى: ( لْيَعْبُدُوا رَبَّ هَذَا الْبَيْتِ \* الَّذِي أَطْعَمَهُمْ مِنْ جُوعٍ وَآمَنَهُمْ مِنْ خَوْفٍ.) (قريش:2). فيكمن هدف الإسلام الأسمى من وراء عملية التنمية تحقيق حياة طيبة كريمة لكل إنسان لقوله تعالى: ( مَنْ عَمِلُ صَالِحاً مِّن ذَكُر أَوْ أُنثَى وَهُوَ مُؤْمِنٌ فَلَنُحْيِيَنَّهُ حَيَاةً طَيِّبَةً وَلَنَجْزِينَهُمْ أَجْرَهُم بِأَحْسَن مَا كَانُواْ يَعْمَلُونَ) .(النحل: 97)

حياة تملؤها المودة والرحمة ويعلوها شعار الأمن والعدل والحرية والمساواة، ولا يسودها الجوع والخوف والكراهية والبغضاء والأثرة، تراعى العدل في تقسيم الثروة حتى لا يكون المال دولة بين الأغنياء وحدهم (دوابة،2007).

#### مقياس إدارة الموارد البشرية من منظور إسلامي:

يسر ومهد الله تعالى سبل العيش للإنسان واهتم بتكوينه وربط ذلك بالسعى للعمل والأحذ بالأسباب والتوكل عليه مع الإيمان بالله فقال تعالى: ( وَهُو الَّذِي جَعَلَ لَكُمْ الأَرْضَ ذَلُولاً فَامْشُوا فِي مَنَاكِبِهَا وَكُلُوا مِنْ رِزْقِهِ وَإِلَيْهِ النَّشُورُ) ( سورة الملك الإيمان بالله فقال تعالى: ( وَهُو الَّذِي جَعَلَ لَكُمْ الأَرْضَ ذَلُولاً فَامْشُوا فِي مَنَاكِبِهَا وَكُلُوا مِنْ رِزْقِهِ وَإِلَيْهِ النَّشُورُ) ( سورة الملك - آية 15). فقد سطر تاريخ المسلمين بمواقف بطولية للأمة الإسلامية في اقتصادها وازدهارها بالمعرفة، وفاضت بيوت المال بالأموال فلم يجد الخلفاء من الفقراء من يعطوه فزوجوا الشباب، وعتقوا العبيد والإماء. (الندوة الفكرية في التنمية البشرية المستدامة في الوطن العربي، 2001).

أكد عبد الرحمن (2003) أن الإسلام يهدف إلى ايجاد متطلبات الحياة الكريمة بما يمكنه من العيش في سعة ويكتفي عن الاعتماد على غيره، وهو ما يعرف بحد الكفاية لا حد الكفاف، فإن حد الكفاف يتمثل في توفير ضرورات المعيشة للفرد بما يسمح له حق البقاء على قيد الحياة، بحيث يوفر مستوى متواضعاً وبسيط من الرفاهية. أما الإسلام يعمل على توجيه التنمية على رفع مستوى معيشة الفرد، بما يضمن توفير حد الكفاية لجميع الأفراد، بحيث يكون كل فرد قادرا على الإنفاق على من يعول.

ويتضح مما سبق أن مؤشر الموارد البشرية يعكس الجوانب المادية والروحية في البلدان الإسلامية بما يكفل تحديد مشاكله والعمل على حلها، فقد أشار النبي صلى الله عليه وسلم مؤشراً مركباً للتنمية البشرية بالبلدان الإسلامية يتكون من عدد من المتغيرات في قوله: " من أصبح منكم آمناً في سربه، معافى في جسده، عنده قوت يومه فكأنما حيزت له الدنيا".

وأشار (دوابة،2007) إلى أن هذا المؤشر يتكون من المتغيرات الآتية:

أ) المعرفة: تعد المعرفة مؤشر على تقدم الأمم وكما أنها مؤشر على زيادة القيمة المضافة، لقوله تعالى: (اقْرَأْ بِاسْمِ رَبِّكَ الَّذِي حَلَقَ) (العلق: 1). فعندما نعمل على إدارة الموارد البشرية تأتي في أولوياتها المعرفة بما تتضمنه من محو الأمية سواء أكانت أمية القراءة والكتابة أو أمية الكمبيوتر والإنترنت، ايضاً ما يقدمه العقل البشري من البحث العلمي في كافة الجالات فلا يوجد تناقض بين العقل والوحي. لقوله تعالى: ( يَامَعْشَرَ الْجِنِّ وَالإِنسِ إِنْ اسْتَطَعْتُمْ أَنْ تَنفُذُوا مِنْ أَقْطَارِ السَّمَاوَاتِ وَالأَرْضِ فَانفُذُوا لا تَنفُذُونَ إلا بِسُلْطَانِ). (الرحمن: 33).

ب)الصحة: تعد الصحة عنصر فعال ومهم في الإنتاج ومحدد رئيس للإنتاجية ورأس المال البشري، ويندرج في ذلك العمر المتوقع عند الميلاد، ومدى انتشار الأمراض والعلل، ومدى الاهتمام والرعاية والوقاية والعلاج، والمستوى الذي تخصصة الدولة من نسبة الإنتاج المحلي الإجمالي. حيث كان من دعاء النبي صلى الله علية وسلم: "اللهم عافني في بدني، اللهم عافني في بصري.

ج) الأمن المادي: ويتمثل في توفير المتطلبات الأساسية للعيش من ماء ومسكن وما يسد لحد الكفاية لا الكفاف ويبعده عن دائرة الفقر التي استعاذ منها النبي صلى الله علية وسلم بقوله: اللهم إني أعوذ بك من الكفر والفقر". ومن هنا تبرز أهمية معرفة الدخل القومي وتوزيعه للوقوف على العدالة الإجتماعية. مع الأخذ بعين الاعتبار عوائد انتاج المرأة في بيتها التي قد لا توليها مقاييس الاقتصاد الوضعي بالأهمية عند حساب الدخل القومي.

د) الأمن النفسي: يتمثل ذلك بارساء مبادئ العدل والمساواة والشورى والحرية. فإن توفير الطمأنينة ليس من الحاكم بل هي حق للمحكوم على اساس أن الحاكم أجيراً عند رعيته. فالحرية في الإسلام حرية منظبطة بقواعد شرعية مراعيه لحدود الآخرين. ويندرج تحت هذا المتغير الحرية السياسية وما تتضمنه من حق النقد وإنشاء الأحزاب ومنع الاعتقال والاستبعاد. وكما يندرج تحت الحرية الحرية الإقتصادية معتمدة بذلك على اقتصاد السوق لتوفير فرص العمل وتوزيع الثروة بعدل ودون احتكار، كما يدخل في الحرية الحرية الحرية اللاجتماعية المتمثلة بانشاء الجمعيات الأهلية، وتحقيق التكامل لا التناحر بصورة تحكمها المساواة، مع مراعاه الفروق الفردية الطبيعية بين الجنسين.

#### واقع الموارد البشرية من منظور إسلامي في البلدان الإسلامية:

ما تزال البلدان الإسلامية يسيطر عليها الجهل والفقر والمرض ويعيش أبنائها في عداد الدول النامية بالرغم من صلاحية شريعتها لكل زمان ومكان إلى قيادة الأمم علماً وخلقاً إذا ما استمسكوا بها. ولصعوبة توفير معلومات وبيانات كافية عن إدارة الموارد البشرية في البلدان الإسلامية سوف تقدم ما توافر من بيانات عن الدول الإسلامية أو الدول العربية وذلك باعتبار الدول العربية ربما تعكس حال الدول الاسلامية. (الندوة الفكرية في التنمية البشرية المستدامة في الوطن العربي، 2001).

فعلى مستوى المعرفة يبلغ عدد الأميين من بين البالغين العرب حوالي 65 مليوناً ثلثاهما من النساء. وتوجد فجوة كبيرة بين مستوى المعرفة يبلغ عدد الأميين من بين البالغين العرب حوالي 65 مليوناً ثلثاهما من النظم التعليمية واحتياجات سوق العمل وأصبح التعليم شكلاً بلا مضمون. ويستخدم شبكة الإنترنت 6.0% من السكان فقط، ويبلغ انتشار أجهزة الحاسوب الشخصي 1.2% وبصورة عامة لا يزيد الاستثمار في البحث والتطوير عن من السكان فقط، ويبلغ انتشار أجهالي أي أقل من ربع المتوسط العالمي. ويبلغ متوسط نسبة البطالة 15% وهي من أعلى

النسب في العالم. ويبقى مواطن من كل خمسة مواطنيين يعيش على أقل من دولارين أمريكيين في اليوم. والناس في المنطقة العربية أقل استمتاعاً بالحرية على مستوى العالم (دوابة، 2007).

إن الدول الإسلامية مطالبة بإحداث تغيرات جذرية في التعليم بما يعمق المعرفة التي تنشأ جيلاً متمسكاً بحويته، محافظاً على لغته، كما تعمل على ربط التعليم باحتياجات سوق العمل، أيضاً تغيير سياسات الحكم من خلال العمل على ايجاد ديموقراطية يشعر الأفراد من خلالها بحرية التعبير، وأنهم سواء أمام القانون، وأرساء مبدأ المساءلة قيداً على سلوك القائمين على شؤون السلطة، كما توفر أحزاب سياسية لا تتحكم الدولة بإنشائها، مع التأكيد على سلطة القضاء وأهميته، والفصل بين السلطات، والتداول السلمي للسلطة، واحترام حقوق الإنسان المدنية والسياسية، واعطاء مؤسسات المجتمع المدني حريات التعبير عن الرأي والاجتماع.

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#### تطوير المؤسسات المصرفية الإسلامية في ليبيا

أحلام ابو القاسم أمير شاهر الدين

بدأت باكورة المنتجات والخدمات المصرفية الإسلامية في الجمهورية الليبية في عام 2009. وذلك عن طريق "مصرف الجمهورية"، ويعتبر من أكبر المصارف التجارية في البلاد، ويقدم خدماته ومنتجاته من الصرافة الإسلامية من خلال نافذته الإسلامية. ومنذ ذلك الحين، وقطاع المصارف الإسلامية يتطور ويزدهر بشكل ملحوظ، ويرجع ذلك إلى دعم القطاع المصرفي الإسلامي من قبل غالبية السكان المسلمين والذين يطالبون بالمنتجات المصرفية المتوافقة مع الشريعة الإسلامية. وتتناول هذه الدراسة مجموعة التطورات الأخيرة في صناعة المصارف الإسلامية في الجمهورية الليبية. كما وتسلط الضوء على حجم النمو، والاستراتيجيات التي تقوم بها الحكومة لتعزيز الإطار التنظيمي في سوق الخدمات المصرفية الإسلامية. وإلى جانب ذلك، تناقش الدراسة بعض التحديات التي تواجهها السلطات الحكومية في قطاع الصرافة الإسلامية على مستوى الجمهورية. وقد اعتمدت الدراسة على تحليل محتوى الكثير من المراجع والمصادر والأدبيات العلمية والمهنية ذات الصلة المباشرة بمواضيع الدراسة وتبين الدراسة أن الصناعة المصرفية الإسلامية لديها مستقبل واعد في الجمهورية الليبية. ومع ذلك، هناك مجموعة من التحديات الرئيسة التي تحتاج إلى حلول. ويؤمل أن تساعد هذه الدراسة ضمن إطارها المرسوم برفد وإثراء الأدبيات الموجودة والمتوفرة، ليتسنى لأصحاب الاختصاص والباحثين الرجوع إليها وتوظيفها في فهم الصناعة المصرفية الإسلامية في الجمهورية الليبية.

الكلمات المفتاحية: ليبيا، المصارف الإسلامية، مصرف الجمهورية.

#### The Development of Islamic Banking Institutions in Libya

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The introduction of Islamic Banking products and services in Libya started in 2009. The Jumhouria Bank, the biggest commercial bank in the country, offer the banking products through its Islamic window. Since then, the industry is growing remarkably. This is due to the support from Muslims customers who demand shari'ah compliant banking products. The present article discusses the recent development of the new industry in Libya. It highlights the growth and the strategies undertaken by the government to strengthen the regulatory framework of Libya Islamic Banking market. Besides, the article discusses some of the challenges faced by the authorities. The article adopts content analysis. It analysis article journals, books and professional writings on the topic. It is found that Islamic Banking industry has a promising future in Libya. However, there man challenges that need to be solved. It is hoped that the article will add to the existing literature in understanding the Libya market in Islamic Banking industry.

Keywords: Libya, Islamic Bank, Jumhouria Bank

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#### 1. مقدمة

يعتبر القطاع المصرفي من أهم القطاعات التي لها تأثير مباشر على اقتصاد الدول المتقدمة والنامية على السواء. ويمثل القطاع المصرفي عصب الحياة الاقتصادية لأي بلد ومقياس تطور ونمو الاقتصاد الوطني، كما أن انتشارها في المجتمع يسهل على الأفراد الحصول على الخدمة المصرفية، وفي ذات الوقت يجعل هذا التنظيم المصرفي أكثر قدرة على جمع أكبر كمية من الودائع، ومنح التسهيلات المصرفية مما يترك أثراً بالغاً في الاقتصاد القومي. ويؤكد (الشميمري، 2010) على أن البنوك بصفة عامة من المؤسسات الأساسية للحياة الاقتصادية في أي مجتمع، حيث تتجمع لديها الودائع والمدخرات ومنها تتدفق في شكل قروض واعتمادات للقطاعات المختلفة، مما يؤدي إلى تحقيق التقدم والتنمية الاقتصادية، كما أنها الإطار الذي تنساب من خلاله تدفقات الأموال المحلية والأجنبية بصورها المختلفة، ولها أيضاً تأثير متعدد الأبعاد على هيكل الاستثمار والتمويل، واستقرار الأوضاع المالية والنقدية في الاقتصاد القومي.

ويبين الباحثان (مقداد؛ حلس، 2005) أن المصارف التقليدية تعتبر كأوعية تتجمع فيها الأموال والمدخرات من الأفراد والهيئات المختلفة، وتحقيق ربح يتمثل في الفرق بين سعر الفائدة المدينة التي تدفعها على الودائع والمدخرات، والفائدة الدائنة التي تحصل عليها لقاء القروض والسلف التي تمنحها، فالمصارف تمثل في هذه الحالة وسيط بين المدخرين والمستثمرين، وتعتبر وظيفة التمويل أحد الخدمات المهمة التي تقدمها المصارف لعملائها رغم تطوير المصارف للوظائف التي تؤديها حيث أصبحت تؤدي خدمات أخرى لا تقل أهميتها عن وظيفة التمويل.

إن تزايد الإمكانيات المالية في العالم الإسلامي خلال العقود الأخيرة، إلى جانب الوعي الإسلامي، ساعد في ارتفاع الأصوات المنادية بضرورة استخدام تلك الإمكانيات لخدمة مصالح الأمة الإسلامية ورفع شأنها، بالوسائل والأساليب التي تتفق وأحكام الشريعة الإسلامية، الأمر الذي دعا إلى عقد الدراسات العلمية وعقد الندوات المتخصصة التي جمعت بين رجال الاقتصاد الإسلاميين وفقهاء الدين، بهدف بلورة فكرة إنشاء البنوك الإسلامية. (مقداد؛ حلس، 2005).

ويحدد الدكتور أحمد النجار (1980) موجبات إقامة البنوك الإسلامية بأن هنالك عدد من القضايا الأساسية جعلت التفكير في إيجاد بديل إسلامي للبنوك والمصارف الربوية القائمة التزاماً دينياً وهو التزام ضروري وعقائدي. ويمكن إجمال هذه القضايا فيما يلي:

- إن نصوص الإسلام متضافرة على تحريم الربا، وعلى اعتباره منكرا اقتصاديا واجتماعيا غليظ الإثم، بل ومن الممكن عدّه جريمة سياسية كذلك، فقد ثبت أن الغزو الاقتصادي القائم على المعاملات الربوية كان التمهيد الفعال للاحتلال العسكري والتجاري الذي سقطت أكثر دول الشرق في مخالبة.
- ا الشبكة الربوية العديدة الفروع المعقدة الاتجاهات المنتشرة في الحياة العامة انتشار الشرايين في الجسم قد صدعت البناء الاجتماعي للإسلام -كدين عام- وشوهت حقائقه الأولى في عقول أبنائه وقلوبهم، وأنها قد أصابت كذلك الوضع السياسي للمسلمين.
- إن الأنظمة الاقتصادية التي نتلقاها عن الشرق أو الغرب ونسير على هداها تعزل الأخلاق عن الممارسات العملية في توظيف المال وهي بذلك تنحى الدين عن الحياة الاقتصادية.
- ان النظام الإسلامي والنظام الربوي لا يلتقيان في تصور ولا يتفقان في أساس، ولا يتوافقان في نتيجة، فالإسلام يقيم النظام الاقتصادي على أساس أن الله سبحانه − هو الخالق لهذا الكون وهو خالق هذه الأرض وهو خالق هذا الإنسان، وأنه قد استخلف الجنس البشري في هذه الأرض ومكّن له فيها على عهد منه وشرط. بينما يقوم النظام الربوي على تصور آخر لا نظر فيه لله سبحانه وتعالى ومن ثم لا رعاية فيه للمبادئ والأخلاق التي يريد الله للبشر أن تقوم حياتهم عليها، كما يقوم على أساس أن الفرد هو سيد هذه الأرض، وأنه حر في وسائل حصوله على المال وفي طرق تنميته كما هو حر في التمتع به غير ملتزم في شيء من هذا بعهد الله أو شرط. وغير مقيد كذلك بمصلحة الآخرين.

- إن الشبكة الربوية تنشئ في النهاية نظاماً يسحق البشرية سحقاً، ويشقيها في حياتها أفراداً وجماعات ودولاً وشعوباً لمصلحة عدد من المرابين، ويحدث الخلل في دورة المال ونمو الاقتصاد... وينتهي كما انتهى في العصر الحديث إلى تركيز السلطة الحقيقية والنفوذ العملي على البشرية كلها في أيد زمرة ممن لا يرعون في البشرية إلاً ولا ذمة ولا يراقبون فيها عهداً ولا حرمة.
- إن النظام الأخلاقي والنظام العملي في الإسلام متر ابطان تماماً وإن الإنسان في كل تصرفاته مرتبط بعهد الاستخلاف وشرطه. وأنه مختبر ومبتلى وممتحن في كل نشاط يقوم به في حياته ومحاسب عليه في آخرته، فليس هناك نظام أخلاقي وحده ونظام عملي وحده وإنما هما معاً يؤلفان نشاط الإنسان، وكلاهما عبادة يؤجر عليها إن أحسن ويؤاخذ عليها إن أساء... وأن الاقتصاد الإسلامي الناجح لا يقوم بغير أخلاق، وأن الأخلاق ليست نافلة يمكن الاستغناء عنها ثم تنجح حياة الناس العملية.
- ا إن الإسلام نظام متكامل، فهو حين يحرم التعامل الربوي يقيم نظمه على أساس الاستغناء عن الحاجة إليه، وينظم جوانب الحياة الاجتماعية بحيث تنتفي منها الحاجة إلى هذا النوع من التكامل، بدون المساس بالنمو الاقتصادي والاجتماعي والإنساني.
- وجود استحالة اقتصادية في أن يحرم الله أمراً لا تقوم الحياة البشرية ولا تتقدم بدونه، كما أن هناك استحالة اعتقادية
   كذلك في أن يكون هناك أمر خبيث، ويكون في الوقت ذاته حتمياً لقيام الحياة وتقدمها.

ويعتبر تحرج كثير من المسلمين من التعامل مع المصارف والبنوك التجارية التقليدية أكثر الأسباب التي ساعدت على ظهور فكرة إنشاء المصارف والبنوك الإسلامية واظهارها إلى الواقع. وكان الأمل يراود الكثير من المسلمين، ولفترة طويلة من الزمن لإنشاء بنوك لا تتعامل بالفائدة والربا، وتحقق الأهداف المرجوة منها كالعدالة الاجتماعية ومبدأ التكافل والتراحم الإنساني. وتشير الباحثة (الربيعان، 2008) إلى الواقع المدهش والرائع الذي حققته المصارف الإسلامية في منافسة قوية مع البنوك التقليدية في العالم بنسبة نمو لأصولها بلغت نحو 23 في التقليدية بقولها: دخلت البنوك الإسلامية ويحجم استثمارات تمويلية إسلامية تخطّت ال 400 مليار دولار. ودفعت المنافسة ببعض المنف "التقليدية" إلى التحول إلى بنوك تتعامل وفق أحكام الشريعة الإسلامية في السنوات الأخيرة. ويقدر الخبراء حجم أصول البنوك "التقليدية" إلى التحول إلى بنوك تتعامل وفق أحكام الشريعة الإسلامية في السنوات الأخيرة. ويقدر الخبراء حجم أصول ويتزايد الاهتمام بالصناعة المصرفية الإسلامية من قبل العديد من المؤسسات المالية العالمية الشهيرة مثل (سيتي جروب) وراتش اس بي سي اللتين دخلتا السوق المصرفي الإسلامي وأخذتا تطوران منتجاتهما لتلبية الطلب المتزايد عليها. وكان وينزايد الاهتمام خاصة في معاملات التورق الإسلامي مشيرا إلى الزيادة في اصدارات الصكوك بقيمة ارتفعت من 7رك طفرة تستحق الاهتمام خاصة في معاملات التورق الإسلامي مشيرا إلى الزيادة في اصدارات الصكوك بقيمة ارتفعت من 7رك مطرفا مليار دولار عام 2004 إلى و2 مليار دولار عام 2004 ودائع يبلغ 202 مليار دولار أمريكي، وبمجموع ودائع يبلغ 202 مليار دولار أبريكي، وبمجموع ودائع يبلغ 202 مليار دولار بزيادة سنوية تتراوح ما بين 10 و20 في المئة .

#### 2. مشكلة البحث

أن وجود المصارف الإسلامية في ليبيا كما في غيرها من البلاد التي يعيش فيها المسلمون، وإن كان في ذاته منذ أمد بعيد مطلبا إيمانيا ملحا في ضمير كل مسلم، فإنه اليوم- صار أشد ضرورة وإلحاحا، في ظل الأزمة المالية التي اكتوى بنارها العدو والصديق والبر والفاجر على السواء، من كان مع المصارف الإسلامية على وفاق ومن كان معها على خلاف، من كان مشككا في أهميتها وضرورتها ومن كان مدافعا عنها ساعيا لترشيدها، فمن خلال الوقوف على الأسباب التي ظهرت في تقارير الخبراء والمختصين لتحليل الأزمة المالية في الشرق والغرب على اختلاف مشاربهم وألوانهم، لوجدنا أن ما ذكروه في تقارير هم من الأسباب التي أدت إلى هذا الانهيار المالي، ترجع كلها إلى مخالفات شرعية لا يقرها النظام المصرفي الإسلامي، فقد اتفقت كلمتهم على أن أزمة الائتمان العقاري قائم على الإقراض الربوي لتملك المساكن، وصحب الأزمة العقارية وتبعاتها سلسلة من المخالفات المحظورة شرعا. (الغرياني، 2009)

ومن خلال ما سبق تتضح مشكلة الدراسة بسعينا بشكل رئيس إلى تحديد وبيان واقع التجربة الليبية في المصارف الإسلامية والمأمول منها.

وتحاول الدراسة الإجابة على السؤال الرئيسي التالي:

ما هو واقع تجربة الجمهورية الليبية في تبنيها للمصارف الإسلامية والمأمول منها؟

#### 3. هدف البحث وأهميته

هدفت هذه الدراسة بشكل رئيس إلى تحديد وبيان واقع تجربة الجمهورية الليبية في تبنيها للمصارف الإسلامية والمأمول منها. وتتأتى أهمية البحث من خلال الاهتمام العالمي المتسارع والمتزايد بالعمل المصر في الإسلامي، والذي حقق قفزات نمو سريعة جدا وغير متوقعة، فالنمو السريع في قطاع المصارف الإسلامية وبجميع مجالاته من حيث حجم الاستثمار ورأس المال والانتشار السريع وتبنية كخيار أول في مجال الصناعة المصرفية في الكثير من البلاد سواء في البلدان الإسلامية أو في أجزاء أخرى من العالم خلال السنوات الأخيرة، فعالم الصرافة الإسلامية أصبح يتربع على عالم الصرافة وهو المطلب الاول والخيار الأقوى لدى الكثير من الدول. وتوكد على ذلك الكثير من الاحصائيات ومؤشرات التنمية فقد انتشر العمل المصرفي الإسلامي بشكل واسع فيما يربو على سبعة وعشرين بلدا في آسيا وأفريقيا، كما ظهر أيضا في كثير من المراكز المالية في أوربا وأمريكا الشمالية ، حتى أصبحت المصارف والمؤسسات المالية المتخصصة والدولية تقدم خدمات متوافقة مع الشريعة الإسلامية، لتلبية التياجات شريحة واسعة من الزبائن في هذه الأسواق، ففي أسواق الدول الإسلامية يفوق عدد البنوك الإسلامية على مستوى العالم الان700 مصرفا منتشرة في 75 دولة في العالم برؤوس أموال سوقية تبلغ نحو 13 مليار دولار أمريكي وبمجموع ودائع يبلغ 200 مليار دولار بزيادة سنوية تتراوح ما بين 10 و 20 في المئة. كما وتظهر أهمية هذا البحث لما للمصارف الإسلامية يبيرة في التنمية الي التقيف في المعاملات المصرفية الإسلامية وبيان أهميتها وأهدافها وغاياتها وفوائدها العظيمة. دفع المجتمعات الإسلامية إلى التتقيف في المعاملات المصرفية إسلامية بديلة للعالم.

#### 4. أسلوب الدراسة

تعتبر هذه الدراسة من الدراسات النظرية التحليلية إذ توضح وتبين واقع تجربة الجمهورية الليبية في تبنيها للمصارف الإسلامية، وتحدد مجموعة من المحاور الأساسية لها، كما وتتعرض للتجربة الليبية من خلال تحليل الواقع وكذلك النظرة الاستشرافية للمستقبل. وتقدم مجموعة من التوصيات والنصائح التي قد تغني العمل المصرفي الإسلامي وتزيد من تقدمة وازدهاره، وكذلك تقدم خلفية نظرية عميقة لبعض جوانب صناعة المصارف الإسلامية في ليبيا. وقد اعتمدت الدراسة بالأساس على الكثير من المراجع والمصادر والأدبيات العلمية ذات الصلة المباشرة بمواضيع الدراسة، وتم الاعتماد ايضا على مجموعة من الاساليب العلمية ومنها التحليل والربط والاستنتاج والتفسير وذلك للوصول إلى إطار واضح ودقيق ومتكامل يجيب على سؤال الدراسة المطروحة ويحقق هدفها المرجو منها.

#### 5. التجربة الليبية في المصارف الاسلامية الواقع والمأمول.

#### 1.5 بداية الجهاز المصرفي الاسلامي الليبي ونشأته

تصنف ليبيا من الدول التي أخذت زمام المبادرة في تقنين الشريعة الإسلامية وإدخالها في تشريعاتها النافذة، وهي وإن قامت عقب الاستقلال عن الدولة الإيطالية الاستعمارية بسن تشريعات اقتبستها من بعض الدول الشقيقة وعلى الأخص مصر العربية، إلا أن تلك التشريعات لا تخلو من قواعد تخالف أحكام الشريعة الإسلامية، لذلك حرص المشرع الليبي عقب قيام الثورة سنة 1969 على أن يعاد النظر في التشريعات الصادرة قبل ذلك، وتعديل أحكامها بما يوافق شريعة الإسلام، وتمثل ذلك في تشكيل لجنة من العلماء المتخصصين في مجال الشريعة والقانون قامت بوضع مشاريع قوانين، حيث تم اعتمادها وإصدارها، وتكفلت بتنقيح عدة تشريعات، من بينها القانون المدني والقانوني التجاري من كل الشوائب التي علقت بهما، والمتمثلة في بعض القواعد المخالفة لأحكام الشريعة الإسلامية، من ذلك على سبيل المثال:

- تحريم الربا في القانون المدني بالقانون رقم 74 لسنة 1972 بتحريم ربا النسيئة في المعاملات المدنية والتجارية بين
   الأشخاص الطبيعيين (الأفراد) وبتعديل بعض أحكام القانون المدني والقانون التجاري.
- إلغاء عقود الغرر بالقانون رقم 86 لسنة 1392 هـ / 1972 في شأن تحريم بعض عقود الغرر في القانون المدني وتعديل بعض أحكامه بما يتفق مع الشريعة الإسلامية. (الزريقي، 2009)

وتعتبر التجربة الليبية حديث العهد بالصيرفة الإسلامية، مقارنة مع تجارب الدول العربية والاسلامية والعالمية. ففي تاريخ: 22 أكتوبر، 2012. أعطى مجلس إدارة مصرف ليبيا المركزي الضوء الأخضر لإطلاق نشاط البنوك الاسلامية داخل السوق الليبي والسماح للبنوك التقليدية القائمة بممارسة أنشطة الصيرفة الاسلامية. ويبين (الطراد، الحوتي؛ 2010) أن البداية الفعلية للعمل المصرفي الاسلامي الليبي انطلقت من خلال المصرف الجمهورية الذي باشر العمل بصيغ التمويل والاستثمار المصرفية الإسلامية "المنتجات المصرفية البديلة، الاسم الرسمي المعتمد من طرف مصرف ليبيا المركزي" منذ بداية 2009، وكان ذلك في إطار إذن مصرف ليبيا المركزي للمصارف التجارية العاملة بفتح نوافذ لتقديم التمويلات والخدمات المصرفية الإسلامية، وفقاً للمنشور رقم (2009/09م) الصادر عن مصرف ليبيا المركزي بتاريخ 29 \80 \2009 بشأن المنتجات المصرفية البديلة، وعرف المنشور المنتجات المصرفية البديلة كونها أدوات وصيغ تمويل واستثمار متوافقة مع الشريعة الإسلامية وحددها في الصيغ التالية:

- التمويل على أساس المرابحة.
- التمويل على أساس المضاربة.
- التمويل على أساس المشاركة.

وأتاح المجال لإمكانية التعامل لاحقا بصيغ أخرى مثل "الإجارة، الإستصناع، السلم، شريطة دراستها وإعداد عقودها ومتطلباتها" وعليه باشر مصرف الجمهورية الرائد في العمل المصرفي الإسلامي على أساس النوافذ الإسلامية التعامل بصيغة المرابحة للأمر بالشراء في بعض السلع منها السيارات والحاسبات... وغيرها، كما أن العديد من المصارف العاملة هي الأخرى التحقت بدرب الصيرفة الإسلامية، فقدمت صيغة المرابحة للأمر بالشراء ومنها المصرف التجاري الوطني. ومؤخراً وفي عام 2010 يفكر مصرف الجمهورية في توسيع دائرة المعاملات المصرفية الإسلامية من حيث العقود: "وشملت إعداد الدراسات بشأن تفعيل صيغ تمويل إضافية وتمويل نشاطات مختلفة وأكبر حجماً" كما أن الجهود الآن تنصب في اتجاه فتح فروع مصرفية إضافية مستقلة، ويستهدف هذه السنة فتح من 6 إلى 10 فروع على مستوى ليبيا. كما ويعمل مصرف شمال أفريقيا حاليا على تنفي دراسة لتحويل فروعه لفروع إسلامية، وذلك بعد أن تمّ افتتاح فرعه الإسلامي الأول في حي الأندلس، وهو حاليا يقدم خدمات إسلامية كاملة.

# 2.5 تحليل وبيان واقع التجربة الليبية في المصارف الإسلامية من خلال نموذجيها الفاعلين على أرض الواقع (مصرف الجمهورية) و (مصرف شمال افريقيا).

سنستعرض التجربة الليبية في الصرافة الإسلامية من خلال نموذجين فاعلين على الساحة الليبية وهما مصرف الجمهورية ومصرف شمال أفريقيا، وسنعتمد في عملية التبيان والتحليل على المواقع الكترونية للمصرفين، وعلى بعض الاوراق والمقالات العلمية التي تناولت التجربة لليبية.

#### 1.2.5 التجربة الليبية في المصارف الاسلامية (مصرف الجمهورية)

■ مصرف الجمهورية هو أحد المصارف العاملة في ليبيا.

وتنفيذا للاستراتيجية التي اعتمدها مصرف ليبيا المركزي لإعادة هيكلة وتطوير وتحديث القطاع المصرفي الليبي الهادفة إلى الارتقاء بالخدمات المصرفية على المستوى المحلى والعالمي، وإلى ما انتهت إليه الجمعية العمومية لكلا المصرفين الأمة والجمهورية بشأن الموافقة على دمج المصرفين في كيان مصرفي موحد، استنادا على قرار مجلس إدارة مصرف ليبيا المركزي رقم (74) لسنة 2007 بالإذن بذلك وقرار مجلس إدارة مصرف ليبيا المركزي رقم (8) لسنة 2008 بشأن تصنيف ذلك ضمن الحالات المنصوص عليها في المادة (62) من قانون المصارف فقد صدر قرار دمج المصرفين في مصرف واحد تحت اسم مصرف الجمهورية، وقد بدأ العمل فعلياً بهذا الكيان المصرفي العملاق مع بداية الربع الثاني من سنة 2008 بميز انية تفوق 11 مليار دينار وبعدد فروع يصل إلى 146 فرعاً ووكالة، ويعمل به عدد (5807) موظف وموظفة، الأمر الذي ساهم بشكل مباشر في توفير التمويل اللازم للمشاريع الصغري والمتوسطة سواء للقطاع العام أو الخاص، والعمل على توسيع نطاق تمويل حركة التجار الدولية تشجيعاً لعمليتي التصدير والاستيراد. وبذلك يكون أحد أكبر المصارف الليبية إذ سيحتل المرتبة الثانية بعد المصرف الليبي الخارجي حيث سيحدث طفرة في العمل المصرفي، كما سيصبح ضمن المصارف العشرة الكبري في منطقة المغرب العربي وشمال إفريقيا، إذ تخضع كافة أنشطة وخدماته التي يقدمها لأحكام القانون التجاري الليبي واللوائح المعتمدة بالنظام الأساسي للمصرف والقوانين المنظمة لأعمال المصارف الليبية والتي يشرف عليها مصرف ليبيا المركزي. ويتخذ المصرف من النظام الأساسي منهاج عمل في كافة عمليات استقطاب وتوظيف الأموال، بالإضافة إلى توجيهات المصرف المركزي بخصوص تقديم التمويل اللازم لمشاريع التنمية، والتي يعمل المصرف على المشاركة فيها، ويتخذ المصرف من مدينة طرابلس مقراً للإدارة العامة، وتنشر فروعه ووكالاته على رفعة شاسعة وذلك لتقديم أفضل وأحدث الخدمات المصرفية لجميع العملاء في كافة أنحاء ليبيا.

■مصرف الجمهورية قطاع الصيرفة الاسلامية.

يعتبر مصرف الجمهورية على المستوى المحلي رائداً في تقديم خدمات الصيرفة الإسلامية ، واتباع أسسها الصحيحة وهذا يؤكده إقبال الزبائن والاستطلاعات العامة والبحوث والدراسات والمقالات المختلفة. هذا وأبدت مصارف خارجية مختلفة لمساندة مصرف الجمهورية لتقديم الدعم بالتدريب والاستشارات والمشاركة في تأسيس مصرف إسلامي مستقل وبإجراء صفقات تجارية محلية ودولية. وقد قام مصرف الجمهورية باتباع الخطوات اللازمة للتأسيس لخدمات الصيرفة الإسلامية وفقاً لمعايير ومناشير مصرف ليبيا المركزي وهيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية العالمية (AAOIFI) وبموافقة الهيئة الشرعية بالمصرف والمكونة من كبار علماء الدين بالبلد. وفي هذا الإطار فإن المصرف قد فعل المنتجات الإسلامية التالية:

(المرابحة للأمر بالشراء: وذلك لملائمتها لجميع شرائح المجتمع ويسهل فهمها وتوظيفها من قبل موظفي المصرف بالمرحلة الأولى، وهي مُفعلة لسلعتين هما الحاسب الآلي والسيارات نظرا لكثرة الطلب عليهما ، وحاجة جميع الأسر لهما وتعذر إمكانية أغلب الزبائن من اقتنائهما بالدفع الفوري). (المرابحة البسيطة: وهي التي يبيع المصرف ما لديه من سلعة في المخزن وقد نُفذت لبعض أنواع السيارات التي اشتراها المصرف عن طريق عقود المرابحات الاستيرادية المبرمة مع بعض الشركات المحلية الكبرى). (المشاركة عدد فروع الصيرفة الإسلامية المستقلة المستهدف افتتاحها في المرحلة الأولى من القطاع= 17 وتحصل المصرف على موافقة مصرف ليبيا المركزي لافتتاح 3 فروع "فشلوم، المختار ببنغازي، غريان." وعدد صيغ المرحلة الأولى 5 المرابحة والمشاركة والمضاربة والإجارة والإستصناع).

#### ■ هيئة الرقابة الشرعية في مصرف الجمهورية.

جهاز مستقل من الفقهاء المتخصصين في فقه المعاملات المالية الإسلامية ، يقوم بتوجيه نشاطات المصرف ومراقبته والإشراف عليه للتأكد من التزام الإدارة بأحكام ومبادئ الشريعة في المعاملات التي يجريها المصرف. وتتكون أعضاء الهيئة الشرعية في المصرف من (أ. د الصادق الغرياني رئيسا، د. أسامة الصلابي عضوا، د. محمود الغرياني عضوا). ويناط بالهيئة مجموعة من المسؤوليات ومنها:

- تكون الهيئة مسؤولة أمام الجمعية العمومية ومجلس الادارة في حالة وجود قصور في مستوى الرقابة الشرعية بشرط قيام منتسبي الإدارة العامة للمصرف وفروعه بجميع مسؤولياتهم المحددة في هذه اللائحة.
- تجهد الهيئة بإبداء الحكم الشرعي في كل ما يعرض عليها من المصرف، وتعد الهيئة تقريرا سنويا
   يعرض على الجمعية العمومية للمصرف لبيان مدى التزام البنك بأحكام الشريعة الإسلامية.
- تحضر الهيئة أو بعض أعضائها اجتماع الجمعية العامة للإجابة على الاستفسارات المتعلقة بالمسائل الشرعية إن وجدت.
- يكون عضو الهيئة مسؤولا عن افشائه أياً من أسرار المصرف إلى جهات منافسة أو نشر معلومات تعود بالضرر على المصرف.

#### 2.2.5 التجربة الليبية في المصارف الاسلامية (مصرف شمال أفريقيا)

مصرف شمال أفريقيا أنشئ بموجب قرار مجلس إدارة مصرف ليبيا المركزي رقم (1) لسنة 2006، وتم اعتماد نظامه الأساسي كمصرف تجاري بمختلف أنشطته التجارية ووفقا لأحكام قانون المصارف، وبانعقاد الجمعية العمومية غير الاعتيادية للمصرف بتاريخ 10-01-2010 تقرر رفع رأس مال المصرف إلى مبلغ (350) مليون دينار بمشاركة مصرف ليبيا المركزي الذي أصبح المساهم الأكبر في رأس المال المدفوع. تقع الإدارة العامة للمصرف بمدينة طرابلس، ويدار المصرف بمجلس إدارة تم اختياره من قبل الجمعية العمومية للمصرف إدارة تنفيذية تدار بعناصر مصرفية متخصصة تم استقطابها من سوق العمل المصرفي المحلى، ويعول عليها في الدفع بالمصرف إلى الأمام والدخول في سوق المنافسة المصرفية على الصعيدين المحلى والإقليمي، كما يمتاز المصرف بالانتشار الواسع لفروعه ووكالاته في أغلب المدن والمناطق بليبيا يصل إلى (53 فرعا ووكالة). وفي أعقاب المشاكل الإدارية والمالية التي تعرضت لها أغلب المصارف الأهلية العاملة ونظراً لبعض الظروف التي مرت بها هذه المصارف وما ترتّب عليها من سوء تقديم الخدمة المصرفية المطلوبة وتعثر تحصيل الديون التي سبق وأن قدمتها وعجزها عن الوفاء ببعض التزاماتها وكذلك عدم قدرتها على الوفاء بمتطلبات القانون رقم (1) لسنة 2005 بشأن المصارف فيما يتعلق بتوفير رأس المال المطلوب وفقا لأحكام هذا القانون صدر قرار مجلس إدارة مصرف ليبيا المركزي رقم(1) لسنة 2006 باعتماد دمج بعض المصارف الأهلية في المؤسسة المصرفية الأهلية والإذن لها بممارسة أنشطة المصارف التجارية وفقا لأحكام قانون المصارف، حيث تمّ عقد اجتماع الجمعية العمومية للمؤسسة المصرفية الأهلية وفروعها التابعة لها وعددها (42) فرعا. وتم اعتماد النظام الأساسي لها كمصرف تجاري 01-01-01 م وتمّ فيه رفع رأس مال المؤسسة إلى (350) مليون دينار كما تم تغيير اسم المؤسسة ليصبح (مصرف شمال أفريقيا.)

- رسالة مصرف شمال أفريقيا.
- نحن مصرف تجاري يتعامل مع الأفراد والمؤسسات والشركات في جميع أنحاء ليبيا، إضافة إلى سعينا إلى إرضاء مساهمينا وتحقيق عوائد مجزية على استثماراتهم فإننا نعمل على تحقيق رضاء زبائننا وتقديم الخدمات المميزة بطريقة مبتكرة تتماشى وتطورات نمط حياتهم ، كما نعمل على تحقيق رضاء موظفينا وتهيئة الجو المناسب والمناخ الملائم أثناء العمل .... يأتى ضمن أولوياتنا:
  - عميلنا أولا ، فهو ركيزة مجتمعنا واقتصادنا.
  - ازدهار بلدنا وتطور اقتصادنا من خلال تشجيع وتمويل القطاعات الاقتصادية المنتجة.
    - الاهتمام بموظفينا فهم رأس مالنا البشري.
  - القيادة والإدارة الرشيدة المبنية على الصدق والأمانة واتخاذ القرارات الحكيمة والشجاعة.
    - التطوير المستمر للتنظيم الداخلي والاهتمام بالتكنولوجيا.
      - الاهتمام ببيئتنا وسلامتها.
      - تطلعات ورؤيا المصرف.

نطمح لأن نكون أول مصرف في ليبيا في تقديم الخدمات المصرفية الشاملة والمتوافقة مع أحكام الشريعة الإسلامية وفق منهجية تحظى توقعات زبائننا، كما نطمح لأن نقدم جميع هذه الخدمات بسرعة ودقة، وفي سبيل ذلك نسعى لاعتماد التقنية والتكنولوجيا المتطورة في الإدارة والتشغيل والخدمة، كما نسعى لخلق رأس المال البشري الكفؤ والمؤهل والمدرب للتعاطى مع الزبائن باحتراف ومع التكنولوجيا بمهارة وفاعلية.

■ مصرف شمال أفريقيا يفتتح فرعة الإسلامي الأول. الفتتح مصرف شمال أفريقيا فرعة الإسلامي الأول في حي الأندلس بتاريخ 2012/4/22. ويقدم الفرع الخدمات الإسلامية الكاملة. كما ويجري مصرف شمال أفريقيا حاليا دراسة لتحويل كامل فروعه لفروع إسلامية.

#### 3.5 المأمول من التجربة الليبية في المصارف الاسلامية

أن دخول المصارف الإسلامية إلى ليبيا، وإن كان متأخرا، فهو خطوة مباركة نرحب بها ونقدرها، وندعو إلى التوسع فيها، بحيث لا تخلو منها مدينة صغيرة ولا كبيرة في بلادنا، فحاجة الناس إليها كحاجتهم إلى إقامة أسواقهم التي لا غنى لهم عنها بصفة دورية في مدنهم، وذلك لرفع الحرج عن الناس وتخليصهم من شر الوقوع في الربا، فإنه يخلي الديار ويخرب البلاد. (الغرياني، 2009)

يؤكد الكثير من الباحثين والمتخصصين على قدرة الصناعة المصرفية الإسلامية على التوسع والازدهار والارتقاء في المستقبل القريب وبدعم مباشر من المناخ الذي شكلة الربيع العربي من جهة، وارتفاع منسوب الاهتمام الغربي من جهة ثانية، بعدما أظهرت هذه المصارف نجاحا في مواجهة تحديات الأزمة المالية العالمية. (افزاز، 2012)

ويبين (الحوتي، 2012) عضو اللجنة العليا لشؤون الصيرفة الإسلامية بليبيا ورئيس مجلس إدارة الجمعية الليبية للمالية الإسلامية، أنه تمت المصادقة على تعديل قانون مصرفي جديد يضيف فصلا كاملا متخصصا في الصيرفة الإسلامية، وذلك لأول مرة في تاريخ ليبيا. فوفقا للقوانين السارية فإن ملكية المستثمرين الأجانب في المصارف عموما والمرتقب تأسيسها ستحدد على الأرجح - في حدود 20%، بالرغم من أن القانون يسمح بـ49%، وبين أن الخطة الاستراتيجية التي تعكف اللجنة على صياغتها هدفت الحصول على موافقة رسمية لتأسيس مصرف إسلامي جديد لعام 2013، وتحويل بنك تجاري تقليدي وآخر متخصص إلى مصرفين إسلاميين، فضلا عن السماح بتوسيع عدد الفروع والنوافذ الإسلامية، وهو ما قد يرفع حصة المصارف الإسلامية من إجمالي أصول المصارف المحلية إلى 20%، وأشار أن المنتظر من الاستراتيجية المذكورة هو حشد موارد كبيرة لليبيا من أجل تفعيل مؤسسات وموارد مالية إسلامية جديدة كمؤسسات الزكاة والوقف، علاوة على إنشاء شركات للتأمين الإسلامي وصناديق وأدوات الاستثمار، لتكتمل أركان السوق المالية الموافقة للشريعة بليبيا نهاية عام 2014 أو بداية بغرض استقطاب وتوظيف الموارد. فالرؤية الاستراتيجية للمشرع تهدف لتحويل ليبيا إلى مركز مالي إسلامي في صعيد منطقة المغرب العربي .

ويوضح الخبير المالي (الكزة، 2012) أن المصارف الإسلامية قد تؤدي إلى طفرة كبيرة في النتائج التنموية في دولة سكانها من المسلمين ، حيث كشف أن 49% من الليبيين يرفضون التعامل مع المصارف التقليدية بسبب نظام الفائدة، واعتبر أن المصارف الإسلامية يناط بها بالدرجة الأولى دعم الوازع الديني، والتأكيد على نشر سماحة الإسلام، و يأتي بالدرجة الثانية تحقيق الأرباح والمكاسب المتسقة مع روح الشريعة وجوهرها. وشدد على ضرورة فصل ذمة وميزانية المصارف الإسلامية، وإلغاء النوافذ السابقة في المصارف التجارية.

المأمول من المصارف الاسلامية في الجمهورية الليبية إن تتبنا المنهج الإسلامي الشامل، كما ويؤمل منها أن تساهم في تقدم البلد ونهضته، وتصنع الرخاء والتنمية والازدهار في جميع الجوانب والمجالات. فالمصارف الإسلامية تنطلق من ذلك التصور الذي يراه ويحدده الإسلام للكون والحياة. فالأثار التي ستحدثها المصارف الإسلامي والنهضة المتوقعة في مجتمعنا الليبي الاسلامي من تنمية وتطوير وازدها وخصوصا في الجانب الاجتماعي كبير جدا.

## النتائج والتوصيات التى توصلت اليها الدراسة

هدفت هذه الدراسة بشكل رئيس إلى تحديد وبيان واقع تجربة الجمهورية الليبية في تبنيها للمصارف الإسلامية والمأمول منها. وأفرزت الدراسة مجموعة من النتائج ومنها: أظهرت الكثير من الدراسات والأبحاث والكتابات أهمية قطاع الصرافة الاسلامية لدى الدول الإسلامية لدى الدول الإسلامية لدى المصارف الاسلامية أحد الأركان الأساسية في ميدان الصرافة وعلى مستوى العالم. كما تعتبر التجربة الليبية في المصارف الاسلامية تجربة حديثة جدا مقارنة مع الدول العربية والإسلامية الأخرى. وتعتمد التجربة الليبية في المصارف الإسلامية على تجارب الدول العربية والإسلامية الأخرى وقد عملت على إنشاء استراتيجية وطنية خاصة بها وتمتاز بدقة التشريعات والقوانين وسرعة التنفيذ. وتبين النتائج العملية للتجربة الليبية سواء من الناحية النظرية ومن ناحية تقييم التجارب العملية. كما تشير النتائج عن الضعف العام بالمواقع الالكترونية الخاصة بالمصارف الإسلامية التي تمثل التجربة الليبية من حيث حجم المعلومات والبيانات، والتصميم، والخدمات، وبرامج التوعية والارشاد. وكذلك الضعف الإعلامي والتسويقي لبرنامج المصارف الإسلامية في ليبيا سواء على الصعيد المصارف الموضوع. وتبين النتائج أيضا ان هنالك رؤيا على شبكة الانترنت حيث أنه لا يوجد إلا عدد قليل من المقالات التي تدور حول الموضوع. وتبين النتائج أيضا ان هنالك رؤيا السلامية في ليبيا، بحيث تطمح لتكون الأ ولى على مستوى إفريقيا مع نهاية عام 2015.

ومن خلال ما تقدم توصي الدراسة بما يلي: الاهتمام الإعلامي بالتجربة الليبية وتسويق العمل المصرفي الإسلامي بين أفراد المجتمع الليبي، وتوعيتهم بأهميته بالطرق العلمية الحديثة، وخاصة باستخدام وتوظيف التكنولوجيا الحديثة، وكذلك تطوير المواقع الالكترونية الخاصة بنموذجي التجربة الليبية مع المصارف الإسلامية، وهما مصرف الجمهورية ومصرف شمال إفريقيا لما سيلعبانه بالمستقبل من دعم وتحفيز للأخرين على المشاركة في تطوير العمل المصرفي الإسلامي في ليبيا، وأن تساهم الحكومة الليبية بجميع مؤسساتها وقطاعاتها بدعم الخطة الاستراتيجية المبنية للنهوض بالقطاع المصرفي الاسلامي في ليبيا، حيث أنها ستكون محور الثورة الاقتصادية واساس التطور والازدهار في البلاد. والعمل على إجراء المزيد من البحوث والدراسات والمؤتمرات التي تبين أهمية قطاع المصارف الاسلامي، وتبادل الخبرات مع الاخرين وإجراء الدراسات التقييمية للمشاريع المنفذة لعلاج الخلل ودعم نقاط القوة للوصول إلى الغاية المرجوة.

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مصرف شمال افريقيا

أساليب مؤسسة الزكاة في تحويل مستحِقّي الزكاة إلى المزكّين: دراسة حالة في مؤسسة الزكاة النكاة الحكومية فرع مدينة سيمارنغ، جاوى الوسطى، إندونيسيا

The Zakat Agency's Methodology in Shifting Mustahik to Muzakki: A Case Study in The Semarang Zakat Agency, Central Java, Indonesia.

قدمه: محمد توفيق زمومي، عزمان عبد الرحمن 1 كلية الشريعة والقانون، جامعة العلوم الإسلامية الماليزية، نيلاي

## ملخص البحث

فإن الزكاة هي الركن المالي الاجتماعي من أركان الإسلام الخمسة التي فرضها الله علينا في كتابه المنزل على رسوله الأمين. ولتكون أموال الزكاة موزعة لأصحابها، فلا بد من تنظيمها وحسن إدارتها، وكان تنظيم وإدارة أموال الزكاة بدولة إندونيسيا خاضعة لقانون الزكاة رقم 38 سنة 1999، وينظم القانون طرق إدارة أموال الزكاة على مستوى الدولة أو الأقاليم، رغم أن وجود هذا القانون لم يكن دورا فعالا في رفع مستوى مستحقيها. تحدف هذه الرسالة إلى دراسة مؤسسة من مؤسسات الزكاة الموجودة بإندونيسيا، وهي مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ، وذلك لمعرفة كيفية إدارة الزكاة فيها، وبيان الوسائل التي تستخدمها هذه المؤسسة في توزيع الزكاة إلى المستجقّين وتحديد الأسباب والمشاكل التي تواجهها المؤسسة في تحويل مستجقّي الزكاة إلى المزكين. وأهمها أن جباية أموال الزكاة في مؤسسة الزكاة الخكومية فرع مدينة سيمارنغ تعمل بثمانية أصناف من الزكاة، وتوزيع أموال الزكاة وأهمها: البرامج الانتاجية المناسبة للشريعة، وأموالها لإنقاذ الضعفاء. وأن إدارة مال الزكاة بمدينة سيمارنغ تعمل جيداً، وذلك بوجود عملية جباية أموال الزكاة وتوزيعها وتنظيمها، ولأجل نجاحها فقد وضعت مؤسسة الزكاة ولرامجاً لتحويل مستحقى الزكاة إلى المزكين وأيضا معالجة المشاكل فيها.

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#### **ABSTRACT**

Zakat is the main contribution to the social welfare and finance which has its basis from the five pillars of Islam. It is a compulsory obligation towards all the Muslims to pay zakat as the obligation is derived and stated in the Al-Qur'an. Therefore one of the main important things pertaining to zakat is the distribution of zakat which required zakat to be distributed properly and fairly to those people called *mustahiq*. In order to ensure the distribution is done properly, a new systematic system of administration and management of zakat is needed. For instance in Indonesia case specifically, the administration of zakat is based on the Indonesian Law No. 38, Year 1999. There is a huge potential to implement a professional administration and management of zakat in Indonesia and the same situation is foreseen in the Semarang city. This study examined one of the zakat institutions established in Indonesia, it called Semarang Zakat Agency. This paper presents the first field study of aimed to find out how the management of Zakat is in Semarang Zakat Agency, as well as describe the methods used in the distribution of alms to *mustahiq*. Then identify the cause of the obstacles encountered and learn how to overcome it until achieve their goals by changing mustahiq be muzakki. Researcher concluded that the funds collected by Semarang Zakat Agency are used for the benefit of eight ashnaf, this agency has been implementing programs to change mustahiq become muzakki, by doing Economic empowerment and Outreach Efforts. Semarang Zakat Agency already doing properly in managing their zakat fund. The evidence is such as Semarang Zakat Agency has implemented activities of planning, organizing, and monitoring of the accumulation and distribution, and utilization of zakat.

#### المقدمة

تُعتبر مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ إحدى مؤسسات الزكاة النافعة في إندونيسيا. ونشأة مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ في البداية، كانت مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ تسمي بمؤسسة الزكاة والانفاق والصدقة (YAZIS) والتي يتولى إدارتها وزارة الشؤون الدينية (Depag) وقد تم تشعيله بشكل حيد. بالنسبة لضخامة حجم مدينة سيمارنغ وبالنظر في بعض العوامل الموجودة فيها، فغير اسمها إلى مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ. وفي سنة 2008، وافقت الحكومة على ذلك التطور الجدير فأصدرت بعد ذلك مرسوما محليا رقم 4 سنة 2008 يخص لما في الدستور رقم 38 سنة 1999 المتعلق بإدارة الزكاة. وبحذا التطور أصبحت مؤسسة الزكاة، التي كانت من قبل تحت إدارة شخص معين، تحت تدبير رجال الحكومة. وأن بعض الشئون والبرامج وجميع الأنشطة الموجودة من قبل مازالت مستمرة حيث يهتم بما رجال المؤسسة كل اهتمام. وهذه

المؤسسة أصبحت إحدى وكالات الموجودة في مدينة سيمارانغ والتي تعد أفضل الطرق لتخفيف الفقر في مدينة سيمارنغ.<sup>2</sup>

قامت مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ بتنفيذ نشاطاتها رقم 4 عام 2008 عن إدارة الزكاة والإنفاق والصدقة. لقد جاءت هذه النظم كخطوة تابعة للدستور رقم 38 عام 1999 عن إدارة الزكاة.<sup>3</sup>

على أنها أمانة التي تكون الخطوة التالية لنظام الدائرة بمدينة سيمارنغ، هناك أشياء تؤدي إلى إقامة مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ ما يلى:

- 1. كان أكثر الجتمع في هذه المدينة مسلما.
- 2. قد تطورت مؤسسة الزكاة بمدينة سيمارنغ جيدا لكن الأمر بالعكس فيما يتعلق لجمع الأموال وفي استفادتها.
- 3. اجتماع المجلس التنفيذي والمجلس التشريعي وكبراء أو عظماء المجتمع لإقامة مجلس إدارة الزكاة الأمين المتمرس.
- 4. مشاركة مجالس الأعمال والصناعة والهيئة المدنية في استخدام مواهبهم الاجتماعية لسلامة المجتمع. 4

وتتمثل المشاقات أو أحوال مدينة سيمارغ التي أصبحت تحديات مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ في النقاط التالية:

- 1. بلغ الفقر 32 % أو 233، 000 نسمة تقريبا.
- 2. قد أثرت الأزمة الاقتصادية العالمية في الأكثر من 15، 000 نسمة من المحتمع بصورة سلبية.

مقابلة شخصية شفوية مع رئيس قسم المالية، مؤسسة الزكاة الحكومية الفرع مدينة سيمارنغ، السيد بامبانغ في 2013/4/1م.

<sup>&</sup>lt;sup>3</sup> Latar belakang & Sejarah Pendirian BAZIS. Retrieved 13<sup>th</sup> September 2012 from http://www.baziskabsemarang.com

<sup>&</sup>lt;sup>4</sup> Ibid

- 3. عدد الطلاب الذين يحتاجون المساعدة قدر 6، 000 طالبا.
- 4. عدد الطلاب الذين توقفوا عن الدراسة قدر 150 طالبا في كل سنة.
  - قد أصابت بعض ولاية سيمارغ بمصائب العالم. 5

لم يتداول دستور جمهورية إندونيسيا رقم 38 عام 1999 ونظام الدائرة رقم 4 عام 2008 بين جميع طبقات المجتمع، لذلك أصبح الأغلبية الساحقة لايعرفون ما يجري في المجتمع ولا يفهمون الأشياء جيدا، بالرغم من أن الهدف الرئيسي من ذلك كله هو توعية وتشجيع الذين يؤدون الزكاة وصيانة مؤسسة الزكاة.

# أساليب المؤسسة في تحويل مستحِقّي الزكاة إلى المزكّين

ليكون تمويل المساكين نافعا، بحيث يرفع مستواهم الاقتصادي والاجتماعي وليزول التحاسد في حياة الجمتع، فيحتاج هذا التمويل الإدارة الجيدة والتنظيم الصالح من قبَل المجتمع والحكومة. وفي هذا الأمر فقد أصدرت الحكومة بمدينة سيمارنغ قانونا مدنيا أي "Peraturan Daerah" يتعلق بإدارة وتنظيم أموال الزكاة والإنفاق والصدقة، وهذه القانون يهدف إلى إيجاد التعاون والإرشاد والخدمة على المزكين والمنفقين والمصدقين أو الواهبين والموصين، وأيضا إلى أصناف مستحقي الزكاة.

لقد ركزت مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ بأكبر تركيز في 3 جوانب، وهي التمكين الاقتصادي، والتعليم، والصحة، هذه من أكبر نسبة في إدارة الزكاة في مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ. وتحاول هذه الدراسة خاصة في التمكين الاقتصادي، كما يرى من جوانب مختلفة أن التمكين الاقتصادي هو وجود تأثير كبير في تحويل مستحقى الزكاة إلى المزكين.

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<sup>&</sup>lt;sup>5</sup> Ihid

<sup>&</sup>lt;sup>6</sup> Peraturan Daerah Kabupaten Semarang Nomor 4 Tahun 2008 Tentang Pengelolaan Zakat, Infaq, Dan Shadaqah.

ولأجل نجاح القانون السابق من قبل الحكومية، فقد وضعت مؤسسة الزكاة طرقا وبرامجا لتحويل مستحقي الزكاة إلى المزكين وذلك عن طريق تمويل مستحقي الزكاة برنامجا إنتاجية مع رقابة وإرشاد المؤسسة لهم.

والبرامج الانتاجية التي أصدرتها المؤسسة، هي: 7

أ. برنامج العمل المعتمد على اكتفاء الذاتي

ب. برنامج إرشاد البائعين والتعاون لتنمية تحارتهم.

ج. تدريب العاطلين عن العمل والمطرودين من أعمالهم.

أولا: برنامج العمل المعتمد على اكتفاء الذاتي

برنامج العمل المعتمد على اكتفاء الذاتي يعني بتكوين الشركة الإسلامية، والهدف هي التعاون على المساكين من غير القرض أي سمي بقرض الحسن، 8 نحو التعاون في شراء الجوالة وإعطاء رأس المال لكسب المعيشة. وقد قرر رجال الممتحنين من بيت المال على صلاحية ونجاح هذه الشركة. وبجانب ذلك، ساعد مؤسسة الزكاة مجتمع غير المسلمين في كسبهم، ولكن كان رأس المال لمساعدتهم لا يؤخذ من مال الإشتراك.

جعلت مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ بعض الطرق لمساعدة المستحقين في حفظ مصلحة حياتهم، بأهداف وتحسين مستوى معيشتهم حتى يكون المزكين قادرين في مساعدة المحتاجين. وهذه كلها لإبتغاء مرضاة الله وأخذ الحكمة من فريضة الزكاة.

وقد شرح في كتاب فقه السنة لسيد سابق أن الزكاة اسم لما يخرجه الإنسان من حق الله تعالى الله الفقراء. وسميت زكاة لما يكون فيها من رجاء البركة، وتزكية النفس وتنميتها بالخيرات فإنها مأخوذة

<sup>7</sup> مقابلة شخصية شفوية مع رئيس قسم المالية، مؤسسة الزكاة الحكومية الفرع مدينة سيمارنغ، السيد بامبانغ في 2013/1/31م.

<sup>8</sup> القرض الحسن هو أحد أبواب التكافل الاجتماعي التي شرعها الإسلام وحث عليها ورتب عليها الأجر. الشرق الأوسط، جريدة العرب الدولية. الثلاثاء، 10 شوال 1430 هـ، 29 سبتمبر 2009.

دور مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ كواسطة بين المزكين والمستحقين قد عمل جميع واجباتها على أساس الشريعة الإسلامية، لأن الشريعة كلها مصالح، أينما كانت المصلحة فثم وحه الله تعالى وهي مبنية على جلب المصالح ودرء المفاسد والزكاة حكمها هو درء مفاسد وجلب مصالح الخاصة والعامة. ولكن التركيز يكون على المصالح العامة ويقوم المصالح الأخروية على الدنيوية فتفرد هيكل الزكاة أنه يبحث دائمًا عن المصالح الأخروية ثم المصالح الدنيوية العامة التي ترجع على الكافة بالطهر والنماء.

وبهذه المساعدة سوف يستطيع المستحق يرقي حياته، مثلا بالعمل التجاري، لأن الثروة التجارية مصدر من مصادر أموال الزكاة في هذه المؤسسة. وزكاة الثروة التجارية أو العروض التجارية تعني المال الذي يعده المسلم للبيع أي للتجارة.

ثانيا: إرشاد البائعين والتعاون لتنمية تجارتهم.

أموال الزكاة التي أخرجه مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ لبرامج إنتاجية أو استثمارية التي تعطي المستحقين القدرة إلى أن يكونوا على طريقة تنظيم إقتصادي من المساكين أحدها يعني برنامج إرشاد البائعين والتعاون لتنمية تجارتهم، هذا البرنامج دائما عمله بالمؤسسة الحكومية لمساعدة ولمراقبة البائعين في الأسواق الذين لدبهم مستوى ضعيف في تجارتهم. إن هذا يكون

<sup>9</sup> السيد سابق. فقه السنة. الجزء الأول. الفتح الإعلام العربي. ص. 235

<sup>103 : 9 :</sup> القرآن. التوبة. 9

<sup>11</sup> محمد، إبراهيم. ورقة مؤسسة الزكاة. جمهرية السودان المعهد العالي لعلوم الزكاة. ص. 6

<sup>&</sup>lt;sup>12</sup> Hafidhuddun, Didin. 2002. *Panduan Zakat Bersama K.H. Hafidhuddin*. 1<sup>st</sup> Ed. Jakarta: Republika. P. 95

دورا كبيرا في تحويل مستحقي الزكاة إلى المزكين، لأن مؤسسة الزكاة الحكومية تساعد وترافق البائعين لتنمية أو تطوير أعمالهم ومساعدتهم على زيادة أعمالهم وارتفاعهم لتكنوا مزكين. 13

لقد اختارت مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ وتوجهت مستحقين خاصة من الفقراء الذين في مستوى العمر المنتج التمكن على إقتصادهم.

ثالثا: تدريب العمل العاطلين والمطرودين من أعمالهم.

وبجانب ذلك مؤسسة الزكاة الحكومية تكوين البرنامج في تدريب العمل العاطلين والمطرودين من أعمالهم، مثل تدريب أو تمرين النفايات البلاستيكية، وهذا البرنامج عمل مؤسسة الزكاة الحكومية لمساعدة العاطلين والمطرودين من أعمالهم كي أن يكونوا مستمرين في أعمالهم، وهذه أيضا طريقة أي أسالب لتحويل مستحقى الزكاة إلى المزكين بمؤسسة الزكاة الحكومية فرع مدينة سيمارنغ. 14

# المشكلات التي تواجهها المؤسسة وطريقة لمعالجتها

إدارة أموال الزكاة والإنفاق والصدقة هي عملية التخطيط والتنظيم والتنفيذ والإشراف على جباية الزكاة والإنفاق والصدقة وتوزيعها والإستفادة منها. <sup>15</sup> وأهدافها هي نمو الوعي ونمو المؤسسات الدينية في الحياة، وخاصة في تحصيل وحدمات الزكاة لتكون أنفع لإيجاد المصلحة والعدالة في الحياة الاجتماعية. <sup>16</sup>

<sup>15</sup> Peraturan Bupati Semarang No: 66 Tahun 2008 Tentang Susunan Organisasi Dan Tugas Pokok, Fungsi Serta Uraian Tugas Badan Amil Zakat, Infaq Dan Shadaqah Kabupaten Semarang.

<sup>13</sup> مقابلة شخصية شفوية مع رئيس قسم المالية، مؤسسة الزكاة الحكومية الفرع مدينة سيمارنغ، السيد بامبانغ في 2013/1/31

<sup>14</sup> نفس المرجع

<sup>&</sup>lt;sup>16</sup> Penjelasan Atas Peraturan Daerah Kabupaten Semarang Nomor 4 Tahun 2008 Tentang Pengelolaan Zakat, Infaq, Dan Shadaqah.

## أولا: المشكلات في إدارة الزكاة

وللحصول والتحقيق على هذا الهدف كانت مؤسسة الزكاة لها المشكلة، وهي فيما يلي: 17

- أ. كان المزكين لم يفهموا على أن إخراج الزكاة ليست إلا مرة واحدة، أي أن أنهم يعلمون أن إخراج مال زكاة الفطرة في يوم العيد فحسب.
- ب. كان وعي المزكين محدودا، ولكن كان معظمهم من الموضفين الحكوميين، وأما صنف الآخر من المجتمع أنهم لا يريدون أن يخرجوا زكاتهم إلى مؤسسة الزكاة.
  - ج. أن الدعم من رجال الحكومة سيمارنغ لم يكن كافيا.
  - د. وأن الأموال التشغيلية في إدارة الزكاة لاتزال محدودة.

ومن هنا، يجب أن نعلن أن نجاح "مؤسسة الزكاة" في تحقيق أهدافها وآثارها في حياة الجتمع المسلم وعلاج مشكلاته الإقتصادية والإجتماعية من مطاردة الفقر والعوز، وإقامة الضمان الاجتماعي الشامل، وتأمين ذوى الحاجات الطارئة وتقريب الفوارق بين الأفراد والفئات، وتطهير الجماعة من أسباب التحاسد والتباغض، وإعانة الأخيار على إصلاح ذات البين، وتعزير الدعوة إلى الإسلام، وتثبيت عقيدته، وتأليف القلوب عليه، وغير ذلك مما تطبيقنا لها. وبعبارة أخرى: إن الزكاة لا تؤتى أكلها، ولا يجتنى ثمرها، إلا بشروط يجب توافرها. وبإهمال هذه الشروط أرى أن إصدار أي قانون للزكاة لا يحقق ما ينشده المخلصون من ورائه.

وقال الدكتور محمد إبراهيم أن المنهج الذي يتبعها مؤسسة الزكاة في التوجه عن المسائل الخلافية خاصة عما تتعلق بالزكاة، وهي فيما يلي: مصالح الفقراء والمساكين، والاحتياط بأن لا يكون

<sup>17</sup> مقابلة شخصية شفوية مع رئيس قسم المالية، مؤسسة الزكاة الحكومية الفرع مدينة سيمارنغ، السيد بامبانغ في 2013/1/31

<sup>18</sup> القرضاوي، يوسف . 2001. دور الزكاة في حل المشكلات الاقتصادية وشروط نجاحها. دار الشروق. ص. 58

المال دائما في يد صاحبه، ولكن فيه حق الغير أي حق للفقراء والمساكين، والإنصاف والعدالة بين أصحاب المال. 19

ثانيا: طرق مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ في معالجة المشاكل

إن المهمة الأولى للزكاة هي علاج مشكلات الفقر علاجا جذريا أصيلا لا يعتمد على المسكنات الوقتية، أو المداواة السحطية الظاهرية. حتى إن النبي صلى الله عليه وسلم لم يذكر في بعض الأحيان هدفا للزكاة غير ذلك، كما في حديثه لمعاذ حين أرسله إلى اليمن، وأمرهم أن سلم من أسلم منهم: "أن الله افترض عليهم صدقة في أموالهم تؤخذ من أغنيائهم فترد على فقرائهم" (رواه الجماعة عن ابن عباس).

ولتحليل هذه المشكلة فعلت مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ بما يلي: 21

- أ. إعطاء التوجيه والإرشاد إلى المجتمع عما تتلعق بالزكاة. وذلك إما بالحوار والمناقشة وإما بوصيلة
   الكتابة في المجلة.
- ب. المراقبة في تعيين القرار من رجال الحكومة سيمارنغ، وهذا لتحقيق المساعدة من رجال الحكومة.
  - ج. جعل عملية الإقتصادية مناسبة بالإقتصاد الإسلامي.
    - د. إرتقاء الملاحظة على أعمال رجال المؤسسة الزكاة.

بنظر إلى معالج الأول يعني إعطاء التوجيه والإرشاد إلى المجتمع عما تتلعق بالزكاة. وذلك إما بالحوار والمناقشة والكتابة في المجلة، أن في كتاب دور الزكاة في حل المشكلات الاقتصادية وشروط

<sup>&</sup>lt;sup>19</sup> Ibrahim, Abdullah. 1997. *Zakat, Beberapa Masalah Semasa dan Penyelesaiannya*. Jami'ah Islamiah Kedah (INSANIAH): Pustaka Reka. p. 6

<sup>21</sup> . 2001 . 2001 . 2001 . 2001 . 2001 . 2001 . 2001 . 2001 . 2001 . 2001 . 2001

<sup>&</sup>lt;sup>21</sup> مقابلة شخصية شفوية مع رئيس قسم المالية، مؤسسة الزكاة الحكومية الفرع مدينة سيمارنغ، السيد بامبانغ في 2013/1/31

نجاحها للشيخ يوسف القرضاوي، قد شرح أن مشكلة الجهل كثيرا ما يكون سبب الفقير لا يستطيع أن يتعلم ولا أن يعلّم أولاده. كيف، وهو في حاجة إليهم ليعلموا معه منذ نعومة أظفارهم؟ لهذا كان من الحاجات الأصلية التي يجب أن تتوافر للفقير في عصرنا من أصيلة الزكاة أن يتعلم ويتعلم أولاده ما لابد لهم منه لدينهم ودنياهم. وقد ذكرنا من قبل ما قال علماؤنا: إن المتفرض لطلب العلم له حق في الزكاة، بخلاف المتفرغ للعبادة كما قالوا: أن يعطى من الزكاة ما يشترى به كتب العلم اللازمة له إن كان من أهله. بل نصّ بعضهم على حواز نقل الزكاة إلى غير بلدها على خلاف الأصل، إذا كانت لطالب علم محتاج بلا كراهة، وعد بعضهم طالب العلم (في سبيل الله).

وبنظر إلى معالج الثاني يعني المراقبة في تعيين القرار من رجال الحكومة سيمارنغ، وهذا لتحقيق المساعدة من رجال الحكومة، كما شرح في مقالة "ورقة مؤسسة الزكاة" لمحمد إبراهيم، أن من المبادئ المهمة لترقية المؤسسة إعطاؤها سلطة الاختيار ابتداء وعلى هذا لا بد من إعطاء الإدارة العليا بالديوان وتحت إشراف المجلس الأعلى للزكاة سلطة الاختيار ابتداء وألا يخضع التعيين لأجهزة الخدمة العامة وقواعدها التي تقوم على المؤهل وتاريخ التأهيل فقط.

كما أن الزكاة فريضة على كل ذي مال من المسلمين وهي كذلك مصدر التمويل المحتمل للرفاهية العامّة. لتكون مصدر التمويل الذي يتمكن من الإستفادتة لرفاهية المحتمع. وفي بلاد إندونيسيا تحتاج إدارتما بمسؤولية وإحتراف.

رأى حسبي الصديقي أن لجباية أموال الزكاة ينبغي أن يعقد مؤسسة الزكاة لإدارة أموال الزكاة. وعند الشرازي أن على رئيس الجمهورية يجب عليه عقد مؤسسة الزكاة وإبعاثهم لجباية وتوزيع أموال الزكاة من مزكين.

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<sup>22</sup> القرضاوي، يوسف . 2001. دور الزكاة في حل المشكلات الاقتصادية وشروط نجاحها. ص. 32

<sup>23</sup> محمد، إبراهيم. ورقة مؤسسة الزكاة. جمهرية السودان المعهد العالي لعلوم الزكاة. ص. 16

<sup>&</sup>lt;sup>24</sup> Ash-Shiddieqy, Hasbi. 1984. *Pedoman Zakat*. Jakarta: Bulan Bintang. p. 77.

وينبغي المؤسسة الزكاة أن تتألف من الذين علموا علم الزكاة، والسيطرة على المشاكل المرتبطة فيها، متمثلة من الصدق والأمانة، وإلا فلا تصل الزكاة إلى مستحقيها.

في هذه المسألة رأى أمين رئيس على أن هناك سببان لماذا كان أداء الزكاة غير متداولة، وهما أولا أن المزكون لم يلتزموا بواجبتهم الدينية. ثانيا، وأنهم قد اعترفوا على واجبة إخراج الزكاة، ولكنهم لا يصدقون تماما بالمؤسسة الزكاة. 25

من هذه خصائص يظهر على أن إيمان المسلمين ما زال ضعيفا ومعنى أن علامة البخيل موجود في أنفسهم. وعند داود على أن الوعي الديني من المسلمين فقط ظهر عندما إخراج زكاة الفطر فحسب، وأما في إخراج زكاة المال لا يزال ضعيفا وقليلا. لذلك ينبغي للعاملين والمدعي أن يعقد التحقيق والإرشاد للمسلمين عما تتعلق بضرورية الزكاة في الحياة الإجتماعية.

#### الخاتمة

بهذه الرسالة وحد الباحث أنّ إدارة مال الزكاة بمدينة سيمارانغ قد كانت حسنة وصالحة، وذلك بوجود العملية جمع مال الزكاة وتوزيعها وتنظيمها، ولأجل نجاح القانون السابق من قبل الحكومية، فقد وضعت مؤسسة الزكاة طرقا وبراجحا لتحويل مستحقي الزكاة إلى المزكين وذلك عن طريق تمويل مستحقي الزكاة برناجحا إنتاجية مع رقابة وإرشاد المؤسسة لهم. وجباية أموال الزكاة في مؤسسة الزكاة الحكومية فرع مدينة سيمارنغ تعمل بثمانية أصناف من الزكاة، وتوزيع أموال الزكاة وأهمها: البرامج الانتاجية المناسبة للشريعة، وأموالها لإنقاذ الضعفاء، منها: مساعدة اليتامي والخدمة الصحية ومساعدة صاحب الكوارث، وأيضا إعطاء المنحة الدراسية. ومن بعض البرامج الإنتاجية التي اصدرتها المؤسسة، هي: برنامج العمل المعتمد على اكتفاء الذاتي، وبرنامج إرشاد البائعين والتعاون لتنمية بحارتهم، وتدريب العاطلين عن العمل والمطرودين من أعمالهم. وأعظم المشاكل التي تواجهها المؤسسة هي

<sup>&</sup>lt;sup>25</sup> Rais, Amin. 1995. Cakrawala Islam Antara Cita dan Fakt. Bandung: Mizan. p. 63.

<sup>&</sup>lt;sup>26</sup> Ali, Mohamad Daud. Sistem Ekonomi Islam Zakat dan Wakaf. Jakarta: UI Press. p. 63

نقصان وعي المجتمع لدفع الزكاة إلى المؤسسة، وهذه المشكلة مبنية على أن المجتمع لا يعرف جيدا عن المؤسسة. لذلك أكثرية المزكين من صنف رجال الموظفين الحكوميين، وأما صنف الآخر من المجتمع أنهم لا يريدون أن يدفع زكاتهم إلى مؤسسة الزكاة. بهذه المشكلة، إن المؤسسة تمت معالجتها بطريقة تعريف المؤسسة للمجتمع، وهي بإعطاء التوجيه والإرشاد إلى المجتمع وما يتعلق بالزكاة، وبطريقة الحوار وغيرها.

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# القدرة التنافسية للصناعات التحويلية ومتطلبات تحسينها في التجارة القدرة التنافسية الخارجية الليبية

# جامعة العلوم الإسلامية الماليزية كلية القيادة والأدارة

أبوبيصير أحمد مصبا

## مقدمة

إن علم الاقتصاد من العلوم التي تعتمد في تحليلها على البيانات الكمية والنوعية والإحصاءات المختلفة؛ لغرض قياس مستوى النشاط الاقتصادي عبر في المجتمع، وإرساء دلائل كمية نمطية معنوية لمحددات السلوك الاقتصادي ومدى تأثره وتفاعله بالبيئة المحيطة به. ويتم قياس النشاط الاقتصادي عبر تجميع ورصد لتطورات أسعار السلع والخدمات وعوامل الإنتاج، وكذلك حجم التدفقات والمبادلات التي تتم في الأسواق، ويتم تجميع هذه القيم بالأسعار الجارية أو الثابتة حسب عدة معايير تصنيف، أصبحت أغلبها دولية متعارفاً عليها. أما النشاطات غير السوقية فإنه يتم قياسها إما بتكلفة إنتاجها أو بافتراض سعر لها مثل الكلفة أو سعر الظل، ومع الانفتاح والتحرير الاقتصاديين، وتغيير دور الدولة في الشأن الاقتصادي لمصلحة القطاع الخاص، أخذت مسألة القدرة على المنافسة في الأسواق الدولية تحتل مساحات متزايدة في الأدبيات ذات العلاقة، سواء كان ذلك على المستوى الوطني (الأسواق الدولية ترتكز على هسألتين أساسيتين أ:

- تتعلق الأولى بالمفهوم، من حيث معنى المنافسة الدولية ومضمونها وارتباطها بالأهداف الوطنية وكيفية التعامل معها.
  - تتعلق الثانية بمؤشرات المنافسة الدولية.

فالمشكلة البحثية لهذه الدراسة تتمثل في الضعف الواضح للقدرة التنافسية للمنتوجات الليبية في الداخل وفي الخارج ، ومما زاد من عمق هذا الاختلال هو التطلع للانضمام لمنظمة التحارة العالمية Wto.

منهجية البحث يعتمد الباحث في هذه البحث على المنهج الوصفي التحليلي من خلال جمع البيانات من الكتب والندوات والتقارير والمنشورات ذات العلاقة بموضوع الدراسة .

لذلك فأن هذا البحت يتركز على المحاور التالية:

المحور الأول: – القدرة التنافسية للصناعات التحويلية في التجارة الخارجية الليبية.

المحور الثاني: – متطلبات تحسين القدرة التنافسية.

<sup>&</sup>lt;sup>1</sup> بلقاسم العباس: المؤشرات المركبة لقياس تنافسية الدول، إصدارات المعهد العربي للتخطيط، الكويت، العدد 75، لسنة 2008، السنة الرابعة، ص2.

#### المحور الأول: - القدرة التنافسية للصناعات التحويلية في التجارة الخارجية الليبية.

في ظل مفهوم الدولة الليبرالي، كانت وظائف الدولة تنظيمية مقتصرة على الحد الأدنى (الأمن، القضاء، الجيش، الدبلوماسية)، أما سائر الوظائف الأخرى فقد كانت من اختصاص القطاع الخاص، وكان من المحظور على الدولة التدخل في الشؤون الاقتصادية والاجتماعية، وكانت المنافسة أساساً منافسة محلية، وكان يترك للأسواق المحلية تحديد الإجابات عن التساؤلات لأي نظام اقتصادي وهي تتمثل في: ماذا؟ وكيف؟ ولمن تنتج؟ في ظل السياسات الاقتصادية الكلية والجزئية التي تحدد البيئة التي تجري فيها التفاعلات بين المتعاملين في إطار هذه التساؤلات الثلاثة، في إطار البحث عن مصادر النمو الاقتصادي والسياسات المعززة له في المدى الطويل، وفي إطار الجهود المبذولة لمعالجة تردي الأوضاع الاقتصادية بتصميم وتبني وتنفيذ برامج استقرار وتصحيح اقتصاديين بدأ الدور الإنمائي للدولة يتراجع مقابل تقدم الدور التصحيحي الذي يرتكز على ثلاثة محاور هي2:

- التحرير الاقتصادي، مثل إزالة القيود والمعوقات أمام التجارة الخارجية، ودعم المنافسة في ظل تشجيع القطاع الخاص.
- إصلاح القطاع العام، وذلك من خلال تحسين إدارة المصروفات العامة، وإصلاح الخدمة الوطنية، وتحسين أداء المؤسسات العامة بتخصصها أو إعادة هيكلها.
  - سياسة اقتصادية تحقق استقرار الاقتصاد الكلي.

ومن ثم سيتم إيضاح مجموعة من المفاهيم في هذا المحور، والتي منها مفهوم التنافسية، أنواع المنافسة، مؤشرات قياس تنافسية الصناعات التحويلية، والقدرة التنافسية للصناعات التحويلية الليبية.

#### أولاً: - مفهوم التنافسية.

أصبحت عبارة تنافس وتنافسية ذات وقع متزايد الأهمية في عالم اليوم، وأصبح للتنافسية مجالس أو هيئات أو إدارات، ولها سياسات واستراتيجيات، وتقدم عنها تقارير لكبار المسؤولين ، وليس لرجال الأعمال فقط، حتى إن بعض الدول كالولايات المتحدة الأمريكية مثلاً تعد هبوط التنافسية الاقتصادية أحد العناصر التي تحدد الأمن القومي للبلاد. ولم تعد التنافسية حاجة مقتصرة على الشركات لكي تبقى وتنمو، أو الأفراد ليحظوا بفرص العمل، بل باتت حاجة ملحة للدول التي ترغب في استدامة وزيادة مستويات معيشة أفرادها ومشاركتهم في التقدم العالمي.

استند هذا الاهتمام بمناخ التنافس إلى التغيرات الحاصلة على النشاط البشري من مختلف جوانبه، في التنظير الاقتصادي وفي التنظيم الاجتماعي والسياسي، فقد عرف العالم في العقود الأخيرة تطورات واسعة في الفكر الاقتصادي حول محددات القدرة التنافسية، فهناك التطورات في نظريات النمو والتحارة الجديدتين، إضافة إلى التغيرات على نظريات إدارة الإنتاج والتوزيع والتخزين، وبروز نظرية إدارة الجودة الكاملة، والتنافس في ذلك عوضاً عن المنافسة في السعر، كما استند الاهتمام إلى التطورات على المستوى العلمي والتكنولوجي وتقاصر المسافة بين العلم والتقانة أو بين الاختراع وتطبيقه، ولم تعد الصناعة مرتبطة بالضرورة، وفي كل فروعها، بكثافة رأس المال بقدر ارتباطها بالمحتوى المعرفي ومهارات العاملين والإدارة 8.

إن السبب وراء نجاح العديد من الشركات والدول يعود إلى النظام الاقتصادي المؤسسي لهذه الدول، الذي يتمتع بمواصفات تمنح الشركات مزايا تنافسية في مضامير معينة، أما المنافسة الحقيقية والعولمة والابتكار السريع والانتشار الواسع النطاق للمعلوماتية، فهي عناصر تساعد الدول على اكتساب أسواق حديدة والتقدم بسهولة، وينشأ هذا النوع من التقدم من نظرية (الميزة النسبية)، وبموجبها ينبغي أن تركز مؤسسات كل دولة على بعض أجزاء الاقتصاد من أحل تحقيق أقصى المكاسب، وتشكل الموارد الطبيعية بعض هذه الأجزاء، فيما تُكون الدولة بعضها الآخر من أحل ترسيخ الميزة التنافسية.

3. <sup>3</sup> محمد عدنان وديع: القدرة التنافسية وقياسها، إصدارات المعهد العربي للتخطيط، الكويت، العدد 24، لسنة 2003، السنة الثانية، ص3.

<sup>2</sup> رياض بن جليلي: سياسات تطوير القدرة التنافسية، إصدارات المعهد العربي للتخطيط، الكويت، العدد 83، لسنة 2009، السنة الثامنة، ص2-

وبالنسبة لمفهوم المنافسة فليس هناك من مفهوم متفق عليه بشأنه، الأمر الذي يعني أن تغيير المنافسة يوحي بمعانٍ كثيرة للعديد من المهتمين به، فالبعض يربط المفهوم بالتكلفة المنخفضة أو بسعر الصرف، والبعض الآخر يربطه بالقيادة التقنية أو معدل النمو والإنتاجية أو ميزان التحارة الخارجية، وفي بعض الأحيان لا يكون النقاش حول الأوضاع الراهنة للاقتصاد بل حول سلوك المتعاملين على أساس ارتباط مفهوم المنافسة بالتسابق أو الخصومة 4.

إن مفهوم التنافسية مفهوم دائم التغير، ولذلك لا يمكن تعريفه من وجهة نظر جامدة، وقد شهد مفهوم التنافسية تغيراً ملحوظاً مؤخراً، وخاصة في ظل التغيرات المتلاحقة في العلاقات التجارية العالمية، والتغير المماثل في أسس التنظيمات الصناعية العالمية، ومع ذلك فإنه يوجد اتجاه لتعميم بعض التعريفات العملية لمفهوم التنافسية على المستوى الكلى والقطاعي وكذلك على مستوى المنشأة 5.

إن مفهوم المنافسة الدولية، إذا ما تم تعريفه بطريقة أو بأخرى، هو امتداد أو محاكاة لنموذج السوق التنافسية المتسمة بالكفاءة، وللكفاءة أبعاد أهمها 6:

- كفاءة تخصيص الموارد: وتستوجب تسعير السلع النهائية بما يعكس تكلفة توفيرها، أي إن السعر يجب أن يساوي التكلفة الحدية أو ما يقرب منها.
- كفاءة الحجم: وتستوجب إمكان وضع حدود على عدد المؤسسات التي تدخل في قطاع ما، الصناعة مثلاً، بحيث لا ينخفض حجم المؤسسات دون الحجم الأمثل.
  - الكفاءة الحركية: وتستوجب تنشيط الاختراع والتحديد في المؤسسات القائمة عن طريق الاهتمام بالبحوث والتطوير.
- الكفاءة المرتكزة على التنافس والتنظيم: وتستوجب توفير الظروف التنافسية حارج المؤسسة، وكذلك الظروف التنظيمية داخلها للضغط على
   الإدارة لبذل أقصى الجهود الممكنة لخفض التكاليف.

إذاكان من المقبول أن الشركات يمكن أن تطور تنافسيتها، فإن الاختيار الحقيقي للتنافسية العالمية هو الإنجاز في الأسواق العالمية، وإن التنافسية مثلها مثل التجارة ترتفع في العمل في بنية دولية مفتوحة، وقد فتحت أعداد متزايدة من البلدان والقطاعات حدودها أمام المنافسة الدولية، ومع ذلك لا تزال التنافسية غير معرفة بشكل واضح ودقيق؛ إذ تتزاوح بين مفهوم ضيق يتركز على تنافسية السعر والتجارة، وبين حزمة شاملة تكاد تتضمن كل نشاط للاقتصاد والمجتمع، وقد تبنى فريق مشروع التنافسية في المعهد العربي للتخطيط، خلال عمله في إعداد تقرير عن تنافسية الاقتصاديات العربية، مفهوماً واضحاً للتنافسية يركز أساساً على الأسواق الخارجية والاستثمار الأجنبي المباشر كميادين أساسية لتطوير التنافسية العربية (تتعلق التنافسية الوطنية بالأداء الحالي والكامن للأنشطة الاقتصادية المرتبطة بالتنافس مع الدول الأخرى).

ووضع لهذا التعريف مجالاً يتناول الأنشطة التصديرية ومنافسة الواردات والاستثمار الأجنبي المباشر.

ويعد الاقتصاد تنافسياً إذا ما تمكن من النمو دون قيد على ميزان المدفوعات، ويكون أداؤه جيداً إذا ما نما بسرعة أعلى من اقتصاديات أخرى. وتجدر الإشارة في هذا المجال إلى اختلاف نتائج المنافسة على مستوى الشركة ومستوى الاقتصاد، فعلى المستوى الأول (الشركات) فإن مضمون المنافسة هو رابحون وخاسرون، وعلى المستوى الآخر (الاقتصاد) فإن نجاح دولة في السوق العالمية لايعني بالضرورة فشل دول أخرى، فنمو الصادرات يحدث طلباً على الواردات، وتعرف هيئة الولايات المتحدة للمنافسة الصناعية المنافسة الدولية على أنها: "قدرة الدولة على إنتاج السلع والخدمات التي تنجح في امتحان أو اختبار الأسواق الدولية، وفي الوقت نفسه المحافظة على توسيع الدخل الحقيقي للمواطنين"8.

 <sup>4</sup> رياض بن جليلي: سياسات تطوير القدرة التنافسية، مرجع سابق، ص4.

<sup>&</sup>lt;sup>5</sup> الْتَقريرُ الاقتصادي العربي الموحد، صنَّدوق النقد العربي، التجارة الخارجية للدول العربية ،2008، ص152.

رياض بن جليلي: سياسات تطوير القدرة التنافسية، مرجّع سابق، ص $^6$ 

محمد عدنان وديع: القدرة التنافسية وقياسها، مرجع سابق، ص4.

 $<sup>^{8}</sup>$ رياض بن جليلي: سياسات تطوير القدرة التنافسية، مرجع سابق، ص $^{5}$ .

كما تعرف منظمة التعاون الاقتصادي والتنمية التنافسية على مستوى الاقتصاد الوطني بأنها: "الدرجة التي يمكن وفقها، وفي شروط سوق حرة وعادلة، إنتاج السلع والخدمات التي تواجه أذواق الأسواق الدولية في الوقت الذي تحافظ على توسيع الدخل المحلى"<sup>9</sup>.

ووفقاً لتقرير المنتدى الاقتصادي العالمي عن التنافسية عام 1995 ، عرف التنافسية بالنسبة للدول بأنحا " خلق المزيد من الثروة عن منافسيها في الأسواق الدولية " <sup>10</sup> .

#### ثانياً: -أنواع التنافسية.

- تنافسية التكلفة أو السعر: فالبلد ذو التكاليف الأرخص يتمكن من تصدير السلع إلى الأسواق الخارجية بصورة أفضل، ويدخل هنا أثر سعر الصرف 11، فعند الإشارة إلى سعر الصرف يعني سعر وحدة العملة الأجنبية مقومة بوحدات من العملة الوطنية 12.
  - التنافسية غير السعرية: باعتبار أن حدود التنافسية معرفة بالعديد من العوامل التقانية وغير السعرية.
- التنافسية النوعية : وتشمل بالإضافة إلى النوعية والملائمة عنصر الابتكارية، فالبلد ذو المنتجات المبتكرة ذات النوعية الجيدة، والأكثر ملاءمة للمستهلك، وحيث المؤسسات المصدرة ذات السمعة الحسنة في السوق، يتمكن من تصدير سلعة حتى ولو كانت أعلى سعراً من سلع منافسيه.
  - التنافسية التقانية : حيث تتنافس المشروعات من خلال النوعية في صناعات عالية التقانة .

#### ثالثاً: - مؤشرات قياس تنافسية الصناعات التحويلية.

إن على الدول النامية زيادة أنشطتها التكنولوجية إذا ما أرادت الالتحاق بالدول المتقدمة ، فهي مصدر الميزة التنافسية في الصناعة التي تعتبر من ضروريات العولمة والمنافسة الدولية ، كما أنحا تعمل على تحسين كفاءة الإنتاج وأرتفاع مستويات الجودة <sup>14</sup> ، فعلى مستوى الاقتصاد الكلي، فإن التنافسية هي قدرة الاقتصاد على توفير مستوى معيشة مرتفع للمواطنين، قياساً بقدرة الاقتصاد على خلق الثروات، من خلال تعظيم الإنتاجية ودعم قدرات الابتكار، وقد قامت المؤسسات الدولية باستحداث العديد من المؤشرات التي تقيس تنافسية الصناعات التحويلية وهي كالتالي:

#### 1- الربحية:

تشكل الربحية مؤشراً كافياً على التنافسية الحالية، وكذلك تشكل الحصة من السوق مؤشر التنافسية، إذا كان المشروع يعظم أرباحه، أي أنه لا يتنازل عن الربح لمجرد غرض رفع حصته من السوق، ولكن المشروع يمكن أن يكون تنافسياً في سوق تتجه هي ذاتما نحو التراجع، وبذلك فإن تنافسيته الحالية لن تكون ضامنة لربحيته المستقبلية، ومن ثم فإن ربحية المشروع الذي يريد البقاء في السوق تمتد إلى فترة من الزمن، فالمنافع المستقبلية للمشروع تعتمد على إنتاجيته النسبية وتكلفة عوامل إنتاجه، وكذلك الجاذبية النسبية لمنتجاته على امتداد فترة طويلة، وعلى إنفاقه الحالي على البحث والتطوير أو البراءات التي يحصل عليها 15.

فالمشروع الصناعي قد يكون مربحاً للمستثمر الفرد وذلك نتيجة لإعفائه من الرسوم الجمركية، أو الضرائب على الأرباح، أو حصوله على دعم كبير للمواد الأولية والوقود المستخدم، ومن ثم يمكن حساب ربحية المشروع. ويتضمن التقييم ما يأتي<sup>16</sup>:

- تحليل الربحية التجارية أو الخاصة (أي الربح الصافي الذي تحققه المشاريع الصناعية).
- تحليل الربحية الاقتصادية أو القومية (أي المنافع التي يجنيها المجتمع من وراء هذه المشاريع).

محمد عدنان وديع: القدرة التنافسية وقياسها، مرجع سابق، ص5.

World Economic forum . The world Conptitiveness Report Switzerland IMD International Lausanne 15<sup>th</sup> 1995 . p8.

<sup>11</sup> محمد عدنان وديع: القدرة التنافسية وقياسها ، المرجع السابق نفسه، ص7.

<sup>12</sup> عطية المهدي الفيتوري: الاقتصاد الدولي، اللجنة الشعبية العامة، مصلحة الوسائل التعليمية، 2003، ص116.

<sup>13</sup> محمد عدنان وديع: القدرة التنافسية وقياسها، مرجع سابق، ص7.

<sup>14</sup> Fagerberg Jan ( Technology and Competitiveness ) OXFORD Review of Economic Policy . p . 196 محمد عدنان وديع: القدرة التنافسية وقياسها ، المرجع السابق، ص11.

<sup>16</sup> محمد محروس إسماعيل: اقتصاديات الصناعة والتصنيع، الناشر مؤسسة شباب الجامعة، الإسكندرية، 1992، ص 255.

#### 2- تكلفة الصنع:

إن تكلفة الصنع المتوسطة بالقياس إلى تكلفة المنافسين تمثل مؤشراً كافياً على التنافسية في فرع نشاط ذي إنتاج متجانس، ما لم يكن ضعف التكلفة على حساب الربحية المستقبلية للمشروع، ويمكن لتكلفة وحدة العمل أن تمثل بديلاً جيداً عن تكلفة الصنع المتوسطة عندما تكون تكلفة اليد العاملة تشكل النسبة الأكبر من التكلفة الإجمالية، ولكن هذه الوضعية يتناقص وجودها.

#### 3- الإنتاجية الكلية للعوامل:

إن الإنتاجية الكلية للعوامل تقيس الفاعلية التي يحول المشروع فيها مجموعة عوامل الإنتاج إلى منتجات، ولكن هذا المفهوم لا يوضح مزايا ومساوئ تكلفة عناصر الإنتاج، كما أنه إذاكان الإنتاج يقاس بالوحدات الفيزيائية مثل أطنان من الورق أو أعداد من التلفازات، فإن الإنتاجية الإجمالية للعوامل لا توضح شيئاً حول حاذبية المنتجات المعروضة من جانب المشروع، إذ من الممكن مقارنة الإنتاجية الكلية للعوامل أو نموها لعدة مشروعات على المستويات المحلية والدولية، ويمكن إرجاع نموها سواء إلى التغيرات التقانية وانخفاض التكاليف، أو إلى تحقيق وفورات الحجم!.

فقد اختلفت الرؤي حول مفاهيم الإنتاجية وقياسها ، فهناك من ينظر إليها بأنما إنتاجية العمل ، أي العلاقة بين كمية الإنتاج والعمل المستخدم في إنتاجه <sup>18</sup>، ومنهم من يرى أنما تشمل عنصري العمل ورأس المال <sup>19</sup>، فمشكلة الطاقة الإنتاجية العاطلة تؤدي إلى تباطؤ معدلات النمو في إنتاجها، بسبب صعوبات التسويق، وهو ما يؤكد الترابط بين مشكلة التسويق ومشكلة استخدام الطاقة الإنتاجية القصوي، وهذا الوضع يمكن رده إلى أسبابه التي يأتي في مقدمتها ضعف الكفاءة، وسوء تخصيص الموارد المتاحة في القطاع الصناعي، علاوة على التوريد غير المنتظم لقطاع الغيار والسلع الوسيطة، ونقص القوى العاملة المدربة، وسوء تكيف العرض مع التفضيلات العامة والطلب، بيد أن أهم هذه الأسباب مجتمعة هو اصطدام الطاقة الإنتاجية القصوى أو الحجم الأمثل للصناعة بضيق نطاق السوق المحلية التي قامت هذه الصناعات في إطارها، إذ ينبغي للقيام بعمليات تصنيع ذات حجم ينتج بكفاءة، أن يمتلك القطر أو الدولة سوقاً واسعاً يكفي لتبرير قيام الصناعة بالحجم السائد في الأقطار الصناعية 20 ، فمبدأ الكفاءة يرتكز على قدرة المنتجين لاستغلال ما هو متوفر لديهم من إمكانيات فنية وتقنية واقتصادية ، لرفع الجودة الصناعية واستمرارية العمل ، فالعلاقة بين عدد المنتجين ونسبة الإنتاج المقبول تستند على كفاءة المنتجين في الموقع الصناعي ، وهو ما يتفق مع مفهوم الكفاءة (\* الداخلية التي أشار إليها الاقتصادي المعروف " هارفي " <sup>(\*\*</sup>) 21.

#### 4- الحصة في السوق:

من الممكن لمشروع ما أن يكون مربحاً ويستحوذ على جزء هام من السوق الداخلية بدون أن يكون تنافسياً على المستوى الدولي، وبحصل هذا عندما تكون السوق المحلية محمية بعقبات تجاه التحارة الدولية، كما يمكن للمشروعات الوطنية أن تكون ذات ربحية آنية ولكنها غير قادرة على الاحتفاظ بالمنافسة تجاه تحرير التحارة أو بسبب تأثيرات الأسواق، لذلك ينبغي مقارنة تكاليف المشروع بتكاليف المنافسين الدوليين، لأنه كلما كانت التكلفة الحدية للمشروع ضعيفة قياساً بتكاليف منافسيه، كانت حصته من السوق أكبر وكان المشروع أكثر ربحية، مع افتراض تساوى الأمور الأخرى، فالحصة من السوق تترجم إذاً المزايا في الإنتاجية أو في تكلفة عوامل الإنتاج، وعندما تكون المنتجات التي يقدمها ربما أقل جاذبية من منتجات المنافسين بافتراض تساوي الأمور الأخرى أيضاً، إذ كلما كانت المنتجات التي يقدمها أقل جاذبية ضعفت حصته من السوق ذات التوازن.

<sup>&</sup>lt;sup>17</sup> محمد عدنان وديع، القدرة التنافسية وقياسها، مرجع سابق، ص 11، 12. <sup>18</sup> فانق محمد ، تقييم أثر التجارة الخارجية على الصناعات التحويلية الأردنية ، رسالة دكتوراة جامعة دمشق ، 2009، ص 99 <sup>19</sup> Mansfield Edwin - Microeconomics McLeod Limited . 1982. P147.

<sup>20</sup> محمد إبر اهيم منصور، خيار التصنيع العربي في ظل النفط، دار الثقافة للنشر والتوزيع، القاهرة، 1993، ص104، 104. (\*) الكفاءة : هي النسبة بين الطاقة الناتجة والطاقة الداخلة ( المعطاة ).

<sup>(\*\*)</sup> هارفي لابنستاين ، جامعة هارفارد الأمريكية

Harvey Leibenstein Inside The Firm: The inefficiencies of Hierarchy Harvard University Press Cambridge Massachusetts USA 1987

ويفترض أن يتم تحليل التنافسية على مستوى المشروع ومستوى الصناعة أو القطاع، ومستوى الاقتصاد الوطني، وحتى على مستوى التكامل الاقتصادي الإقليمي. ويجب التمييز بين الأهداف والمؤشرات، فإذا كان هدف المشروع يتمركز في تعظيم القيمة الحالية للربح، وكان واقع حصول المشروع على حصة أكبر من السوق يمكن أن يؤشر على أن المشروع في طريقه للوصول إلى هدفه، فإن هذه الحصة ليست مرغوبة بحد ذاتها، وإن ارتباط حصة السوق مع الربحية الأكبر هو أكثر صحة على مستوى المشروع منه لفرع النشاط أو البلد ككل<sup>22</sup>، ويمكن أن نرى مشروعاً يحقق أرباحاً أكثر من المعتاد بسبب حصته الكبيرة في السوق، لكن ذلك لا ينطبق على فرع النشاط، كما أن المشروع أفضل قدرة من البلد في استخدام موارد إضافية بغية توسيع حصته في السوق أو المحافظة عليها، وتنطبق أغلبية مقاييس تنافسية المشروع على تنافسية فرع النشاط، إذ إن فرع النشاط الذي يحقق بشكل مستديم مردوداً متوسطاً أو فوق المتوسط، على الرغم من المنافسة الحرة من الموردين الأجانب، يمكن أن يعد تنافسياً إذا تم إجراء التصحيحات اللازمة، كما يمكن قياس تنافسية فرع النشاط بالاعتماد على مقاييس تنافسية المشروع، وأهم المؤشرات المستخدمة، مؤشرات التكاليف والإنتاجية والميزة النسبية.

#### رابعاً: - القدرة التنافسية للصناعات التحويلية الليبية.

على الرغم من موارد الطاقة الوفيرة التي تتمتع بما ليبيا، فهي تمتلك اقتصاداً من أقل الاقتصاديات تنوعاً في المنطقة العربية وبين البلدان المنتجة للنفط، ففي أوائل السبعينيات اختارت ليبيا نظام الاقتصاد الموجه الذي حصر الاستثمار في الحدود التي تقررها الدولة، وفرض قيوداً صارمة على التحارة الخارجية، وشاعت فيه قيود الأسعار، وكثرت أشكال الدعم، وغاب القطاع الخاص بشكل شبه كامل، وأدى تدخل الحكومة الخانق في الاقتصاد على مدار عدة سنوات إلى حدوث تدهور متواصل في مناخ الأعمال، وانخفاض النمو الاقتصادي، وتدبى مستويات المعيشة، وهشاشة أوضاع الاقتصاد الكلي، وزيادة تعرض الاقتصاد للصدمات الخارجية ( )، وكان ضعف المؤسسات من المعوقات الأخرى أمام التنمية، وقد بدأ تدهور الأحوال الاقتصادية في منتصف الثمانينيات مع انخفاض أسعار النفط العالمية، ثم تفاقمت الأحوال في التسعينيات نتيجة للعقوبات الدولية، وبعد تجميد عقوبات الأمم المتحدة المفروضة على ليبيا في سنة 1999، عملت ليبيا على تنفيذ تدابير للإصلاح والانفتاح الاقتصادي، ولكن التقدم نحو إقامة اقتصاد السوق كمان بطيئاً ومتقطعاً، وتحتاج ليبيا إلى نمو اقتصادي قوي ومستمر لتلبية احتياجاتها التي تشهد زيادة متسارعة، وهو ما يتطلب استثمارات قوية في رأس المال المادي والبشري، وكفاءة في استخدام الموارد القومية، ويتعذر تحقيق ذلك إلا من خلال إصلاحات هيكلية واسعة النطاق تتوافق مع متطلبات السوق من أجل تعزيز دور القطاع الخاص، وتحسين مناخ الأعمال، وتشجيع تنويع الاقتصاد. وقد أحرز في الفترة الأخيرة تقدم ملموس نحو إصلاح النظام التجاري وتبسيط قواعد التجارة، وعلى سبيل التحديد ينبغي إلغاء كل ما تبقى من أشكال احتكار الدولة للاستيراد(\*\*)، كما أن تنويع الاقتصاد هو التحدي الأكبر الذي يواجه ليبيا، لأنه ينطوي على جهود متواصلة لتشجيع المشروعات الصغيرة والمتوسطة من أجل زيادة الإنتاج غير النفطي وتوسيع قاعدة التصدير وخلق فرص العمل اللازمة لسد احتياجات القوى العاملة التي تشهد زيادة سريعة مستمرة، وينبغي أن تركز سياسات توسيع قاعدة الإنتاج على مجموعة من الإصلاحات التي تحدف إلى زيادة التنويع الاقتصادي والمساهمة في خلق مصادر بديلة للدخل، ولأن ليبيا لا تملك ميزة تنافسية في النشاط الصناعي كبير الحجم، يتعين أن يكون تركيزها الأكبر في جهود الإصلاح على تطوير المشروعات الصغيرة والمتوسطة في مجالات الصناعة التحويلية بالتحديد، مما يعطيها ميزة القدرة على المنافسة، إضافة إلى المساهمة التي يعطيها القطاع الصناعي التحويلي للناتج المحلي الإجمالي 23 فقد بلغت مساهمة الصادرات غير النفطية من إجمالي الصادرات في المتوسط 5% خلال فترة الدراسة، إضافة إلى أن الصادرات غير النفطية لا تخضع لمفهوم الميزة النسبية للتجارة الخارجية، لاعتمادها على عناصر إنتاج مستوردة ذات تكلفة عالية وهو ما يفقدها القدرة التنافسية في الأسواق الخارجية، إضافة

22 محمد عدنان وديع: القدرة التنافسية وقياسها، مرجع سابق، ص12، 14.

<sup>(\*)</sup> أنشأت السلطات الليبية صندوق الاحتياطي النفطي في عام 1995، لتحقيق الأهداف التالية:

تخفيف أثر تقلبات أسعار النفط متوسطة الأجل على النفقات الحكومية.

حماية الميزانية من الضغوط السياسية الدافعة إلى الإنفاق عند زيادة إبرادات النفط.

<sup>(\*)</sup> بما في ذلك احتكار استيراد الذهب، والتبغ، والأدوية، واللقحات البيطرية.

بعا في تلك الحكور المسيرات الدهب، واللبع، والا دويه، والمعكات البيمريد. 2005 صندوق النقد الدولي، توصياته حول استر اتبجيات متوسطة الأجل للإصلاح الاقتصادي في ليبيا، 2005.

إلى عدم مرونة الصادرات الوطنية<sup>24</sup>، أي لا يمكن التحكم فيها وزيادتها لأنها تخضع لظروف أسواق النفط الدولية وتغيراتها، وكذلك عدم مرونة الواردات، أي إنها لا تتأثر بتغيرات الأسعار في الأسواق الخارجية والمحلية نتيجة العجز الذي يعانيه سوق السلع والخدمات من المنتجات المحلية.

#### 1- القدرة التنافسية للصادرات الصناعية التحويلية الليبية

يلاحظ من أهداف خطط التنمية التي نفذت خلال الفترة 1970–1985، أن السياسة الاقتصادية الليبية تبنت كلاً من سياستي إحلال الواردات وتشجيع الصادرات، وحيث أن الصادرات الليبية النفطية ومشتفاتها تشكل ما يقارب 96% من إجمالي الصادرات، وذلك بسبب عدم تنفيذ خطة التنمية 1981–1985، والتي كانت تستهدف إقامة صناعات تصديرية، وذلك بسبب الكساد العالمي وتدهور أسعار النفط خلال عقد الثمانينيات الذي أدى إلى انخفاض إيرادات الدولة، وترتب على ذلك انخفاض قيمة المشاريع التي وقعت عقودها من 1327 بليون دولار أمريكي، سنة 1981، إلى 1374 بليون دولار أمريكي سنة 1982. كما أن الاعتماد على النفط منذ الستينيات من القرن الماضي، أدى إلى انقطاع السوق الليبية في جمال تصدير السلع الأخرى غير النفطية، قد ترتب عليها غياب جملة من المعارف والإمكانيات والمهارات اللازمة للتصدير، وغياب التشريعات التصديرية الملائمة واختفاء فاعلية الموجود منها، وفقدان الصلة بالأسواق العالمية، وعدم مواكبة التطورات الدولية في شروط التصدير، إلى غير ذلك، فالتصدير لا يتم بمحرد وجود سلعة أو خدمة فائضة عن الحاجة المحلية، وإنما يتطلب جملة الإمكانيات القادرة على توفير السلعة المناسبة بالأسعار المناسبة في الأوقات المناسبة من وجهة نظر المستورد الأجنبي 25، إضافة إلى أن الكثير من السلع التي يتم تصديرها يعاني السوق المحلي نقصاً واضحاً فيها، وإن متوسط سعر الوحدة الواحدة من السلع المصدرة يعد متدنياً حداً مقارنة بالسعر الذي تباع به في السوق المحلي والسبب في ذلك يعود إلى عبارة عن صفقات تجارية بحتة، الغرض منها هو الحصول على ربح سريع دون أي اعتبار لتكاليف إنتاجها أو تسعيرها، والسبب في ذلك يعود إلى وجود سوق سوداء للصرف الأحدي وبأسعار تفوق سعر تصديرها.

إن تنمية الصادرات عملية ضرورية للاقتصاد الليبي، إذ تُمكنه من زيادة معدلات نموه الاقتصادي، واستخدام أفضل للموارد الاقتصادية، وتحقيق أهداف في مجال زيادة الطاقة الإنتاجية، وتوفير فرص عمل للعمالة المحلية، إن زيادة الصادرات الليبية وتنوعها أمر في غاية الأهمية لتنمية مصادر الدخل القومي وتنويعها، إلا أن هذا الابجاه مرتبط بتطوير الهياكل الإنتاجية التي تمكننا من تحقيق ذلك، ومدى قدرة الإنتاج المحلي على المنافسة في الأسواق العالمية، الأمر الذي يستدعي تحيئة الصادرات الليبية لما بعد انضمام ليبيا لمنظمة التجارة العالمية (\*)، وذلك لأن الصادرات الليبية تعاني مجموعة صعوبات أهمها 27:

- ارتفاع تكلفة الصادرات الليبية.
- غياب إستراتيجية واضحة المعالم للصادرات الليبية.
- المنافسة الأجنبية للسلع المحلية في الأسواق المحلية.
  - نقص الخبرة في مجال التسويق الدولي.

فالمتتبع لإحصائيات التجارة الدولية من حيث اتجاهاتها وهيكلها السلعي وتوزيعها الجغرافي ، يلاحظ أن النظام الدولي للتخصص وتقسيم العمل القائم على البناء النظري لنظرية التجارة الدولية، قد أدى بالدول النامية إلى التخصص في إنتاج المنتجات الأولية وتصديرها، مقابل تخصص الدول الصناعية في إنتاج السلع المصنعة وتصديرها، وذلك بدعوى تخصص كل دولة في إنتاج ما تمتلك أكفأ الإمكانيات لإنتاجه، وتصديره، تحقيقاً لمبدأ

المست بيني الفطوا المرابع في عام 2004. <sup>27</sup> عيسى حمد الفارسي: تنويع مصادر الدخل في الاقتصاد الليبي "الشراكة مع القطاع الخاص"، مجلة الاقتصاد والتجارة، اللجنة الشعبية العامة للاقتصاد والتجارة، السنة الأولى، العددان (3،4)، 2005، ص13.

<sup>&</sup>lt;sup>24</sup> الهيئة الوطنية للمعلومات والتوثيق، التجارة الخارجية في ليبيا خلال الفترة 1993-2004، قطاع الإحصاء والتعداد.

<sup>&</sup>lt;sup>25</sup> محمد خليل فياض: التجارة الخارجية والنمو الاقتصادي "تقييم التجربة الليبية 1970-1996"، مجلة الدراسات العليا، أكاديمية الدراسات العليا، العاديمية الدراسات العليا، العليا، طرابلس، السنة الربعة، العدد 13، لسنة 2003، ص103.

<sup>&</sup>lt;sup>26</sup> عبد الله شامية: الصادرات اللببية ودورها في الاقتصاد، مجلة البحوث الاقتصادية، المجلد الثاني، العدد الثاني، مركز البحوث الاقتصادية، بنغازي، 1991، ص135.

<sup>(\*)</sup> أُخذت ليبيا عضواً مراقباً في عام 2004.

الرشادة الاقتصادية، والارتفاع بمستوى الإنتاجية، ومستوى الرفاهية الاقتصادية على النطاق العالمي، وبتخصص الدول النامية في إنتاج المواد الأولية وتصديرها 28، وفي ظل اعتبارات متعددة تشكل في مجملها محددات العرض والطلب لكلا النوعين من السلع في السوق العالمي، وما أدت إليه من تدهور في معدلات التبادل التجاري الدولي للدول النامية، وتذبذب عائدات صادراتها، فإن حل المنافع والمكاسب المترتبة على التجارة الدولية قد آلت إلى الدول الصناعية المتقدمة، في حين لم تجن الدول النامية إلا الفقر والتخلف الاقتصادي، واستمرار اعتمادها على اقتصاديات الدول الصناعية المتقدمة.

#### 2- تنافسية الصادرات الصناعية التحويلية العربية ومقارنتها ببعض الدول.

ظهر في الأدبيات الاقتصادية العديد من المؤشرات التي تقيس قدرة اقتصاد معين على المنافسة في الأسواق الخارجية، والتي ذكر أهمها، ونقدم هنا أحدث المؤشرات التي طورتمًا بعض المؤسسات الدولية في مجال التنافسية، ومن أبسط المؤشرات لقياس تنافسية صادرات دولة معينة، احتساب نسبة الصادرات السلعية إلى الناتج المحلي الإجمالي، فكلما ارتفعت قيمة هذا المؤشر، أي كلما ازدادت نسبة الصادرات إلى الناتج المحلي الإجمالي، دل ذلك على تنافسية الصادرات. وفي الدول العربية فقد ارتفعت قيمة هذا المؤشر من 36.2% في عام 2002 إلى 54.2% عام <sup>29</sup>2007، وتعد هذه النسبة مرتفعة مقارنة ببعض المناطق الأخرى، غير أن هذا المؤشر لا يعكس مكونات الصادرات السلعية، إذ قد تكون معظم هذه الصادرات من السلع الخام، الأمر الذي يعني أن الصناعات التحويلية إما أنحا غير هامة في هذه الدول، أو أنحا غير تنافسية في الأسواق العالمية، وبناءً على ذلك فقد يكون من المناسب أخذ مؤشر آخر يتناسب مع وضع الدول العربية، وهو حصة الصادرات غير النفطية في الصادرات العربية، وقد تراوحت هذه الحصة بين 32.4% عام 2002، وما نسبته 24.6% عام 2007، وتعد هذه الحصة متدنية مقارنة بالحصص السائدة في العديد من المناطق، بالإضافة إلى تراجعها بشكل كبير خلال الأعوام القليلة الماضية، ويدل هذا المؤشر على انخفاض تنافسية الصادرات العربية وتراجعها، غير أن هذا المؤشر لا يعكس التنافسية بشكل صحيح، حيث من المكن أن يطغي الارتفاع في إجمالي الصادرات جراء ارتفاع الصادرات النفطية على قيمة المؤشر حتى في حالة حدوث ارتفاع ملحوظ في الصادرات غير النفطية، ويقيس مؤشر آخر حصة الدول العربية كمجموعة في واردات الشركاء التجاريين الرئيسيين، وقد ارتفعت هذه الحصة في أسواق الاتحاد الأوروبي والولايات المتحدة والصين واليابان خلال الفترة 2003 -2006، بعد أن شهدت تراجعاً خلال الفترة 2000-2000، وعلى الرغم من ذلك فإن حصص الدول العربية في هذه الأسواق، باستثناء اليابان، تبقى متدنية ويغلب عليها الصادرات النفطية<sup>30</sup>، وفي ضوء ذلك فإن قياس تنافسية الصادرات بصورة أدق يتطلب أخذ مؤشرات تقيس قدرة السلع المصنعة على النفاذ إلى الأسواق العالمية، ولذلك فقد تم الأخذ بعين الاعتبار مؤشرين هما (مؤشر تنوع السلع التصديرية) و(مؤشر تركز السلع التصديرية)، فعلى صعيد مؤشر تنوع الصادرات الذي يقيس درجة انحراف حصة صادرات السلع الرئيسية (١٥) في إجمالي صادرات دولة معينة عن الحصة المقابلة على الصعيد العالمي، أي عن حصة الصادرات الوطنية في الصادرات العالمية، يدل الانحراف القليل على وجود درجة أكبر من التنوع، ولذلك فإن انخفاض قيمة هذا المؤشر تدل على تنوع أكبر في الصادرات. ويلاحظ أن هذا المؤشر انخفض في العديد من الدول العربية في عام 2006 مقارنة بـ 1995، أي إنحا سجلت زيادة في تنوع صادراتها مقارنة بالتنوع في الصادرات العالمية. والجدول التالي يبين ذلك.

#### جدول رقم (1) تنافسية الصادرات التحويلية العربية ومقارنتها ببعض الدول.

<sup>28</sup> علي رمضان الماقوري: الصادرات الليبية "الواقع وسبل التطوير"، مجلة الاقتصاد والعلوم السياسية، جامعة الفاتح، السنة الثالثة، العدد الخامس، لسنة 2006، ص62، 63.

<sup>&</sup>lt;sup>29</sup> التقرير الاقتصادي العربي الموحد: صندوق النقد العربي، التجارة الخارجية للدول العربية، لسنة 2008، ص151.

<sup>30</sup> التقرير الاقتصادي العربي الموحد، صندوق النقد العربي، التجارة الخارجية للدول العربية، لسنة 2008، ص152.

<sup>(\*)</sup> مصنفة على أساس ثلاثة أرقام من تصنيف التجارة الدولي. "انظر الملحق رقم 1".

2006			2000			1995			
مؤشر	مؤشر	عدد سلع	مؤشر	مؤشر	عدد سلع	مؤشر	مؤشر	عدد سلع	الدولة
التركز	التنوع	الفئة الثالثة	التركز	التنوع	الفئة الثالثة	التركز	التنوع	الفئة الثالثة	
0.145	0.601	203	0.110	0.523	201	0.214	0.635	221	الأردن
0.451	0.584	253	0.575	0.716	250	0.558	0.692	258	الإمارات
0.787	0.819	139	0.532	0.778	128	0.481	0.768	138	البحرين
0.187	0.615	209	0.209	0.666	190	0.216	0.675	193	تونس
0.606	0.804	108	0.519	0.851	101	0.530	0.817	99	الجزائر
0.475	0.673	51	0.881	0.605	46	0.769	0.624	45	جزر القمر
0.191	0.690	196	0.120	0.508	163	0.130	0.522	177	جيبوتي
0.755	0.784	237	0.796	0.842	221	0.736	0.860	220	السعودية
0.872	0.752	57	0.612	0.781	63	0.351	0.566	19	السودان
0.340	0.699	186	0.679	0.518	84	0.539	0.698	131	سورية
0.924	0.804	168	0.986	0.821	50	0.733	0.719	30	العراق
0.749	0.655	118	0.793	0.732	221	0.766	0.709	189	عمان
0.562	0.797	231	0.564	0.824	130	0.641	0.835	102	قطر
0.666	0.834	239	0.635	0.843	155	0.940	0.835	135	الكويت
0.120	0.640	154	0.127	0.665	172	0.102	0.596	180	لبنان
0.799	0.784	188	0.743	0.571	36	0.768	0.523	29	ليبيا
0.356	0.686	196	0.317	0.684	231	0.247	0.666	164	مصر
0.159	0.683	199	0.181	0.699	178	0.179	0.749	169	المغرب
0.740	0.506	5	0.737	0.510	3	0.500	0.700	31	موريتانيا
0.852	0.776	124	0.896	0.788	83	0.891	0.761	70	اليمن
0.147	0.396	246	0.136	0.382	255	0.124	0.381	253	اليابان

0.076	0.275	257	0.091	0.266	258	0.075	0.284	257	الولايات المتحدة
0.190	0.465	255	0.171	0.478	238	0.111	0.442	235	تايوان
0.156	0.394	242	0.158	0.382	240	0.149	0.406	240	كوريا الجنوبية
0.186	0.459	254	0.219	0.502	257	0.180	0.514	257	ماليزيا
0.271	0.495	274	0.275	0.474	256	0.218	0.503	249	سنغافورة

المصدر: التقرير الاقتصادي العربي الموحد 2008.

#### الخاتمة

- يعاني الاقتصاد الليبي احتلالات ناتجة عن سياسات متضاربة وغير فعالة في براجحها التنموية في المراحل السابقة، وبشكل أكثر تفصيلاً: نجد أن الصناعات الليبية، سواء القديمة أو الجديدة، تعاني ضعف القدرة التنافسية، فقد أظهرت ضعفاً في قدرتما التنافسية على المستويين المجلي والدولي، وإن السبب في ذلك يرجع إلى التخلف التكنولوجي لهذه الصناعات وارتفاع التكاليف، كما أن هذه الصناعات لا تزال في طور النشوء، وتعتمد على الإعانات والحماية، وتعتمد على التكنولوجيا المستوردة من الخارج.
- استحواذ الصادرات النفطية على النصيب الأوفر من إجمالي الصادرات؛ إذ بلغت في المتوسط ما نسبته 96%، وهي تتأثر بظروف الأسواق النفطية الدولية، أي إن الاقتصاد الوطني يعاني مشكلة عدم التنوع، وأصبح الاقتصاد الليبي يعرف من ضمن الاقتصاديات ذات الجانب الواحد.
- إن الاقتصاد الليبي يعد من الاقتصاديات المفتوحة نسبياً، وكل الذي حصل أن الواردات تغيرت من استيراد السلع النهائية إلى استيراد المواد الخام والسلع الوسيطة، أي إن الصناعات التي قامت لتحل محل الواردات تعتمد وبدرجة أساسية على المواد الخام والميكنة المستوردة، واتضح -بشكل قطعي- عدم جدوى الصادرات غير النفطية بوضعها الحالي.

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# HAD KIFAYAH, KEMISKINAN BANDAR DAN WANITA DI MALAYSIA: SOROTAN LITERATUR

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#### **ABSTRAK**

Zakat merupakan antara sumber kewangan bagi sesebuah negara Islam untuk meningkatkan ekonomi masyarakat khususnya golongan bawahan. Pengurusan kutipan dan agihan zakat yang efektif akan membangunkan kehidupan masyarakat yang unggul. Namun, kaedah pengagihan zakat di Malaysia yang hanya memberi tumpuan kepada bentuk bantuan berkala dilihat seolah-olah tidak dapat menyelesaikan isu kemiskinan dalam masyarakat Islam. Disebalik peningkatan jumlah kutipan dan agihan zakat, jumlah peningkatan dikalangan golongan fakir dan miskin terus meningkat dari tahun ke tahun. Ini disebabkan terdapat beberapa kelemahan dalam kaedah pengagihan ini. Pertama, ianya tidak mengambil kira perbezaan antara kos sara hidup antara kawasan bandar dan luar bandar. Kedua, keperluan jantina ketua isi rumah yang berlainan tidak ditangani dalam pengiraan Garis Kemiskinan Zakat (Had Kifayah). Untuk menjadikan bantuan zakat memberi kesan yang signifikan kepada kualiti hidup golongan fakir dan miskin, satu tindakan yang drastik perlu dilakukan untuk memastikan kualiti hidup mereka adalah terjamin sekurang-kurangnya mendapat barang keperluan dan kecukupan. Nilai bantuan zakat perlu dinilai semula berdasarkan keperluan semasa kerana nilai bantuan yang diberi amatlah kecil berbanding dengan keperluan kehidupan semasa. Ini termasuklah mengambil kira keperluan yang berbeza dan kos sara hidup yang berbeza antara asnaf di kawasan bandar dan luar bandar serta jantina ketua isi rumah. Sehubungan dengan itu, kertas kerja ini bertujuan untuk meninjau kajian-kajian lepas berdasarkan dua faktor penting dalam penetapan Had Kifayah iaitu kemiskinan di antara kawasan Bandar dan luar Bandar dan jantina isi rumah. Dapatan kajian mendapati bahawa satu penentuan had kifayah baru perlu dirangka mengikut keperluan semasa yang pelbagai dengan mengambil kira dasar Negara Maju 2020 nanti.

Kata Kunci: Zakat, Had Kifayah, Kemiskinan Bandar-Luar Bandar, Jantina Ketua Isi Rumah

# ZAKAT POVERTY LINE, URBAN AND WOMEN POVERTY IN MALAYSIA: LITERATURE STUDY

#### **ABSTRACT**

Zakat is one of the financial resources for an Islamic country to improve their society economy, especially those who in bottomline. An effective zakat management in terms of collection and distribution will create a prosperious life. However, the current method of zakat distribution in Malaysia which focusing on the visible assistance form on periodic basis seems cannot solve the

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poverty issue among Muslim community. Despite the increasing amount of zakat collection and distribution, the amount of poor and hardcore poor are also continue to increase from year to year. This is because of some weaknesses in this distribution method. First, it does not take into account the difference between the cost of living between rural and urban areas. Second, different needs among household head gender are not addressed in the calculation of Zakat Poverty Line (Had kifayah). To make zakat distribution provides significant impact on the quality of life among the poor and needy, immediate actions need to be done to ensure that at least their needs are satisfied and adequate. The amount of zakat distribution should be revalued due to the current amount is not suitable compared to the current cost of living. This includes the different needs and cost of living between urban recipients and urban recipient as well as household head gender. Therefore, this paper aims to review previous studies based on two important factors in setting Had Kifayah between urban and rural areas and gender households head. It is found out that a new method of setting Had Kifayah should be designed based on current requirement and needs besides considering the future Vision 2020 policy as weel as becoming a developed country.

**Keywords**: Zakat, Had Kifayah, Urban-Rural Poverty, Household Head Gender

#### 1. PENGENALAN

Zakat adalah rukun Islam yang ketiga. Ianya adalah satu bentuk ibadah wajib yang ditetapkan dan diperintahkan oleh Allah SWT di dalam Al-Quran:

"Sesungguhnya zakat-zakat itu hanyalah untuk orang-orang fakir, orang-orang miskin, pengurus-pengurus zakat, para mu'allaf yang dibujuk hatinya, untuk (memerdekakan budak), orang-orang yang berhutang, untuk jalan Allah dan orang-orang yang sedang dalam perjalanan, sebagai sesuatu ketetapan yang diwajibkan Allah, dan Allah Maha Mengetahui lagi Maha Bijaksana."

(Al-Qur'an 9:60)

Zakat adalah tanggungjawab dari Allah SWT kepada manusia, sama seperti kewajipan menunaikan solat lima waktu<sup>1</sup>. Untuk mendirikan solat secara berjemaah, masyarakat Islam menganjurkan tempat ibadat (Masjid/Pusat Islam) bagi menunaikan solat berjemaah. Begitu juga, masyarakat Islam wajib untuk menubuhkan institusi zakat dalam usaha untuk mengumpul dana dari masyarakat umat Islam yang kaya dan mengedarkannya di kalangan orang-orang yang memerlukan (Qardawi, 2000).

Zakat juga memainkan peranan sebagai mekanisme ibadat kewangan yang melakukan beberapa fungsi utama kewangan awam, yang berkaitan dengan hak-hak keselamatan sosial, pemberian bantuan sosial, subsidi makanan, pendidikan, penjagaan kesihatan, perumahan, dan pengangkutan awam di sesebuah negara (Jasni Sulong, 2012; Hairunnizam Wahid, 2004, 2009). Ianya memisahkan perbelanjaan kebajikan awam dari lain-lain barangan belanjawan dan meletakkan beban untuk memenuhi keperluan kebajikan ekonomi masyarakat miskin. Tidak seperti cukai yang dikenakan oleh kerajaan untuk perkhidmatan yang disediakan kepada pembayar cukai, zakat dibayar oleh golongan yang kaya dan akan diagihkan kepada golongan Asnaf (Penerima Zakat).

Menurut M. Ridhwan (2012) zakat mewujudkan kitaran pertumbuhan yang seimbang bagi sesebuah ekonomi. Apabila peratusan tertentu daripada kekayaan seseorang dibelanjakan dalam setahun, diserahkan kepada lapan kategori yang tersebut di dalam Al-Qur'an, zakat mempunyai kesan ekonomi yang penting kepada masyarakat Islam. Sokongan daripada sudut kewangan kepada golongan fakir dan miskin akan menyebabkan peningkatan dalam permintaan untuk barangan dan perkhidmatan (Bakar, 2011; Hasan, 2010). Ini disebabkan oleh kemampuan golongan ini berbelanja dan mewujudkan permintaan untuk keperluan asas kehidupan seperti makanan, pakaian, tempat tinggal, pengangkutan dan lain-lain, akan menyebabkan perkembangan dalam pengeluaran. Seterusnya bagi

menyokong peningkatan pengeluaran, lebih banyak peluang-peluang pekerjaan baru akan wujud. Pertambahan peluang pekerjaan pula akan menjana lebih banyak permintaan untuk barangan dan perkhidmatan, lebih banyak ruang untuk pelaburan, dan akhirnya, kitaran pertumbuhan ini akan menyumbang kepada pertumbuhan ekonomi sesebuah negara (Ahmad, 2004; M. Ridhwan, 2012).

Kajian empirikal oleh Geoffrey A. Jehle (1994) membuktikan agihan zakat yang telah diberi kepada asnaf telah berjaya mengurangkan ketidakseimbangan agihan pendapatan di Pakistan. Abdul Aziz Muhammad (1986) juga membuktikan bahawa agihan zakat berperanan untuk membasmi kemiskinan, instrumen agihan pendapatan dan kekayaan dalam Islam. Selain itu kajian Patmawati Ibrahim (2006) di Selangor dan Fuadah Johari (2004) di Melaka menunjukkan zakat berkesan dalam mengurangkan jurang ketidakseimbangan agihan pendapatan dan seterusnya berjaya mengatasi masalah kemiskinan. Indeks kemiskinan berdasarkan Keluk Lorenz, Koefesien Gini dan indeks Atkinson menunjukkan sumbangan positif agihan zakat di negeri-negeri tersebut.

#### 2. PRESTASI PENGURUSAN ZAKAT DAN KEMISKINAN DI MALAYSIA

Di Malaysia, pungutan zakat semakin meningkat dari semasa ke semasa. Disebabkan itu zakat berpeluang sebagai kaedah dalam mengurangkan kemiskinan. Kutipan zakat boleh digunakan untuk mewujudkan tarikan dana yang boleh digunakan dalam aktiviti-aktiviti pembangunan pembiayaan dan boleh menggantikan perbelanjaan kerajaan. Sebagai contoh dari tahun 2011 hingga 2012, kutipan zakat telah meningkat daripada RM 15,650,000 RM 40,620,000 (JAWHAR, 2012). Ini menunjukkan bahawa zakat mempunyai peluang yang tinggi bagi mengurangkan dan menghapuskan kemiskinan di Malaysia. Jadual 1.1 menunjukkan jumlah kutipan dan agihan zakat di Malaysia pada tahun 2008-2011.

Jadual 1.1: Kutipan dan Agihan Zakat Di Malaysia Bagi Tahun 2008 - 2011

State	2008 (RM Juta)		2009 (RM Juta)		2010 (RM Juta)		2011 (RM Juta)	
	CLC	DST	CLC	DST	CLC	DST	CLC	DST
Johor	101	74	109	97	122	115	137	151
Kedah	53	42	68	56	77	66	106	80
Kelantan	58	24	67	56	70	65	94	80
Melaka	27	21	31	32	34	30	38	34
N. Sembilan	37	37	42	41	50	52	58	59
P.Pinang	42	46	48	52	53	54	60	54
Pahang	58	22	72	47	81	59	89	60
Perak	57	37	67	60	70	67	86	68
Perlis	23	16	25	27	38	30	59	43
Sabah	24	19	25	24	33	26	34	32
Sarawak	36	18	37	24	39	24	44	27
Selangor	244	189	284	277	337	330	394	372
Terengganu	66	36	74	53	76	62	88	65
Wilayah Persekutuan	211	168	249	175	282	201	347	247

Sumber: JAWHAR 2012

CLC – COLLECTION / KUTIPAN DST – DISTRIBUTION / AGIHAN

Jadual 1.1 menunjukkan bahawa jumlah kutipan dan agihan zakat telah meningkat dari tahun 2008 sehingga tahun 2011. Prestasi ini menunjukkan peningkatan tahap kepercayaan yang diletakkan oleh pembayar zakat kepada jabatan pengurusan zakat. Peningkatan yang memberangsangkan ini disebabkan oleh banyak faktor antaranya kaedah pembayaran yang mudah, pengurusan zakat yang

semakin cekap, penswastaan institusi zakat dan sebagainya. Penswastaan institusi zakat telah menimbulkan minat ramai pengkaji untuk melihat kesannya terhadap jumlah kutipan zakat (Hairunnizam Wahid et.al, 2009).

Selain itu, Malaysia telah berjaya mengurangkan kadar kemiskinan daripada 49.3% kepada 3.8% di antara tahun 1970 dan 2009 (Ragayah, 2011). Jumlah bilangan isi rumah miskin berkurangan daripada 1.6 juta kepada 267,000 sepanjang tempoh ini (Ahmad, 2005). Kadar kemiskinan di Malaysia masih berpusat di kawasan luar bandar. Kadar kemiskinan luar bandar telah berkurang dari 1.4 pada tahun 1999 kepada 0.8 untuk tahun 2009. Manakala kemiskinan bandar pula mencatat penurunan dari 0.3 pada tahun 1999 kepada 0.17 untuk tahun 2012. Carta 1.1 menunjukkan kadar kemiskinan bagi bandar dan luar bandar di Malaysia bagi tahun 1999-2009.

1.6 1.4 1.2 1.1 1 **URBAN** 0.8 RURAL 0.6 0.4 0.2 0 1999 2002 2004 2007 2008 2009

Carta 1.1: Malaysia: Kadar Kemiskinan (Bandar-Luar Bandar) 1999-2009

Sumber: Jabatan Statistik 2010

Urban: Bandar Rural: Luar Bandar

## 3. KONSEP HAD KIFAYAH

Kebanyakan institusi zakat menggunakan pendekatan kewangan dalam mengukur kemiskinan berdasarkan kaedah Had Kifayah (Purata Garis Kemiskinan Zakat). Kaedah pengiraan Had Kifayah (HK) adalah hampir sama dengan Purata Garis Kemiskinan (PGK) kerana ia menggunakan pendapatan sebagai pembolehubah untuk menentukan sama ada individu atau isi rumah itu miskin atau sebaliknya (Mohamed Salahuddin Abdul Rasul et al, 2011). PGK didefinisikan sebagai pendapatan yang diperlukan bagi memenuhi keperluan minimum termasuklah makanan, kesihatan, pakaian, pendidikan, rekreasi, pengangkutan, minyak dan sewa. PGK ini telah ditetapkan oleh Unit Perancang Ekonomi (EPU), Jabatan Perdana Menteri, manakala Had Kifayah ditentukan oleh institusi zakat negeri masing-masing. Had kifayah memainkan peranan bagi menentukan tahap keperluan yang diperlukan oleh isi rumah untuk menampung keperluan harian. Ianya dikira berdasarkan pelbagai pembolehubah seperti bilangan ahli dalam isi rumah, kumpulan umur dan lain-lain ahli. Jabatan Wakaf, Haji dan Zakat (JAWHAR,2007) telah menggariskan beberapa komponen utama dalam menentukan keperluan Had Kifayah seperti tempat tinggal, makanan, pakaian, kesihatan, pendidikan dan pengangkutan berdasarkan Maqasid al Syariah (keperluan manusia). Walau bagaimanapun, terpulang kepada setiap institusi zakat negeri untuk menentukan keperluan setiap komponen ini. Adalah penting untuk ambil perhatian bahawa Had Kifayah adalah berbeza bergantung kepada bilangan ahli isi rumah dan kumpulan umur dalam isi rumah.

Penggunaan Had Kifayah bertujuan untuk memudahkan proses penentuan golongan miskin tegar, miskin dari golongan yang tidak miskin. Qardawi (2000) dan Parid (2001) mengesyorkan bahawa pengagihan zakat perlu sekurang-kurangnya mencukupi tahap kos sara hidup minimum dan keselesaan untuk penerima dan tanggungannya. Jumlah zakat diagihkan perlu dipastikan kesinambungan kehidupan yang berkualiti di mana kesan pengagihan zakat adalah untuk mencapai atau mengcukupi taraf hidup Keperluan Asas (*Daruriyyat*) dan Keselesaan (*Hajiyyat*) (Qardhawi *op. cit.*, 2000).

Othman al Habshi (1990; 1998; 2006) menjelaskan bahawa zakat adalah cara yang paling berkesan untuk membantu golongan miskin dan mereka yang memerlukan. Islam menekankan umatnya untuk mengambil serius peranan zakat dalam memperbaiki kehidupan sosial umat Islam yang miskin. Beliau juga menyatakan bahawa kadar zakat yang diterima oleh orang miskin sepatutnya membantu mereka meningkatkan taraf hidup mereka, iaitu, dalam memenuhi *Daruriyyat* mereka dan keperluan *Hajiyyat* mereka yang menjadi keperluan minimum dalam hidup mereka. Oleh itu, zakat yang diterima oleh mereka haruslah membolehkan mereka untuk meningkatkan keperluan kehidupan mereka. Perspektif keperluan di sini bermaksud kesejahteraan dalam kehidupan untuk mencapai kemudahan dan keselesaan dalam kehidupan mereka. Jadual 1.2 menunjukkan contoh penentuan Had Kifayah berdasarkan keperluan isi rumah di Selangor.

Jadual 1.2: Penentuan Had kifavah di Selangor

Kuantiti	Kategori Isi Rumah	Jumlah had kifayah (RM)		
1	Ketua Isi Rumah	680		
1	Dewasa (Bekerja)	420		
1	Dewasa (Tidak Bekerja) (18 tahun ke atas)	240		
1	Kanak-kanak ( berumur 7-17)	180		
1	Kanak-kanak (berumur 1-6)	130		
	JUMLAH	1650		
	Had al Kifayah Tambahan (Kes Khas)			
1	Cacat	200		
1	Penjagaan Kanak-kanak	190		
1	Isi rumah dengan penyakit kronik	200		
	JUMLAH	590		

Sumber: Lembaga Zakat Selangor (LZS)

Sebagai contoh, sekiranya sebuah keluarga itu mempunyai 5 anggota keluarga dengan kedua-dua ibu bapa bekerja, seorang dewasa bekerja yang berumur 18 tahun, seorang kanak-kanak dalam kumpulan umur 7-17 dan kanak-kanak dalam kumpulan umur 1-6, maka Had Kifayah keluarga tersebut adalah RM 1650. Namun, sekiranya pendapatan bulanan isi rumah tersebut adalah RM 1800, maka keluarga ini tidak layak untuk menerima zakat kerana pendapatan isi rumah tersebut melebihi Had Kifayah yang diperlukan. Walau bagaimanapun, sekiranya pendapatan mereka adalah RM 650, maka mereka layak untuk menerima zakat sebanyak RM 1000 bagi mencukupi Had Kifayah mereka. Di samping itu, sekiranya isi rumah tersebut mempunyai penyakit kronik, jumlah Had Kifayah mereka akan meningkat. Penentuan Had Kifayah yang diamalkan oleh Lembaga Zakat Selangor adalah komprehensif dan lebih terperinci berbanding dengan institusi-institusi zakat yang lain di Malaysia.

Menurut Maslow (1954), keperluan asas seseorang yang mesti dipenuhi sebelum meneruskan kehidupan untuk keperluan masa hadapan. Oleh itu, seseorang mesti mencapai atau memenuhi keperluan asas pertama untuk terus hidup di mana keperluan yang paling asas seperti makanan, pakaian dan tempat tinggal sebelum beralih kepada memenuhi keperluan yang lebih tinggi. Oleh yang demikian, jika keperluan asas seseorang individu tidak dapat dipenuhi, ini menunjukkan bahawa hidupnya tidak berkualiti. Walau bagaimanapun, jika keperluan asas telah dipenuhi, seseorang itu akan beralih kepada keperluan yang lebih tinggi dan keperluan lain. Menurut Maslow, seseorang akan cuba

untuk memenuhi keperluan dan cuba untuk mendapatkan keperluan tertinggi (kepuasan diri). Jika seseorang mencapai kepuasan diri, dia boleh dikatakan telah mendapat kualiti tertinggi kehidupan (Maslow, 1954).

#### 4. METODE KAJIAN

Kajian ini menggunakan pendekatan deskriptif kualitatif dan jenis penelitian yang digunakan adalah kajian perpustakaan iaitu mengumpul data atau karya tulisan ilmiah yang bersesuaian dengan objek penelitian atau pengumpulan data yang bersifat keperpustakaan. Antara bahan yang terlibat dalam pencarian maklumat adalah buku, akhbar, jurnal, majalah dan internet. Kaedah penyelidikan ini memerlukan pengumpulan data yang berkaitan daripada dokumen-dokumen tertentu dan menyusun pangkalan data untuk menganalisis bahan dan memberi kefahaman yang lebih lengkap berkaitan dengan isu Had Kifayah dan isu-isu kemiskinan bandar dan luar bandar serta kemiskinan antara jantina ketua isi rumah di Malaysia.

#### 5. ISU-ISU DALAM KAJIAN TERDAHULU

Keadah pengagihan semasa zakat di Malaysia masih memberi tumpuan kepada pengagihan bulanan yang masih tidak dapat menyelesaikan isu kemiskinan dalam masyarakat Islam. Ini disebabkan oleh beberapa kelemahan dalam kaedah ini. Pertama, ianya tidak mengambil kira perbezaan kos sara hidup antara kawasan bandar dan luar Bandar. Kedua, keperluan jantina ketua isi rumah yang berlainan adalah berbeza dan tidak ditangani dalam pengiraan had kifayah. Oleh itu, kaedah semasa pengagihan zakat tidak dapat menyokong penerima zakat dan keluarga mereka dan mengubah kehidupan mereka yang lebih baik. Bantuan modal bulanan zakat yang diagihkan kepada Asnaf (penerima zakat) yang memenuhi kriteria tertentu mestilah mencukupi untuk meliputi keperluan asas mereka, termasuk makan, pakaian dan perumahan untuk masa yang tertentu.

# 6. FAKTOR PERTAMA: PERBEZAAN ANTARA KOS SARA HIDUP BANDAR-LUAR BANDAR

Ukuran kemiskinan zakat (Had Kifayah) di Malaysia adalah berdasarkan garis kemiskinan tanpa mengambil kira perbezaan antara kos sara hidup bandar dan luar bandar. Kebanyakan kajian kemiskinan zakat di Malaysia menggunakan Purata Garis Kemiskinan (PGK) sebagai perbandingan. Kebanyakan ahli akademik mengakui kepentingan pelarasan antara kos sara hidup di kawasan bandar dan luar bandar dalam mengkaji kemiskinan. Ketiadaan Had Kifayah berasingan antara kawasan bandar dan luar bandar telah menyebabkan kajian sebelum ini menggunapakai garis kemiskinan (PGK) berdasarkan harga purata perbezaan di antara kawasan bandar dan luar bandar. Perbezaan kos sara hidup bandar dan luar bandar yang jauh melebihi kos sara hidup sebenar akan memberikan gambaran yang mengelirukan terhadap kesan pengagihan zakat, serta proses penentuan golongan yang layak menerima zakat. Oleh yang demikian, dalam menentukan garis kemiskinan bagi kawasan bandar dan luar bandar, faktor perbezaan kos sara hidup di seluruh kawasan ini hendaklah diambil kira.

Malaysia telah berjaya mengurangkan kadar kemiskinan dari tahun ke tahun. Pengurangan ini bagaimanapun semakin diganggu oleh pertumbuhan ekonomi yang pesat di negara ini dan perbandaran yang pesat tahun 1990-an. Penduduk bandar bertambah daripada 30% pada tahun 1960 kepada 40% pada tahun 1980 dan 60% pada tahun 2000. Kenaikan jumlah penduduk telah menyebabkan peningkatan kemiskinan bandar ditambah dengan kesesakan, pengagihan manfaat pembangunan yang tidak sekata dan perubahan dalam persekitaran ekologi bandar (Ragayah, 2011).

Asra (2000) dalam satu kajian perbandingan antara kadar kemiskinan bandar dan luar bandar di Indonesia, mendapati bahawa kadar kemiskinan di kawasan luar bandar adalah sentiasa lebih tinggi

daripada di kawasan bandar. Beliau mendapati berdasarkan anggaran rasmi yang menggunakan kaedah lama telah menunjukkan bahawa antara tahun 1980 dan 1993, kadar kemiskinan di bandar adalah lebih tinggi daripada kadar kemiskinan luar bandar. Kaedah pengiraan ini telah dikritik oleh (Ravallion (1992) dan (Ravallion dan Bidani (1994) kerana perbezaan garis kemiskinan antara bandar dan luar bandar adalah jauh lebih tinggi daripada perbezaan kos sara hidup bandar dan luar bandar. Ravallion dan Bidani (1994) juga telah menyatakan bahawa garis kemiskinan di rantau itu tidak konsisten, yang menyebabkan pengiraan kemiskinan antara bandar dan luar bandar adalah mengelirukan. Bagi mereka persoalan 'konsisten' adalah perlu untuk membolehkan perbandingan yang betul antara kemiskinan bandar dan luar bandar. Ravallion dan Bidani (1994) menunjukkan bahawa jumlah makanan (food bundle) antara bandar dan luar bandar yang diperluan (2,100 kalori setiap orang) setiap hari bagi tahun 1990 berbeza dengan ketara antara satu sama lain, yang menunjukkan bahawa taraf hidup juga berbeza di antara kawasan bandar dan luar bandar.

#### 6.1 KEMISKINAN BANDAR VS KEMISKINAN LUAR BANDAR

Kemiskinan bandar dan luar bandar merupakan dua fenomena yang berbeza. World Development Report (World Bank, 1999) mendapati sejumlah 495 juta golongan miskin bandar pada tahun 2000 yang terdiri daripada golongan berpendapatan rendah dan sederhana. Jika dilihat dari segi peratusan, kemiskinan di bandar mempunyai jumlah yang kurang berbanding dengan luar bandar. Bagaimanapun, impak kemiskinan di bandar lebih terasa berbanding dengan luar bandar. Seseorang yang tinggal dibandar mendiami rumah batu, mempunyai kereta ataupun motosikal, berpendapatan melebihi PGK namun mereka mempunyai bilangan tanggungan yang ramai, kos sara hidup yang tinggi terutamanya sewa rumah, pengangkutan dan pelbagai perbelanjaan keperluan asas dan perkhidmatan (Chamhuri Siwar, 2011). Disamping itu, terdapat banyak perbezaan antara corak perbelanjaan isi rumah dan corak kemiskinan antara kawasan bandar dan luar bandar. Di kawasan bandar, peratusan perbelanjaan isi rumah masyarakat bandar lebih banyak tertumpu kepada barangan bukan makanan (non food item) seperti rumah, pengangkutan dan pelajaran. Ini berbeza dengan corak perbelanjaan di kawasan luar bandar yang banyak tertumpu kepada makanan dan barangan bukan makanan hanya di perolehi selepas keperluan makanan dipenuhi serta terdapat lebihan dari perbelanjaan makanan tadi (Ravallion and Bidani, 1994). Selain itu, corak kemiskinan di bandar selalunya melibatkan hutang samada dengan bank atau institusi kewangan manakala di kawasan luar bandar, kemiskinan mereka selalunya tidak melibatkan hutang (Alam, 2011). Bagi sesetengah negara yang sedang membangun seperti China, Malaysia, India dan Indonesia, kemiskinan bandar adalah satu masalah yang serius yang menjadi fokus utama dalam inisiatif atau polisi pembangunan mereka. Ini kerana kemiskinan bandar mencetus berbagai masalah di bandar seperti permasalahan setinggan bandar, kemiskinan, peningkatan kes jenayah dan masalah sosial, penurunan taraf kesihatan dan tahap keselamatan, pengabaian terhadap pendidikan anak-anak dan berbagai permasalahan alam sekitar khususnya pencemaran (Mohd Fadzil Abdul Rashid et.al, 2007). Oleh itu, kemiskinan bandar menyebabkan penduduk sentiasa berhadapan dengan keadaan yang tidak selamat sama ada di dalam mahupun di luar tempat tinggal. Berbagai masalah yang dicetuskan oleh kemiskinan bandar pula saling mempengaruhi di antara satu dengan yang lain (Hasan Bahrom, 2004).

Seterusnya kemiskinan di luar bandar wujud disebabkan oleh pengabaian sektor pertanian yang menjadi penyumbang ekonomi terbesar kepada masyarakat luar bandar (Yunus, 2007). Hasilnya timbul masalah hutang, pembahagian tanah yang tidak adil, bertani di tanah yang disewakan dari orang lain yang menyebabkan pengeluaran yang rendah, pendapatan yang kecil, tahap pendidikan yang rendah dan taraf kesihatan yang rendah. Selain itu, eksploitasi dan monopoli orang tengah dan tanah yang tidak ekonomik juga dikatakan antara penyebab kepada kemiskinan di desa (Nurhayati, 2011). Ibnu Khaldun (1332-1406) mengutarakan konsep kemiskinan dari segi perbezaan masyarakat *Badawah* (luar bandar) dan masyarakat *Hadharah* (bandar). Beliau berkata keadaan hidup di bandar berkembang pesat kerana adanya tuntutan kemewahan berbanding di luar bandar yang rata-ratanya terdiri daripada penduduk yang lemah dan daif kerana kemiskinan mereka. Keadaan ini berlaku kerana pendapatan mereka tidak cukup untuk menampung keperluan dan tidak dapat memberi lebihan yang dapat dikumpulkan sebagai keuntungan (Ibnu Khaldun, 1993). Di samping itu, sesetengah pengkaji berpendapat bahawa kemiskinan di luar bandar, khususnya di kalangan petani padi di Malaysia,

berlaku kerana daya pengeluaran yang rendah kerana pengerjaan tanah yang tidak ekonomik, pulangan bersih yang kecil kerana kos-kos input (seperti racun, membajak dan sewa tanah) yang meningkat, hasil yang tidak mencukupi kerana menumpukan pekerjaan hanya kepada menanam padi, dan penumpuan terlampau ramai isi keluarga ke atas sumber padi (Chamhuri Siwar dan Mohd. Anuar Md. Amin 1989:39-43). Sukor Kasim (1985), misalnya telah melihat kemiskinan dalam sektor pertanian. Beliau menyatakan bahawa terdapat tujuh sebab atau faktor kekukuhan kemiskinan. Faktor-faktor tersebut ialah saiz tanah kecil dan penyewa, pertumbuhan penduduk, hasil pengeluaran yang tidak bertambah, perpindahan buruh sawah padi, kurang perhatian bagi tanaman lain dan aktiviti-aktiviti ladang, tidak mempunyai peluang untuk mendapatkan pekerjaan selain daripada sektor pertanian, serta kos sara hidup yang meningkat. Selain daripada itu kemiskinan luar bandar juga berpunca dari taraf pendidikan yang rendah. Menurut kajian, kadar buta huruf di kawasan luar bandar adalah lebih tinggi berbanding dengan kawasan bandar di Malaysia (Abdillah, 1999). Keadaan ini menyebabkan penduduk luar bandar yang berpendidikan rendah tidak berupaya untuk mendapatkan pekerjaan yang mampu meningkatkan taraf hidup. Kadar kemiskinan luar bandar sukar untuk dibanteras dengan kekurangan golongan professional di antara penduduk luar bandar.

#### 7. FAKTOR KEDUA: JUMLAH BANTUAN BERDASARKAN JANTINA KETUA ISI RUMAH

Di kebanyakkan kes kemiskinan di dunia, kebanyakkan isi rumah yang diketuai oleh wanita amat berisiko tinggi untuk berada dalam kemiskinan (D. Kyaw dan JK Routray, 2006). Perkara yang sama berlaku di Malaysia. Isi rumah yang diketuai wanita mempunyai kebarangkalian yang lebih tinggi menjadi miskin berbanding dengan isi rumah yang diketuai lelaki. Penentuan Had Kifayah sekarang gagal untuk membezakan jantina ketua isi rumah yang sudah tentu mempunyai keperluan dan karektor kemiskinan yang berbeza dan kriteria antara lelaki dan wanita. Dalam konteks Malaysia, pelbagai masalah timbul dalam hal ini.

Ketua Isi rumah wanita selalunya mempunyai tanggungjawab yang lebih, selain daripada menguruskan keluarga dan anak yang menjadikan mereka kurang masa untuk kegiatan lain. Dalam erti kata lain, mereka mengalami kemiskinan masa dan keperluan mereka tidak sama seperti orang-orang lelaki (Nilufer Cagatay, 1998). Para pengkaji sering berhujah bahawa wanita adalah lebih miskin daripada lelaki dan konsep yang biasa digunapakai adalah "Kemiskinan Wanita" (feminization of poverty). Kajian di Afrika, negara-negara Timur Tengah dan Asia menunjukkan bahawa penghijrahan kaum lelaki telah mewujudkan isi rumah yang diketuai oleh wanita (Makinwa-Adebusoye, 1988). Ketua Isi rumah wanita juga lebih terjejas semasa krisis ekonomi dan menjadikan mereka lebih miskin (Seidl, A. (2000). Kajian di Bangladesh pula mendapati sebahagian besar daripada ketua-ketua isi rumah wanita terdiri dari balu dan wanita yang belum berkahwin (Ruzika dan Chowdhury, 1978; Ellickson, 1975; Kain et al, 1979).

Barros et al. (1997) membuktikan bahawa ketua isi rumah wanita mempunyai kekurangan dari segi sosial, ekonomi dan demografi berbanding dengan ketua isi rumah lelaki dan dengan sebab itu mereka lebih cenderung untuk menjadi miskin. Ini dibuktikan dengan hasil kajian beliau di Brazil yang menunjukkan bahawa isi rumah yang diketuai oleh wanita cenderung untuk mempunyai pendapatan isi rumah lebih rendah berbanding dengan isi rumah yang lain. Senada and Sergio (2007) menyiasat samaada isi rumah wanita lebih terdedah kepada kemiskinan di Bosnia dan Herzegovina. Dengan menggunakan perbelanjaan per capita tahunan bagi mengukur kemiskinan sebaliknya, mereka mendapati kemiskinan lebih tertumpu dikalangan ketua isi rumah lelaki.

#### 7.1 FAKTOR KEMISKINAN DIKALANGAN WANITA

Buvinic dan Gupta (1997) mengenal pasti tiga sebab utama kemiskinan dikalangan ketua isi rumah wanita. Pertama, isi rumah wanita secara umum mempunyai lebih tanggungan dan mempunyai nisbah ahli keluarga yang tidak bekerja lebih tinggi berbanding dengan ketua isi rumah lelaki. Kedua, wanita biasanya mempunyai upah yang lebih rendah berbanding dengan kaum lelaki selain mereka mempunyai akses yang kurang untuk aset. Ketiga, wanita biasanya menanggung beban kerja-kerja rumah yang menyebabkan kekangan masa dan mobiliti berbanding ketua isi rumah lelaki. Dalam erti

kata lain, ketua isi rumah wanita mesti memikul beban sokongan ekonomi dan isi rumah kerja-kerja, yang meninggalkan mereka dengan masa yang kurang untuk masa lapang berbanding dengan ketua-ketua lelaki. Ini berkaitan antara jumlah jam waktu kerja dan waktu lapang yang diambil kira dalam menentukan kemiskinan. Buvinic dan Gupta (1997) membuktikan bahawa di Chile, program pengurangan kemiskinan di kalangan ketua isi rumah wanita merupakan cara terbaik dalam mengurangkan kemiskinan di Negara tersebut.

Definasi kemiskinan samaada secara relatif atau mutlak selalunya tinggi di kalangan wanita terutama bagi wanita yang menjadi ketua isi rumah. Bagi wanita yang bercerai hidup atau mati, mereka boleh menjadi miskin serta merta sekiranya terpaksa menanggung anak tanpa sebarang nafkah atau harta yang ditinggalkan (Nor Aini Haji Idris et.al 2012). Disamping itu, kewujudan kanak-kanak di dalam keluarga yang diketuai oleh wanita khususnya ibu tunggal atau nenek haruslah diambil perhatian kerana fenomena keluarga sebegini makin bertambah. Anastasia R. Snyder (2006) mendapati bahawa satu-perempat dari keluarga di Amerika yang diketuai oleh wanita adalah terdiri dari warga emas dan cucu disamping kadar kemiskinan yang lebih tinggi bagi keluarga tersebut. Ini disebabkan mereka tidak mempunyai sumber ekonomi disebabkan ketiadaan orang dewasa dalam keluarga mereka.

Dalam kepelbagaian budaya dan tahap pembangunan ekonomi, wanita cenderung untuk banyak terlibat dalam pekerjaan yang tidak dibayar (cth: menjaga keluarga) berbanding dengan lelaki, yang cenderung untuk bekeria di dalam aktiviti yang mendapat bayaran. Namun, kebanyakkan wanita terjebak kepada diskriminasi dalam pekerjaan, bantuan modal yang kurang serta mereka juga memiliki harta peninggalan yang kurang berbanding dengan lelaki (D. Kyaw dan JK Routray, 2006). Dalam sesetengah masyarakat, janda, wanita bercerai atau ditinggalkan mungkin terjebak dengan pengecualian sosial, pengasingan dari keluarga dan gangguan, menjadikan mereka amat sukar untuk mengekalkan kehidupan untuk diri sendiri atau anak-anak mereka. Ketua isi rumah wanita yang mempunyai anak kecil mungkin menghadapi kekangan masa yang menghadkan waktu kerja mereka. Walaupun jumlah ketua isi rumah wanita adalah kecil berbanding ketua isi rumah lelaki namun jumlah ini semakin meningkat dikebanyakkan rantau dunia (Buvinic dan Gupta 1997). Selain itu kebanyakkan ketua isi rumah wanita terdiri dari golongan warga emas yang mempunyai kekangan tenaga untuk bekerja (Gomez and Gaton, 1987). Mereka juga mempunyai tahap pendidikan yang kurang dan mempengaruhi jenis pekerjaan yang dilakukan oleh mereka yang kebanyakkannya jenis pekerjaan yang diceburi tidak memerlukan kelayakan akademik yang tinggi (Buvinic and Youssef, 1978). Dari segi pekerjaan pula, kaum wanita lebih banyak terlibat dalam aktiviti ekonomi yang tidak formal yang menyumbang kepada pendapatan yang kecil (Merrick and Schmink, 1983).

#### 8. KESIMPULAN

Perbezaan antara fenomena kemiskinan bandar dan luar bandar amatlah ketara. Ini telah dibuktikan dengan beberapa kajian lepas yang membuktikan walaupun kemiskinan di bandar mempunyai jumlah yang kurang berbanding dengan luar bandar namun impaknya lebih terasa berbanding dengan luar bandar. Ini disebabkan oleh perbezaan corak perbelanjaan yang berbeza antara kedua-dua awasan ini ditambah pula oleh perbezaan kos sara hidup. Dalam menentukan purata garis kemiskinan zakat bagi kawasan bandar, terdapat beberapa perkara yang perlu diambil perhatian seperti kos sara hidup untuk perumahan dan pengangkutan yang menjadi perbelanjaan terbanyak malah lebih banyak dari perbelanjaan untuk makanan. Manakala bagi kemiskinan luar bandar pula, perkara-perkara seperti bantuan pembelajaran, perniagaan dan latihan kemahiran adalah penting bagi membolehkan mereka bekerja dan berdikari.

Selain itu kebanyakkan kajian lepas mendapati kemiskinan dikalangan jantina ketua isi rumah banyak tertumpu dikalangan ketua isi rumah wanita berbanding ketua isi rumah lelaki. Ini adalah kerana faktor tenaga, sosial, pendidikan, kebolehan dan masa yang banyak memihak kepada ketua isi rumah lelaki. Faktor-faktor sebegini harus diambil perhatian oleh pihak pengurusan zakat dalam membahagikan bantuan zakat kerana mungkin masalah kemiskinan dikalangan wanita dapat diselesaikan dengan cara menyelesaikan masalah-masalah berikut. Oleh kerana zakat berfungsi sebagai sumber pengagihan sumber-sumber dari golongan kaya kepada golongan miskin (iaitu zakat mencegah penumpuan

kekayaan di tangan orang kaya), ianya menjadi pendekatan yang berkesan untuk memerangi kemiskinan. Secara keseluruhannya, keputusan perbincangan ini haruslah diberi perhatian terhadap pembuat polisi khususnya kepada agensi pentadbiran zakat dalam menentukan Had Kifayah. Penentuan Had Kifayah dan pengurusan zakat yang efektif akan memperbaiki keadaan sosio-ekonomi masyarakat Islam di negeri itu.

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# POVERTY IN SAUDI ARABIA, THE WAY TO REDUCE: AN EMPIRICAL STUDY ON TAKAFUL PARTICIPANTS

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#### **ABSTRACT**

Takaful is the Islamic counterpart of conventional insurance, where it relies on a combination of tabarru (donation) and agency or profit sharing. The *takaful* fund is considered a *musharaka* (partnership) among participants (policyholders). The relationship between the *takaful* operator (TO) and participants' fund is based on either wakala contract to manage the underwriting activities, and/or a mudaraba to manage the underwriting or investment activities. Accordingly, one of the main differences between takaful operation and conventional insurance is the concept of underwriting surplus, where in conventional insurance means profit for insurance company, which is not the case for TOs. The issue of sharing distribution and management of surplus in takaful undertakings has become a matter of great importance and debate lately. The practice of takaful surplus has varied from one operator to another operator and from one country to another country. Regulators, experts and Shariah scholars have differed in their views and interpretations with regards to the sharing of surplus, resulting in a difference of opinion as to who is entitled to takaful surplus or who is not. Both the participants as well as the TOs claim that they deserve the surplus and hence have a right over the surplus in *takaful*. AAOIFI has resolved the issue by clearly pointing that the surplus in takaful fund belongs to participants only and the TO is not entitled to receive any part of it. However, regulators in different countries are allowing the TOs to share participants in the underwriting surplus. For example, the Saudi Arabian Monetary Agency (SAMA) allowed surplus to be shared between participants and TO. By doing so, TOs have prioritize the interest of shareholders over the rights of participants (this was obvious on some of the Saudi Arabian TOs annual reports), since shareholders have control of the TOs governance organs. Accordingly, participants may find themselves in a challenges and the only right that participants can exert to discontinuing their contractual relationship with the company in case of dissatisfactions with the distributed surplus. No studies have been conducted to systematically document *takaful* participants' perceptions and preferences about underwriting surplus. This paper attempts to fill the gap. The paper reports results on the perceptions of 420 participants of TOs in Saudi Arabia about their perceptions and whether or not they want the company to share underwriting surplus with them. The paper also reflects and compares SAMA regulations with the regulations of the international takaful bodies in term of distributing underwriting surplus among participants. In line with SAMA regulations, this paper also reflect a practical example taken from some of the Saudi Arabian TOs annual reports, which shows a great variation between participants and shareholders in term of surplus and profit accumulations, i.e. shareholders profit increases against the interest and right of participants. In other word, if SAMA has followed the AAOIFI standards, takaful participants will be able to participate on the takaful fund with a small amount of contribution for a reasonable expected surplus return, which in away helps in red ucing poverty in Saudi Arabia.

**Keywords**: SAMA Directives, *Takaful* Operators & Participants, Underwriting Surplus, Participants' Perceptions, Poverty.

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#### 1. INTRODUCTION

*Takaful* is derived from the Arabic root word "kafala", a verb which means guarantee, bail, warrant or an act of securing one's need (Ali and Odierno, 2008).

Takaful is also defined in Section 2 of the Malaysian Takaful Act 1984 as;

"A scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose."

AAOIFI's<sup>2</sup>, also defined Islamic insurance on (2004/2005) as per the Financial Accounting Standard No. 12, in Appendix E;

"Islamic insurance is a system through which the participants donate<sup>3</sup> part or all of their contributions which are used to pay claims for damages suffered by some of the participants. The company's role is restricted to managing the insurance operations and investing the insurance contributions."

By 2007 AAOIFI defined Islamic insurance as in line with shari'ah Standard 26 (2) 2007;

"Islamic insurance is an agreement between persons who are exposed to risks to protect themselves against harm arising from risk by paying contributions on the basis of a "commitment to donate". Following from that the insurance fund is established and it is treated as a separate legal entity which has independent financial liability. The fund will cover the compensation against harms that befall any of the participants due to the occurrence of the insured risks (perils) in accordance with the terms of the policy."

It may be thought on first glance that *takaful* does not deviate from conventional insurance, since both types depend on the concept of pooling money from a group for the sake of helping the unfortunate of the same group in the events of encountering financial loss. However, unlike *takaful*, the spiritual mutual support is not a requisite of commercial insurance. Commercial insurance is based on the exchange whereby the insured pay a premium in exchange for protection in case of calamity exposure, with "no compensation" in a case of no loss. However, the *takaful* mechanism is based on the concepts of *tabarru* (donation) combined with the intention (*niah*) to participate in the pooling aid mechanisms. Hence, those who participate in the *takaful* mechanism will be less likely to encounter the feeling of receiving nothing if no claim occurs. They will be satisfied enough to help their colleague at the same pooling group in his loss. Another unique function for Islamic insurance is the strong relationship between *takaful* operator and participants, that *takaful* operator will goes even beyond the provisions of "spiritual satisfaction needs", by providing a Nobel services which will be rewarded by God only.

While the conventional way of satisfying a customer is accomplished by fulfilling their material or worldly needs with benefits such as low prices, higher returns, faster delivery or even benefiting the deceased's family members after his death in the form of life insurance. However, it does not mean that customer satisfaction in terms of price, quality, delivery and precision are not important to the *takaful* operator; in fact they are important as well as the customer's spiritual needs satisfaction. So when Muslims buy Islamic insurance they can combine two benefits; (i)- They receive Islamic protection that

<sup>&</sup>lt;sup>2</sup> Accounting Auditing Organization for Islamic Financial Institutions.

<sup>&</sup>lt;sup>3</sup> The concept of donation is considered to be the back bone of *takaful* in supporting the real meaning of mutual cooperation.

<sup>&</sup>lt;sup>4</sup> the insurance value will be so intangible that its value cannot be appreciated

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<sup>&</sup>lt;sup>5</sup> Al-Qaradawi, suggest that donation should be the basis of the contract, if insurance is to be *shari'a* compliant (Al-Qaradawi,2003). The spirit embodied in the concept of *tabarru* is that the participants are not thinking only of their own protection but they should also be thinking of helping other participants, without the concept of donation the contract will be that of buying and selling of insurance (Lewis, 2003).

complies with *shari'a* rules against financial loss, in the same way as conventional insurance, (ii) Customers can distance themselves from the possibility of sin<sup>6</sup> incurred by purchasing conventional insurance in line with God's law. Although a believing Muslim is required to accept destiny, which may incorporate certain misfortunes, Islam encourages Muslims to take extra precaution to minimize potential misfortune, losses or injury arising from unfortunate events. Thus, having an insurance policy is not considered to be against the will of Allah, rather the will of Allah can be enhanced by holding an insurance policy to elevate the unexpected risk that exists in day to day life. (Al-Zarqa, 1962; Attar, 1983; Moghaizel, 1991).

On the other hand, the *Takaful* grew at a compound annual growth rate of 39% over 2005 - 2008 in terms of global *takaful* premiums, 45% in the GCC, and 28% in South East Asia (SEA). The comparative growth of global insurance was 7% with the corresponding figures of 20% and 23.5%, respectively (Bhatty, 2010). The estimated size of the global *takaful* premium was US\$ 5.3bn in 2008 and US\$ 8.9bn in 2010 (Bhatty, 2010) and expected to rise to US\$ 12.5bn by 2015 (Lewis *et al.*, 2007). There were some 179 *takaful* companies and windows (20%) in 2008, and this number in 2010 can easily be in excess of 200. The total capital committed within the *takaful* industry in 2007 was around US\$ 3.5bn (Bhatty, 2010). Saudi Arabia remains the largest *takaful* market in the GCC with contributions of US\$ 2.9 bn in 2008 (E & Y, 2010). Meanwhile, in 2011, most GCC markets witnessed a slowdown in *takaful* growth with only the Saudi insurance market remaining strong. This was due to the compulsory medical insurance mandated by the government. Saudi Arabia's introduction of compulsory medical insurance policies has contributed to a strong growth in family and medical *takaful* in the Middle East and North Africa (MENA) region (E & Y, 2011).

#### DOMINANT TAKAFUL MODEL

There are several *takaful* operational models that have been adopted by *takaful* operator companies worldwide such as *mudarabah*, *wakalah*, *waqf*, hybrids of *mudarabah* and *wakalah*, *ta'awuni* and non-profit fund. However the first two models are most dominant, that the *mudarabah* is widely used in Asia, while *wakalah* has become popular in the Middle East (Smith, 2007). Accordingly, this paper will focuses on the *wakalah* model as it is been used by the majority of the TOs in Saudi Arabia. This paper will also highlight the operational scheme of the Saudi Cooperative insurance model as it been considered as a key feature of the *takaful* model. The *wakalah* model can be operated according to two main schemes; either General or Family. However, this paper will focuses on the *wakalah* model on its family form as the participated policyholders on this study were selected from a family *wakalah* model.

# BASIC WAKALAH MODEL (FAMILY TAKAFUL)

There will be separate contracts in the *wakalah* model, of which one is used for underwriting and the other is used for investment activities of *takaful* funds. Although the *wakalah* model has widely been practised by TOs in underwriting activities, it is rarely adopted for investment activities. In the *wakalah* model as shown in Figure 1, the participants (policyholders) place their contribution into a pool of donations (*tabarru*), hence the *wakalah* operator (agent), is entitled to a *wakalah* fee for their effort to manage the *takaful* fund regardless of the performance of the fund. It is an upfront fee which is calculated based on an agreed percentage of the total fund; nevertheless the TO cannot ask for an additional *wakalah* fee in the future if the calculated fee was underestimated (Tolefat, 2008). The *wakalah* fee should be approved by the *Sharia'h* Supervisory Board (SSB)<sup>7</sup>. Thereby, most of the TOs will declare their *wakalah* 

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<sup>&</sup>lt;sup>6</sup> Based on three prohibition elements, Uncertainty of outcome *(gharar)*, Gambling *(maisir)*, and dealing with Interest *(riba)* which is frowned upon by the *shari'ah* law.

<sup>&</sup>lt;sup>7</sup> CCB Rulebook, 2005.

fee at the beginning of the contract, but the loading will be calculated at the end of the year once the actual encountered expenses have been declared for an accurate fee calculation.

Like the general wakalah model, the model used here for underwriting and investment activities as shown in Figure 1, can deviate according to the nature and sensitivity of the underwriting policy encountered (Tolefat, 2008). For example, if the policy is regarding (i) Risk protection from death, then the contributions split into two channels. The first contribution goes to the wakil (Agent), for their management effort and other fees related to the family policy if any, while the second contribution goes to the Participants' Special Account (PSA), in the form of donations (tabarru) to participate in the risk of death protection pooling, the donations of the participants varies in accordance to his age at the time of the contract (Hassan and Lewis, 2007). On the other hand, if the policy is written as (ii) Family Takaful savings policy, then the contributions split into three channels. The first two channels follow the aforementioned policy. However, a small portion also goes to the PSA to cover mortality risk, while a substantial portion goes to the Participants' Account (PA) for the purpose of savings and investments. Furthermore, the PSA, and shareholders fund operates the same way as in the general basic wakalah takaful model. While the PA represents the savings policies, most of the investments here are accomplished on a long-term basis, thereby the TO deserves a management fee which is calculated as a percentage of the total invested assets and this fee represents their effort to manage such an investment fund. The TO as a result has four sources of income: (i) wakalah fee from underwriting activities, (ii) fund investments fee from PSA, (iii) fund investments fee from PA and (iv) incentive performance fee if it followed the operational procedures.

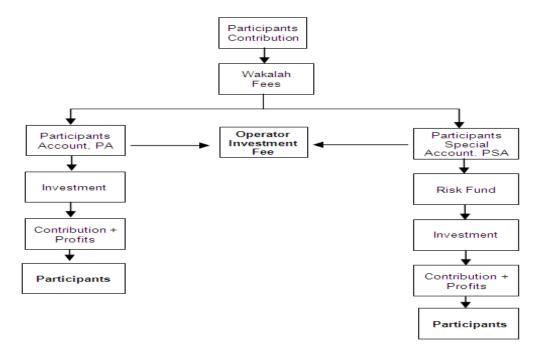


Fig. 1: Basic Wakalah Model for Family Takaful Operational Flow-Chart

Source: IFSB (2009: 28)

#### SAUDI ARABIAN COOPERATIVE INSURANCE AS A TAKAFUL MODEL

SAMA requires all insurance companies to operate under a cooperative insurance business model, which is a key feature of the *takaful* model (E & Y, 2010). *Shari'ah* scholars have indicated that the Saudi cooperative model is similar to a *takaful* model (funds segregation and surplus distribution) (Abouzaid, 2007).

The cooperative insurance model works in the same way as the *takaful* model. The SAMA directives called the Implemented Regulations, Article 70, has identified the surplus distribution between the company and the participants. SAMA has indicated that 10% of the net surplus shall be distributed to the policyholders either directly or in the form of reduction in premiums for the next year. The remaining 90% of the net surplus shall be transferred to the shareholders' income statement. Shareholders' net income shall be transferred to the statement of shareholders' equity similar to the *takaful* model. Furthermore, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital (SAMA, 2005). Therefore, any deficit in the policyholders' fund is borne solely by the shareholders.

Despite SAMA regulations which are directed towards cooperative insurance, only a number of cooperatives operate as sole TO (E & Y, 2010, 2011). Examples of these operators are (AlJazira, 2008; SAAB, 2009; AlAhli, 2010). These TOs are using the *wakalah* model to operate their *takaful* scheme and they have appointed *Shari'ah* boards to supervise business operations, including investments and ensure compliance with Islamic law. However, these TOs are following the Saudi cooperative insurance laws as SAMA did not issue specialized *takaful* laws and directives.

#### JUDICIARY SYSTEM COMMERCIAL LITIGATION IN SAUDI ARABIA

The Saudi Arabian courts system is currently going through major reforms under a new Judiciary Regulation and a new Board of Grievances Regulation, which were both enacted under the Royal Decree No. M/78 of (1st of October 2007)<sup>8</sup>. The Saudi Arabian courts system is divided into the *Shari'ah* (Islamic Law) courts on the one hand, and specialized statutory tribunals on the other hand. The *Shari'ah* courts are of general jurisdiction, and they are mainly concerned with matters relating to land, family disputes, personal injury claims, and criminal cases. Of the statutory tribunals, the most important by far is the Board of Grievances. Its jurisdiction includes disputes involving the Saudi Arabian government and government agencies (judicial review of administrative action and government contract disputes), most types of commercial cases, the enforcement of foreign judgments and arbitral awards. Establishment and conduct of commercial courts is regulated by the Royal Decree No. 32 issued on the (2<sup>nd</sup> of June 1931). Under this law, all commercial disputes except for those related to insurance business are settled by the Ministry of Commerce. The Ministry of Commerce will appoint a committee for commercial disputes, comprising two *Shari'ah* judges and one legal adviser (Ghazzawi *et al.*, 2011).

Insurance disputes and claims to which insurers have become subrogated are adjudicated by a special committee, the Committee for the Settlement of Insurance Disputes. There is an automatic right of appeal from the Committee for the Settlement of Insurance Disputes to the Board of Grievances. Since 31st December 1987, Commercial Disputes have been adjudicated by the Grievances Court (*Diwan Al-Mazalem*), Commercial Circuit, instead of the Committee for Commercial Disputes.

On the other hand, most disputes arising in Saudi Arabia can be submitted to arbitration in accordance with the Arbitration Law, promulgated by Royal Decree No. M/46 dated 25th April 1983 and the Rules

<sup>&</sup>lt;sup>8</sup> Legal Department, Ministry of Commerce Grievances Court at http://www.saudicommercialoffice.com/settlement\_of\_commercial\_dispute.html.

for the Implementation of the Arbitration Regulation of 1985, which form a reasonably comprehensive code derived largely from Islamic law principles. Under these statutes, the authority which has original jurisdiction to hear the dispute retains extensive control over and involvement in the conduct of arbitration. In most commercial disputes this is the Board of Grievances. Broadly, only the conduct of the hearings and the decision-making is the arbitrators' responsibility, whilst all pre-hearing and post-hearing procedures, and other ancillary matters, are the responsibilities of the Board of Grievances. In particular, the arbitral tribunal is not properly constituted until the Board of Grievances approves an arbitration instrument which must be executed and signed by the parties and the arbitrators (Ghazzawi *et al.*, 2011). Nor is an award final and enforceable until it is approved by the Board of Grievances. Hence, the losing party in arbitration has an automatic right of appeal to the Board of Grievances on points of law or procedure, opening the door to yet further appeals on points of law or procedure to the Board of Grievances Review Panel (Ghazzawi *et al.*, 2011).

#### SAUDI ARABIAN INSURANCE INDUSTRY

The insurance industry in Saudi Arabia was unregulated prior to the passing of the Control of Cooperative Insurance Companies Law, which came into force on 20 November 2003 along with its implementing regulations published on 23 April 2004, together with the Cooperative Insurance Regulations (Hodgins and Beswetherick, 2009). However, the implementation of regulations was delayed to April 2008, until the unlicensed entities operating in Saudi Arabia brought their operations into accordance with the requirements of the new law and regulations that have been imposed by SAMA (Wilson, 2007). Prior to the implementations of the insurance regulations, the only options for individuals or businesses operating in Saudi Arabia seeking insurance were between taking out a conventional insurance either overseas or with an unlicensed provider in the Saudi Arabia or taking out cooperative insurance with Saudi Arabia's former state monopoly provider, the National Company for Cooperative Insurance (NCCI), now known as (*Tawuniya*) (Hodgins and Beswetherick, 2009).

Shortly after implementation of insurance laws, SAMA established an independent team of insurance supervisors to operate in its banking inspection department (SAMA, 2010a). The team has developed from a small internal department of 9 employees to an independent supervisory authority with a team of 44 employees (Hodgins and Beswetherick, 2009). The regulatory body has four main objectives: (i) Protect the rights of policyholders and shareholders', (ii) provide better insurance services for fair and effective competition, (iii) foster stability of the insurance market, and (iv) establish a developed insurance industry by providing training and employment opportunities (SAMA, 2010a).

SAMA is mandated as the regulator for all licensed insurance companies including insurance brokers, insurance agents, insurance consultants, surveyors, loss adjusters and actuaries. In other words, SAMA is responsible for licensing and authorization, supervision, rule-making, supervision of investment of assets and monitoring compliance with capital and reserve requirements (SAMA, 2010a). Such extensive control by SAMA is due to the regulations that accompanied comprehensive laws that have been represented by a number of Articles. These Articles define different types of insurance, the conditions for licenses being granted, corporate governance and regulatory and supervisory procedures (Wilson, 2007).

The implementation of the new regulations and laws has made the kingdom to be the largest insurance market in the GCC and one that has developed substantially since insurance business was first permitted in the 1990s (E & Y, 2011). Driven by strong macroeconomic performance due to the global rise in oil prices, rising income levels and positive demographic trends, the Saudi insurance market has grown by double digits for the past 5 years (OBG, 2011).

Finally, in order to enhance the supervision and control and application of insurance international standards and practices, SAMA has become a member of the International Association of Insurance Supervisors (IAIS), and it participates in all its main committees and sub-committees. In addition, SAMA is a member of the Arab Forum of Insurance Supervision and Control Authorities (SAMA, 2010b). Accordingly, SAMA is considered one of the strongest insurance regulatory authorities in the GCC, which was obvious by their reactions to the adverse competitive trends by restricting new licenses; and players wishing to enter the market are being advised to buy existing licenses (E & Y, 2011).

#### STATUS OF INSURANCE COMPANIES IN SAUDI ARABIA

Saudi Arabia hosts a number of prominent multinational firms in addition to several domestic players that rival them in size. By April 2009 there were 29 Saudi insurers in the country including 20 that had completed SAMA's licensing process and were publicly listed; 5 were publicly listed but awaiting a license and 4 were neither publicly listed nor licensed. By the end of the first quarter of 2010, SAMA has approved 33 insurance and reinsurance companies, of which 27 were finally licensed to practice insurance and/or reinsurance (SAMA, 2010a). In addition, one insurance company was listed on the Saudi Stock Exchange but it had not obtained a final license yet to offer insurance services. The Council of Ministers also approved the establishment of five other insurance companies, and two more insurance companies were recommended by SAMA to be approved initially, and their license procedures reached advanced stages (SAMA, 2010b). By July, 2011 SAMA has given operation licenses to seven takaful insurance providers to operate in Saudi Arabia (Al Ahli Takaful, SABB Takaful, Wiqaya Takaful Insurance & Reinsurance, Solidarity Saudi Takaful, AlJazira Takaful Ta'awuni, Saudi Takaful insurance, Watani Takaful) (OBG, 2011).

#### SAUDI INSURANCE MARKET BEHAVIOURS

This section addresses different issues concerning the Saudi insurance industry. Among others, the performance of different insurance lines of business, insurance market penetration rate, and the market claim ratio are presented.

#### PERFORMANCE OF SAUDI ARABIAN INSURANCE MARKET

Saudi Arabia's insurance sector has been able to weather the worldwide financial crisis well, outperforming a number of other business segments to post consistent year-on-year growth throughout the duration of the global economic downturn (OBG, 2011). The country's insurance sector is now able to play a more significant role in the national economy and enjoys a greater capital position as more local businesses and individuals become aware of and recognize the value of having adequate insurance coverage.

Figure 3, represents the overall insurance business performance, which has been classified by business line. In 2009, the insurance market witnessed a substantial growth rate of 33.8%, with gross written premium (GWP)<sup>9</sup> reaching SAR<sup>10</sup> 14.6 billion compared to a total of SAR 10.9 billion in 2008. In 2010, the GWP has reached SAR 16.4 billion, which represents a growth rate of 46% (SAMA, 2010b). The increases was due mainly to the growing awareness of the importance of insurance and the favourable economic conditions during the year, as well as the introduction of compulsory motor insurance and cooperative health insurance (SAMA, 2010b).

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<sup>&</sup>lt;sup>9</sup> Net Premium, plus operating and miscellaneous expenses and agents' commissions (Rubin, 2000).

<sup>&</sup>lt;sup>10</sup> Saudi Arabian Riyal.

2009-10 16,387 12.2% -3.2% 14,610 19.2% 10,919 7.292 8,583 4.805 6,937 3.06 6.5% 315 5 191 2008 2009 2006 2007 2010 Health

Figure 3: Gross Written Premiums (2006 to 2010, SAR Millions)

Source: (SAMA, 2010b)

Health insurance, reported the biggest line of business in 2010, its contribution to total GWP increased from 50% in 2009 to 53% in 2010, followed by general insurance, with a contribution to the total business volume decreasing from 43% in 2009 to 41% in 2010. Protection and Savings insurance remained the smallest line of business accounting for 6% of total GWP, with a decrease in its written premiums by 3.1% in 2010 (SAMA, 2010a). Health insurance became the most demanded line of business in Saudi Arabia, which accounted for SAR 1.39 billion of the SAR 1.77 billion increase in 2010 (SAMA, 2010a). More information on specific insurance line of business growth rates can be found in Figure 4.

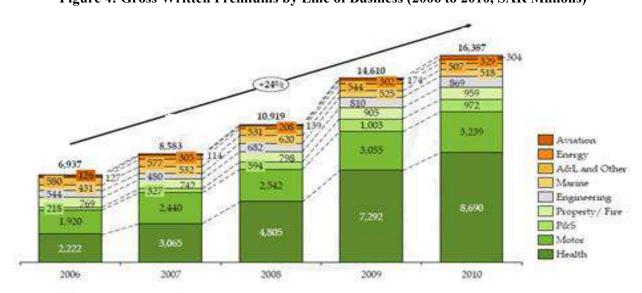


Figure 4: Gross Written Premiums by Line of Business (2006 to 2010, SAR Millions)

- 1. Source (SAMA, 2010b).
- 2. Motor and Health insurance accounted for around 73% of total GWP in 2010.
- 3. Health insurance (compulsory and non-compulsory) accounted for 53% of total GWP in 2010.
- 4. Motor insurance (compulsory and non-compulsory) accounted for 20% of total GWP in 2010.
- 5. Aviation insurance GWP increased by 75% in 2010.
- 6. Health insurance was the second fastest growing line of business with growth rate of 19%.
- 7. P&S underwritten premiums decreased by 3%.

The impressive rate of growth seen in 2010 looked poised to continue, with Saudi Arabia's insurance sector believed to be one of the regional industry's prime movers. OBG (2011) referred to the report released in late August 2010 by the Investment bank Alpen Capital, which indicated that the premium growth across the GCC region would increase by some 20% a year between 2011 and 2015, lifting total premium values from the current SAR 67.5 billion to SAR 138.75 billion. Of this total growth, 75% would be concentrated in Saudi Arabia and the United Arab Emirates.

The report also expected that the Saudi Arabian life insurance sector will have a compounded annual growth rate (CAGR) of 48%, while the non-life sector will grow at a steadier CAGR of 14%. Overall, the Saudi insurance sector is forecasted to expand by a CAGR of 18% by the middle of the decade, reaching a total value of SAR 34.62 billion. Insurance is expected to grow due to the forecasted increase in the country's construction industry. This is a result of the government's massive infrastructure investment programme over the next decade, with billions being ploughed into transport, housing, health and education developments. A raft of insurance opportunities will arise from the developments since hundreds of projects will need comprehensive coverage (OBG, 2011).

As has been mentioned previously, the Saudi market is dominated by health and general insurance business lines, which currently account for around 71 % of the market's gross written premiums, However, protection and savings products, have become the fastest- growing insurance segment, posting a 68.9 % annual growth and now accounting for 7 % of gross written premiums, largely attributed to the introduction of Islamic insurance (*takaful*) products (SAMA, 2010a). Accordingly, while most of the GCC markets have witnessed a slowdown in *takaful* growth, the exception is the Saudi market which remains strong. Figure 5, shows the compound annual growth rate (CAGR) of GCC countries from year 2005 to 2009.

4.887 136 640 3.754 O Bahrain 68% 128 2,847 128 542 O Qatar 56% 101 2,089 53 369 95 D UAE 135% 65 90 1.239 3.896 2.912 42 2,289 7% ■ Kuwait 1.850 83 40% 34% Arabia 2005 2006 2007 2008 2009(e)

Fig 5: Gross Takaful Contributions in the GCC (US\$ million)

Source (E & Y, 2011)

# INSURANCE PENETRATION<sup>11</sup> IN THE SAUDI ARABIAN MARKET

Insurance penetration (GWP/GDP) has been growing at a CAGR of 17% in Saudi Arabia. Over the past five years the increase in the insurance market penetration was attributable to the growing demand for all types of insurance (SAMA, 2010a). However, in 2010, insurance penetration decreased to 1%, down from 1.06% in 2009, mainly due to a strong growth in total GDP (18.6% in 2010 compared to -21.2% in 2009), while the penetration rate of protection and savings insurance was low compared to general and health insurance as shown in Figure 6 (SAMA, 2010b).

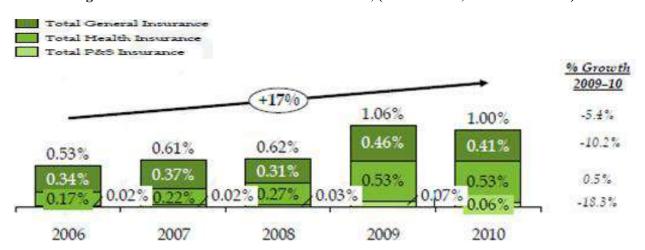


Figure 6: Insurance Penetration of Total GDP<sup>12</sup>, (2006 to 2010, % of Total GDP)

1. Source (SAMA, 2010a)

Despite these impressive penetration figures, however, Saudi Arabia remains one of the world's most underinsured countries. Penetration rates will need to improve considerably if the Kingdom is to reach the

<sup>11</sup> Insurance Penetration = Gross Insurance Premiums / GDP.

<sup>&</sup>lt;sup>12</sup> Saudi Total GDP of SAR 1,308, SAR 1,414, SAR 1,758, SAR 1,384, and SAR 1,642 Billion in 2006, 2007, 2008, 2009, and 2010, respectively (SAMA, 2010a).

levels of more developed markets, both in the region and internationally. Saudi Arabia's insurance sector still has a long way to go before matching levels in many Western countries. Whereas the Kingdom's insurance sector is now valued at 1% of GDP, the ratio of premiums to domestic product is well over 10% in France and around 13% in the UK, as shown in Figure 7 (E & Y, 2011).

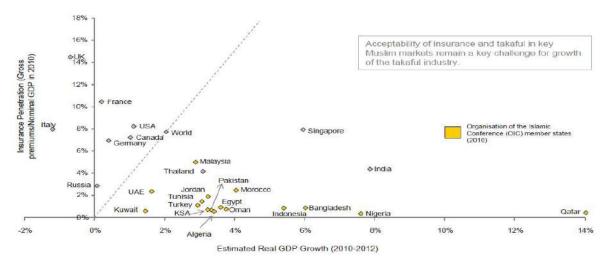


Fig 7: Insurance Penetration and Real GDP Growth for Select Countries

Source (E & Y, 2011)

Saudi Arabia, however, remains the largest *takaful* market in the GCC with contributions of US\$ 1.7 billion in 2007 and US\$ 2.9 billion in 2008 (E & Y, 2009; 2010). *Takaful* penetration in Saudi Arabia is very low compared to commercial insurance as shown in Table 1.

**Table 1: Saudi Arabian Economic Fact Book** 

Category	2007	<b>2008</b> 577.9	
GDP (US\$b)	553.5		
Population (M)	27,537,313	28,190,243	
GDP / Capita (\$)	20,100	20,500	
Insurance Premiums (\$b)	8.6	10.9	
Takaful Premiums (\$b)	1.7	2.9	
Insurance Premiums / Capita (\$)	312	386	
Takaful Premiums / Capita (\$)	61	102	
Insurance Penetration Rate (%)	0.01554	0.0188	
Takaful Penetration Rate (%)	0.003072	0.005018	

Source: Economic Figures have been taken from Ernst & Young, 2008, 2009; World Development Bank, 2009; insurance and *takaful* penetration figures calculated by the researcher.

# CLAIM RATIO<sup>13</sup>

Total claims paid by line of business in the Saudi Arabian insurance market has reported a straight increase from SAR 5.2 billion to SAR 7.3 billion with a growth rate of 38.9 % between 2008 and 2009, and a recent increase of SAR 8.51billion and 17 % growth rate between 2009 and 2010, as shown in Figure 8 (SAMA, 2010b).

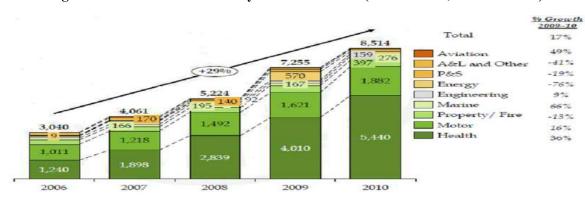


Figure 8: Gross Claims<sup>14</sup> Paid by Line of Business (2006 to 2010, SAR Millions)

Source (SAMA, 2010a)

Health and motor insurance together, accounted for 82.9 % and 77.6 % of all gross claims paid between 2008 and 2009 respectively, with an increase in gross claims paid that grew by 36 % and 16 %, respectively in 2010. However, in 2009 the highest growth rate in gross claims paid was recorded by energy insurance, rising to SAR 570 million compared to SAR 27 million in 2008 (SAMA, 2010a: 78). In 2010, marine insurance recorded the highest growth rate in gross claims paid, after increasing by 66 % from SAR 167 million to SAR 276 million. These high-growth percentages in gross claims reflected the relatively high ratios of these lines of business of the total market premiums (SAMA, 2010a; 2010b).

Furthermore, Protection and Savings, which includes *takaful* insurance, has reported a decrease in the claim ratio from 2009, by 19 %, due to compulsory rules that cannot force people to buy a family *takaful* (life insurance) policy. However, *takaful* claims ratios in Saudi Arabia remains high compared to other countries as shown in Figure 9, due to structured underwriting practice (E & Y, 2010).

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<sup>&</sup>lt;sup>13</sup> Claim Ratio = Claims Incurred / Earned Contribution (E & Y, 2010).

<sup>&</sup>lt;sup>14</sup> Claims paid during the policy year plus the claim reserves as of the end of the policy year, minus the corresponding reserves as of the beginning of the policy year.

70% 60.9% 55.6% 60% 54.2% 53.6% 49.5% 47.3% 50% 43.2% 43.8% 41.3% 47.8% 40% 38.6% 41.5% 30% 33.6% 34.8% 32.4% 27.6% 29.3% 28.6% 20% 10% 0% 2003 2004 2005 2006 2007 2008 Saudi Arabia Insurance Claims Ratio UAE Insurance Claims Ratio Bahrain Takaful Claims Ratio Malavsia Takaful Claims Ratio

Figure 9: Claims Ratios for Different Jurisdictions

Source (E & Y, 2010)

#### SURPLUS DISTRIBUTION PER THE INTERNATIONAL REGULATORY BODIES

AAOIFI on its *Shar'iah* Standards (2010) defined surplus as excess of the total premium contributions paid by policyholders during the financial period over the total indemnities paid in respect of claims incurred during the period, net of reinsurance and after deducting expenses and changes in technical provisions ( *i.e.* Contributions - Indemnities = Surplus). Accordingly, earning underwriting surplus is considered as a common requirement for both policyholders and TOs so that the distribution of surplus will be an incentive for participants to enhance their loyalty towards the company. In practise paying back part of the surplus makes the *takaful* participants responsible and aware not to make false or fraudulent claims that would lower the surplus rate. On the other hand, surplus means a great reward incentive for TOs as many TOs are very keen to share the underwriting surplus with participants. TOs can argue that the recorded surplus at the end of the financial year is the sign of efficient management and prudent practices.

However, as a *takaful* contract is a combination of *tabarru*' and agency or profit-sharing, the *takaful* fund is considered a *musharaka* (partnership) among participants. The relationship between the TO and participants' funds is based on either *wakala* contract to manage the underwriting activities, and/or a *mudarabah* to manage the underwriting or investment activities. Accordingly, the main difference between *takaful* operations and conventional insurance is the concept of underwriting surplus – conventional insurance underwriting surplus means profit for the insurance company, while underwriting surplus is not regarded as profit for *takaful* operators (Hassan, 2008). Therefore TOs are not entitled to share the surplus of the fund with participants. TOs for the sake of the best benefits and with full consent of the participants use the surplus as reserves, reduction of the contribution, charitable donations and partial/full distribution of the surplus among the participants. AAOIFI *Shari'ah* standard No. 26 (5/5) of 2007, has stated that surplus can only be distributed back to the participants and cannot be taken by the TO; the distribution of surplus will be based on a percentage share of participant's donations.

Despite the fact that TOs are not allowed to share the surplus with participants, until recently, the *mudarabah* model adopted by Malaysian TOs refers to profit as the underwriting surplus plus investment returns. This arrangement marks a departure from the original *mudarabah* model, which will entitle the TO a ratio in the investment returns, without sharing in the underwriting surplus (Soualhi, 2008: 2). Later

on, the modified *mudarabah* model justified the sharing of the underwriting surplus on the grounds that such an arrangement would allow TOs to withstand competition and avoid overpricing (Soualhi, 2008: 2).

On the other hand, AAOIFI in its *Shari'ah* Standards (2010) has indicated the following three approaches to allocate underwriting surplus justly among participants:

- I. Pro-rata mode: Underwriting surplus must be allocated to all *takaful* participants in proportion to the contribution paid by the participants, without differentiating between claimable and non-claimable accounts, since they all contributed to the fund with a noble goal of brotherhood protection with no intention to achieve a surplus. Thus, the surplus must be equally distributed among them.
- II. Selective mode: Underwriting surplus must only be allocated to those participants who have not made any claims for a given financial year. This mode tends to indemnify non-claimable accounts only and deprive claimable accounts so that they become more prudent in the future. This is meant to apply justice among *takaful participants* as it is unfair to give claimable accounts part of the surplus since they have already received *takaful benefits*.
- III. Offsetting mode: Underwriting surplus must only be allocated to those participants where the amount of claims is less than the contribution paid. That is where the claims ratio is below 100%, then the surplus would be distributed after deducting the amounts of claims received in the given valuation period.

The above three approaches to allocate underwriting surplus should be clearly disclosed to participants as per AAOIFI No13, which requires disclosure of the method and the *Shari`ah* basis applied in allocating the underwriting surplus. Participants should also receive relevant, sufficient and reliable information in connection with their participation rights on a timely and regular basis (IAIS and OECD, 2009).

#### SURPLUS DISTRIBUTION PER SAMA REGULATIONS

SAMA has issued a number of laws and regulations that aimed to regulate and standardized the Saudi insurance industry. In August 2005, SAMA issued the Cooperative Insurance Companies Control Law, which contains 25 articles. The main headings for insurance companies operating laws include licensing procedures and conditions, the required capital, key personnel responsibilities, auditing and annual reports, the role of the Ministry of Commerce and the role of SAMA in dealing with insurance companies, *etc.* In the same year SAMA has issued the controlling law that contains 84 articles, which gives an extensive illustration of the previous control laws. SAMA has also issued a number of specific regulations that address certain issues in the Saudi insurance industry, with the aim of strengthening transparency and accountability and to enable SAMA to enforce better business practices in the Saudi insurance market.

Furthermore, SAMA on its directive called the "Implemented regulations" Article 70, mentioned that the surplus distribution shall be conducted as 10% of the net surplus distributed to the policyholders, the remaining 90% of the net surplus shall be transferred to the shareholders' income statement, and 20 % the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital (SAMA, 2005). Accordingly, as the majority of the TOs in Saudi Arabia are using the *Wakalah* model to run the *takaful* scheme (AlJazira, 2008; SAAB, 2009; AlAhli, 2010) a contradict will be raised between SAMA instructions and AAOIFI *shari'ah* standard No. 26 (5/5) of 2007, as the TO in the *wakalah* operational mechanisms is considered an agent to run the underwriting and investments activities. The TO suppose not share underwriting surplus with participants and they have only four sources of income only, (i) - *wakalah* fee from underwriting activities, (ii) - fund investments fee, (iii) -

investments on the operator's own capital and (iv) - an incentive performance fee, *i.e.* "sharing in the net underwriting surplus of the *takaful* fund" (in case of modified *wakalah* model).

Furthermore, SAMA seems in favor of implementing the net underwriting surplus instead of the gross underwriting surplus (SAMA, 2005), which implies that the investment income is ploughed back into the *takaful* fund and the *takaful* company shares with the participant the surplus from the *takaful* fund (Ali and Odierno, 2008; Asaria, 2009). Following SAMA surplus distributions instructions will reduce both underwriting surplus and investment return for participants, while shareholders will get the ultimate benefits per SAMA instructions. This fact was consolidated by the disclosed annual reports of some of the TOs in Saudi Arabia.

Table 2, shown a practical example from ALAhli *takaful* company, despite the fact that participants gross *takaful* contributions has been increased from SAR 115.85 million in 2009 to SAR 208.80 in 2010, with a growth rate of 80 % increase in revenues, with a net loss of only SAR 9.02 million in 2010, however participants fund surplus/deficits figures shown an amount of SAR 0.71 million, reflected a shortage in surplus distribution (AlAhli, 2010: 5).

Table 2: AlAhli Participants' Takaful Operations

Description -	2010	2009	2008	Variance ('09 vs '10	
	SAR millions			SAR	%
Gross Takaful Contributions	208.80	115.86	6.4	92.94	80%
Net Retained Contributions	2.54	1.14	0.04	1.40	122%
Surplus / (Deficit) – from Takaful Operations	0.71	(0.36)	0.02	1.07	297%
Investments & Cash at Banks	238.57	69.77	4.35	168.80	242%
Technical Reserves	229.22	64.27	1.9	164.95	257%
Re-Takaful Balance Payable	4.13	3.62	0.19	0.51	14%

Source: AlAhli (2010)

At the opposite side AlAhli *takaful* company balance sheet as shown in Figure 10 reflected an increase in shareholders assets from SAR 152.82 million in 2009 to SAR 315.09 million in 2010 as a result of the significant increase in policyholders' investment (AlAhli, 2010: 6). The increase in shareholders assets and cash at Bank was due to the increase in investments as a result of increasing participants' value per contract of the new policies acquired and the resultant increase in the investable portion of contributions. While, the encountered increase loss in the *wakalah* operations was due to an increase in General and Administrative expenses (AlAhli, 2010).

The main reason that causes a loss in AlAhli wakalah operations is the administrative expenses besides the general wakalah model liabilities, which brings another discussion point that the Indirect expenses such as salaries and rents are paid by the operator if there is a surplus in the takaful fund that has been shared between the operator and the participants, otherwise it will be paid from the takaful fund (Lewis, 2003). However, since the sharing percentage of surplus distributions between shareholders and participants has not been followed as per AAOIFI standards, then it will be quite unpractical to deduct general and administrative expenses from the takaful fund. Deducting general and administrative expenses from the takaful fund will creates a shortage in the participant's fund. The more of the takaful fund is used to cover expenses so the lower the underwriting surplus will be which will make it impossible for the participants to enjoy having an underwriting surplus in the future. Accordingly, it is recommended that the TOs to disclose the administration and expenses procedures to the participants to

be aware of different kind of expenses that going to be deducted from the takaful fund. AAIFI on its standards No 13, stated that "disclosure of the basis applied by the company in calculating expenses affecting policyholders' funds such as pre-operating expenditures, reserves, costs of assets used in operations, claims and compensations, *etc*".

Furthermore, Figure 10 below indicated that despite the fact that shareholders assets has been slightly decreases from 2008 to 2010, however there is a quite huge differences between shareholders encountered liabilities and their accumulated assets. Shareholders encountered liabilities are way less than their accumulated assets. Shareholders accumulated assets would not be positively increases without strong and regular contributions from the policyholders.

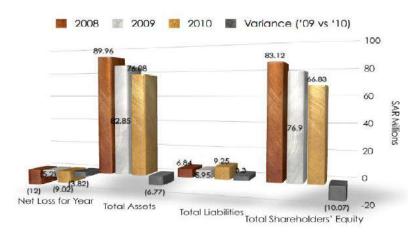


Figure 10: AlAhli Shareholders Operations

Source: AlAhli (2010)

On the other hand, SAMA unclear scenarios of distributing underwriting surplus among participants (prorata mode, selective mode, offsetting mode) has led TOs in Saudi Arabia to be confused on the proper way to distribute the surplus among participants, which causes a discretion of the Board of Directors to control participants generated surplus. This was clear in SAAB *takaful* (2009: 34) prospectus report, as they clarifies that, surplus distributions among participants will be based on BoDs approvals, despite that fact that *takaful* fund is purely belongs to the participants. SAAB *takaful* report stated that:

"A portion of the surplus is distributed to the participants subject to approval of the Company's Board of Directors".

One of the main challenges faced in the *takaful* industry is shareholders and management discretions. Participants' undeserved rights might be due to management prioritizing interest towards shareholders as they are the main stewards of the *takaful* company. Prioritizing the interest of the shareholders might be due to the unclear structure of the *takaful* operational scheme. The *Takaful* operational scheme should follow the two-tier hybrid structure (mutual and proprietorship) as it has been identified by the prominent regulatory bodies such as AAOIFI and IFSB. However, almost all regulators, of which SAMA is one, treat the TOs as a proprietorship, as it can be easily regulated and supervised which requires an identified share capital and shareholders.

Shareholders can exert their power to use participants' fund underwriting surplus to enhance their financial position, as shareholders have the right to appoint the company BoD's. Accordingly, there are acceptable practices in the *takaful* contract, which allow shareholders' intrusion in participants' fund *e.g.* 

- (i) Shareholders are allowed to invest the underwriting surplus with an express provision for an agreed consideration (profit-sharing or fee), with a complete consent for policyholders to either agree or reject the contract, (ii) Shareholders have the right to invest and share the return from investments, (iii) Shareholders have the right to share in the underwriting surplus with policyholders (Ali and Odierno, 2008). However, the three practises relationship between participants and shareholders should be clearly disclosed to the public as per AAOIFI No. 13 which states that disclosure of the bases governing the contractual relationship between policyholders and shareholders that touch on:
  - I. Management of insurance operations.
  - II. Investments of policyholders' funds.
- III. Investments of shareholders' funds and the body that approve these bases.

The above discussions reflected a variation between SAMA cooperative insurance directives and the international insurance standards and policies in terms of distributing underwriting surplus. AAOIFI has been stipulated that surplus is purely belongs to the participants, while SAMA stipulated that the participants are allowed to share with only 10 % out of the underwriting surplus. Such a contradictions has made the TOs in Saudi Arabia to exerts some discretions on the *takaful* fund forgetting that the fund is purely belongs to the participants. Accordingly, it's vital to hear participants' perceptions about their rights and preferences in receiving underwriting surplus.

#### 2. STUDY METHODOLOGY AND PARTICIPANTS PERCEPTIONS

Figure 11, illustrates that the value of underwriting surplus can be positively or negatively affected by the participants contributions and/or by deductable items (claims, expenses, *re-takaful* arrangement fees, reserves management) from the *takaful* fund. Accordingly participants' contributions represent an important factor in the analysis of the underwriting surplus. The AAOIFI *Shari'ah* Standards (2010) define *takaful* contribution as the amount of the contribution which the participant donates, along with its related profits, for the benefit of the insurance scheme; this is the main source for the *takaful* operator to cover the future damages or losses of *takaful* participants.

Outgo: Re-takaful ·Claims Recovery Operating Takaful ·Re-takaful ·Claims Contribution contributions expenses Underwriting Changes in surplus eserves Underwriting surplus or deficit

Fig. 11: Formation of Underwriting Surplus in the Takaful Operation

Source: Tobias (2009)

Since participants considered the main source of accumulating surplus in the *takaful* fund, it's quite vital to review participants' perceptions on their willingness to gain a surplus out of their contributions to the takaful fund. Therefore, questionnaire was chosen as the method by which the survey was completed. Questionnaires are a useful tool for investigating patterns and trends in data and are frequently used with success in management, marketing and consumer research (Easterby-Smith *et al*, 1991). The questionnaire measured adequate and desired expectations, perceptions of service quality as well as overall feelings, in terms of satisfaction and favourable, or otherwise, disposition. The questionnaire was

originally prepared in English and then translated into Arabic by using the back-translation method with great assistant from an expert who is fluent in both languages. Accordingly, a total of 500 questionnaires were distributed, of which 420 completed questionnaires were rejected, leaving 300 completed and usable questionnaires.

*Takaful* participants in Saudi Arabia were identified to be the main research population for this study. The targeted populations were clients of all TOs in Jeddah, Saudi Arabia, since a number of large TOs have their headquarters in Jeddah. Accordingly, the researcher with the support of an 8 survey distributer team has managed to distribute the questionnaires among 9 branches of 3 TOs<sup>15</sup> in Jeddah. The targeted participants are those with a family *takaful* policy. Thus policyholders are expected to have a long-term contract with the TOs and expected to have a periodic financial returns (Underwriting Surplus & Investment Return). The participants should not possess *takaful* contracts that belong to corporations, *i.e.* the *takaful* contracts are between the TOs and the participants directly<sup>16</sup>.

The main reason behind this research is to reflect how participants are in a real need to reduce their poverty by findings other source of income to support providing a descent future for themselves and their family. Therefore, this section will reflect participants' demographics characteristics and how participants' characteristics indicate their real needs behind their contributions on the takaful fund. This section will also reflect participants' perceptions, knowledge and preferences about their rights in receiving surplus out of their contributions. Accordingly, participants' dominant demographic characteristics are:

Gender: Male (96.3 %),Age: 31 - 40 Years (42.7 %),

- Education level: Bachelor Degree (59.3 %),

Premium Paid: SAR 0 - 500 (33 %),Contract Duration: 0 - 5 Years (46 %),

From the above demographic characteristics it seems that the majority of the *takaful* participants in Saudi Arabia are male between the ages of 30 to 40 years old and paying a monthly premium between SAR 0 to 500, with contract durations that goes up to 5 years. Participants demographic characteristics indicates that the real needs for participants to be rewarded with a surplus out of their contributions as most of them are males which they repeatedly reminded of the responsibilities (as husband and father) awaiting them when they reach the adulthood stage, while girls anticipate marriage, motherhood and housekeeping. The majority of participants are also at an age stage where more responsibilities involving different financial commitments, such as paying back a mortgage loan, or paying children's school fees.

On the other hand, 230 (77 %) participants are using the *takaful* policy for the purpose of investments, while only (33 %) of the participants are contributing to the *takaful* fund for the purpose of risk and financial loss recovery. 256 (85 %) participants are using the *takaful* policy for future plan that can benefited their family. Surprisingly, 193 (64.3 %) participants clarifies that they are not using the *takaful* policy as a reason of *Shari'ah* compliance. Accordingly, it's highly believed that participants are contributing to the *takaful* fund as a reason of the expected financial return. Thus, SAMA should be aware of this fact, that *takaful* participants in Saudi Arabia are in a real need to be rewarded out of their contributions on the *takaful* fund.

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<sup>&</sup>lt;sup>15</sup> For confidentiality reasons, as was requested by the TOs, the identity of the 3 TOs were kept anonymous.

<sup>&</sup>lt;sup>16</sup> The main justification behind these conditions is that participants with personal family *takaful* policies should have a usual communication with the TOs to discuss their rights and obligations in the fund.

Furthermore, 280 (93.3 %) participants replies with don't know to the conditions that made them eligible to receive underwriting surplus in association with claim situations, which reflects participants weak knowledge about the underwriting surplus conditions. Participants weak knowledge is a results of TO shortage in disclosing the required information about underwriting surplus conditions as 290 (97 %) replies with NO, that the TO didn't disclose the required information that allows them to receive underwriting surplus. Despite the fact that participants have a weak knowledge about underwriting surplus conditions because of TO weak disclosure, 224 (75 %) participants are willing to share underrating surplus with other participants regardless their claim conditions. Accordingly, it is recommended that the TOs to disclose enough information about different issues that deals with distributing underwriting surplus among participants, as (AAOIFI) No 13 stated "disclosure of the method and *Sharia'h* basis applied in allocating the underwriting surplus".

#### 3. CONCLUDING REMARKS

The current research has found a clear variation between SAMA cooperative insurance directives and the international insurance standards and policies in terms of distributing underwriting surplus. AAOIFI has been stipulated that surplus is purely belongs to the participants, while SAMA stipulated that the participants are allowed to share with only 10 % out of the underwriting surplus. Such a contradictions has made the TOs in Saudi Arabia to exerts some discretions on the *takaful* fund forgetting that the fund is purely belongs to the participants as they are the ones who contributed to build that fund.

The current research also found that participants are contributing to the *takaful* fund as a reason of the expected financial return and there is no effect at all for religious motivation. Accordingly, SAMA should take into considerations this fact that participants are in a need of a financial reward out of their contribution to the *takaful* fund. Hence, it's highly recommended if SAMA follows AAOIFI directives in distributing surplus among participants for fair treatments of the participants.

Accordingly, it is highly recommended that SAMA to issue directives to address the *takaful* insurance as SAMA did not issued a single directive that deals with takaful insurance. It's also recommended that SAMA assign a directive to make it obligatory for the TOs to structure a corporate governance framework. The framework should identify the operational scheme of the wakalah model in accordance with the international takaful organizations such as IFSB or AAOIFI. The framework should reflect the percentage of the distributed underwriting surplus among participants per AAOIFI Shari'ah standard that the takaful surplus purely belongs to participants and the surplus cannot be taken by the TOs. The framework should also identify the best approach to allocate underwriting surplus among participants as per an appropriate AAOIFI standard, i.e. pro-rata mode, selective mode, or offsetting mode. The framework should identify different types expenses and management fee that are going to be deducted from the participants fund, as this might causes a future deficits in the participants fund, consequently prevents participants rights in receiving underwriting surplus. The framework should disclose the the bases governing the contractual relationship between policyholders and shareholders. It's highly believed that if the TOs operating in Saudi Arabia follow the recommended framework; participants can contributes to the takaful fund with fewer amounts of contributions with the expectations of getting a decent underwriting surplus, which in a way reduces poverty among Saudis.

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# WHY WOMEN ARE BEING POOR IN KWARA STATE, NIGERIA: AN EXPLANATION FROM THE GENERIC THEORY

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#### **ABSTRACT**

Nigeria has a longstanding and lingering poverty obstacle despite she has been tried many anti-poverty programmes and policies in her history to alleviate the problem in the economy. However, this paper attempts to explore the rationale behind the women' poverty in Nigeria, especially in Kwara state, via generic theory or simply blaming the system explanation. Under the premise that the poverty is basically caused among the women in the country by the system and society as opposed to the causes of poverty by the individual poor women, themselves. This paper is based largely on academic research that is currently undertaken by the author on Kwara state, Nigeria. The paper is conceptual in nature and employs analytical methods based on the previous literature to give account of the causes of poverty among the women in the context of the state. The finding shows that government or the system is much more responsible for the longstanding poverty in the country through her inability and failure to provide sufficient socioeconomic services for the populace, reasonable macroeconomic policies and programmes. Lastly, it concludes that the government ought to endeavour to provide stable and adequate socioeconomic amenities that can assist directly and indirectly, the masses particularly women in enterprises and pull them out of suffering.

Keywords: Women' poverty, Nigeria, Generic Theory, Causes of poverty

#### 1. INTRODUCTION

The federation of Nigeria became an independent sovereign state in 1960, after having existed as a unified political entity under the British colonial rule for less than half a century, from 1914 to 1960. The country is struggling to alleviate poverty in her economy. Many efforts and measures have been taken by the economy through various policies and programmes to alleviate this chronic disease. Among the anti-poverty programmes introduced in the past include, National Agricultural and Cooperative Bank 1972, Operation Feed the Nation 1976, Green Revolution Programme 1979, Go Back to Land Programme 1984, Directorate of Food, Roads, and Rural Infrastructure 1986, Better Life Programme, to improve the lives of rural women also in 1986, and Family Support Programme 1993. Today in Nigeria, National Poverty Eradication Programme (NAPEP) was introduced by the government to fight the poverty in the country since 2001. Through, this programme poor people are given relatively small capital to establish their selves businesses i.e. small scale business and the target-population of the programme are rural poor, illiterates, women and unemployed graduates in urban centre. Kwara state is one of oldest state in country created on 27th May 1967 as one of the first of 12 states to replace the nation's three regions. The tormentor of poverty in the state is something more than mere measurement of household's income,

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expenditure or wellbeing. This involves lack of access to public utilities and other services, poor and dilapidated infrastructure, illiteracy and ignorance, poor health care, social and economic insecurity as well as political exclusion and oppression.

Nigeria has a longstanding and lingering poverty problem despite she has tried many anti-poverty poverty measures since her independence. Albeit, poverty is being described as a multidimensional in nature (Ogunleye, O. S. 2010) Nigerian system also exacerbates the situation in the country. Infrastructures which are basic public services or socioeconomic services such as road networks, water supply, electricity supply, transportation and communication network, education, and health service are significantly necessary for the economy of the country to be at well-functional state. According to the Global Poverty Project (GPP), without school people cannot educate their children, without hospital or clinic people cannot access healthcare service, and to transport our produces or goods to market for sale it requires good roads, therefore, it is very difficult to trade properly in the absence of these.

Meanwhile, badly provided essential facilities and services in the country contribute to the lingering problem of poverty among women in the country, particularly in Kwara state. Since most of these women are relying much on those facilities and services for their local businesses. Among other things are gender bias in the political participation and poor implementation of various anti-poverty measures in the country. Theses attribute to the part of the reasons why people are being poor in the country. According to Tell Magazine, February 2009, cited in Ogunleye, (2010), Nigeria has been one time regarded as the promising economy in the commonwealth prior other member states such as India, Malaysia and Singapore. Quite unfortunate, when these other member states are making appreciable progress in their economic growth indicators, Nigeria is still on struggle to bring out most of her citizens from the destitute of basic necessities of life.

# 2. GENERIC THEORY OR BLAMING THE SYSTEM

Previously, there are certain theories of poverty in history with different approaches and dimensions employed to give explanation to the series of causes of poverty in a society. In any system or society the conceptualization, measurement of problem as well as the application of policy are contained with formulation of poverty theory. For instance, minority group theory which originated in the earliest empirical studies of poverty largely presents some characteristics of peculiar groups of poor people in the related studies and the main causes of poverty in this theory associated with case theory or blaming the victim explanation, as young married couples with or without kids, children generally, likewise, old aged people with highest risk of impoverishment. Other theories which are characterized as socioeconomic theories in the past include sub-culture of poverty, dual labour market and radical theory, the cycle of deprivation, orthodox economic theory as well as sociological ones which incorporating functionalist, explanations of poverty and inequality. Albeit the subsequent theory of poverty is the main approach employed to explain the causes of poverty in this study which is succinctly introduced below.

The generic theories of poverty view those factors that cause poverty in an aggregate or totality. The theories are much concerned on the problems generated from the macro economy rather than the micro economy, that is, national economic problems as opposed to the individual socio-economic traits. In other words, "blaming the system" explanation posits that continuous suffering of the individuals is as a result of various social factors and forces which include the structures of social and economic systems, specific institutions and/or institutional regulations and demands, political programs and policies, various cultural...social interaction such as racism, sexism, and ageism, which prevent peculiar individuals and groups equal right to enjoy social and economic opportunities and resources. Poverty is hardly attributed to the individual defects in this situation. In a situation where there is inadequate job opportunities in the economy and some people cannot find work to do or other can get but underemployed, the reason for be

unemployed and impoverished cannot be blamed on individuals in such society (Ryan, W. 1971 cited in Ropers & Hinton, 1991; Tussing, 1975; Kerbo, H. R. 2006; Ragayah Haji Mat Zin, 2011, cited in Rajah Rasiah, 2011:218).

## 3. RESEARCH METHOD

This paper has been aforementioned that is largely based on the on-going academic research work and descriptive analysis to get an overview of the poverty in current situation. Therefore, the paper is conceptual in nature and analytical method is being used to give account of the general causes of poverty and most especially women in Kwara state, Nigeria. Previous literature and studies on the poverty, it causes and women in Nigeria are used in this study. Data and information are collected through the libraries, recognized journals both local and international, report on the Nigerian poverty profile, by the National Bureau of statistics as well as internet. In other words, it is conceptual analysis in which taken into consideration majorly previous research that published between year 2008 and 2012 with a few exception due to their necessity. This simply suggests that secondary sources are predominantly used in the methodology of this study.

#### 4. LITERATURE REVIEW ANALYSIS

This paper will be analysed the previous research done by at least 20 authors or researchers regarding the topic of poverty, women's poverty and causes of poverty. Four main themes will be outlined to be analysed accordingly. The themes are; *firstly*, Concept of poverty, *secondly*, Poverty in Nigeria and Kwara State, *thirdly*, Women and poverty, and *forth*, Causes of poverty. The literature review analysis is as follows;

## **4.1 CONCEPT OF POVERTY**

There is no specific definition for poverty and many see it as multi-dimensional situations which mean different thing to different people, societies and countries. It is quite difficult for the humanity to comprehend the concept of poverty and the coincident poverty reduction measures as the latter has no consensus (Akindola, R. B. 2010; Aderonmu, J. A. 2010).

Poverty is classified into two forms: absolute poverty and relative poverty. "The former means that a person's basic subsistence needs (for food, clothing, and shelter) are not being met while the latter means that a person's needs are not being met in comparison with the rest of his or her society" (Alters, S. M. 2009:1-2). In the Human Development Report 1997, cited by her, UNDP incorporated two distinct elements to the standard definitions of poverty, that is income poverty and human poverty where each further sub-divided into two. The income poverty consists of extreme and overall poverty. The first is the inability to meet basic food needs, which are defined by minimum calorie requirements while the second is the inability to afford food and other basic needs, such as shelter, clothing and energy. The human poverty also includes direct and indirect of poverty on human life. The first effects of poverty on people include illiteracy, hunger and malnutrition, shortened life spans, illness or death from serious diseases ... while the second effects include a sheer lack of access to essentials such as energy, sanitation, clean drinking water, health care, transportation and communication services.

Pramanik, A. H. et al., (2008:3) suggests additional form of poverty aside from aforementioned income and human poverty as hard core or abject or perverse poverty which is a situation of the existence of extreme deprivation for being unable to meet even minimum food needs, which resulted in malnourishment, loss of vitality of life, productivity as well as consequently absent basic minimum to

survive. Whereas Idowu, A. and Oyeleye, O. A. (2012) views poverty as a peculiar situation or condition where people are exempted from participating in activities in a given country or society as well as prevention of income necessary to satisfy their basic requirements for life survival, such as food, accommodation, training skill and working tools.

According to Animashaun, I. A. (2010), he views poverty as lack of access to both visible and invisible items which can improve the level of welfare such as shelter, drinkable water, food, security, education, health care and other services. While Aku, et al. (1997) cited in Ijaya, I. G. et al., (2011), sees poverty as deprivation of someone from certain aspects of life such as personal and physical, economic, social, cultural and political deprivation. Meanwhile, poverty has also been considered as a situation in which an individual finds it difficult to attain minimum living standard. A situation or condition that deprives or incapacitates a person to have reasonable access to basic necessities such as food and non-food requirements which can give him/her meaningful life in a society (Arogundade, K. K. et al., 2011).

#### 4.2 POVERTY IN NIGERIA AND KWARA STATE

Available statistical data on the trend of poverty in Nigeria show that overtime, there had been increase in the incidence of poverty in the country. According to National Bureau of statistics (NBS) on the Nigeria poverty profile accounts for the absolute and relative poverty in the country for 2004, 2010 and 2011. The absolute poverty for the three years is in percentage of 54.7, 60.9 and 61.9, respectively while for the relative poverty percentage for the three years is 54.4, 69.0 and 71.5, respectively. For dollar per day, the same percentage (62.8) recorded for the year 2004 and 2011 although this has to be influenced by the exchange rates. The Millennium Development Goals (MDGs) expects the country poverty incidence to witness drastic reduction by the year 2015, the percentage of people living under one dollar (\$1) per day to be at 21.35% (MDGs 2010: Nigeria MDGs Report 2010:14). With this trend of Nigerian poverty record it is doubtful perhaps the country can attain the percentage by year 2015. For Kwara state separately, in the year 2010, poverty level in the state in percentage for both absolute and relative is 61.8 and 74.3, respectively (see appendix: table 1). It is just slight difference between the percentages for the whole country and Kwara state in terms of absolute and relative poverty in the year 2010. But dollar per day poverty for Kwara state was at 79.85% as of the year 2005 (NBS 2005). Anyanwu, J. C. (2012) finds in his study that North central geopolitical zone (comprises of Niger, Kwara, Kogi, Benue, Plateau and Nassarawa) of Nigeria has higher tendency of being poor along with other geopolitical zones like Northeast, Southeast, Southwest and Southsouth which have declined the chances of being poor.

From table 2 in the appendix, it shows that larger percentage of people concentrate between being poor and moderate while very few are fairly rich and rich in Nigeria. The situation of Kwara state is similar to the Nigeria's one in term of concentration of wealth in the hands of few, mostly the politicians and the few businessmen associated with the former. Only 2.6% of the total population is considered rich in Kwara state which is very insignificant. It implies that the state government needs to be more tasked on how to reduce the level of poverty in the state. More so, there is more poverty concentrated in the rural area as compared to the urban area in Nigeria. About 53.5% are poor in the rural area as compared to 36.2% in the urban area.

Based on the core Welfare Indicators Questionnaire Survey (CWIQS) carried out by the NBS in 2006 revealed that total poverty head count for Kwara state was 83.3 per cent while head count for both rural and urban areas of the state were 95.9 and 97.3 per cent, respectively (Ijaiya, 2011). Women are the majority in this poverty problem for the whole country and for the Kwara state in per se. From this study there is no doubt that Nigerian women are seriously suffering in the society both in rural and urban areas of Kwara state the number of poor among women is very high. This is clear indication that Nigeria has trouble with her economy in general as the incidence of poverty far beyond what can be internationally even domestically accepted for poverty magnitude for any given country or society to develop.

Poverty incidence of Kwara state in 2006 was 67.5% with distribution of incidence of 2.4 in the same year whereas, for the whole Nigeria the incidence of poverty and the distribution of incidence for the same year are 65.6% and 100.0, respectively (Alaye-Ogan, E. O. 2008:54-55). This shows that the number of population that fall below poverty line in Kwara state is exceeded that of the entire Nigeria's.

# **4.3 WOMEN AND POVERTY**

In Nigeria, the main victims of poverty are small farm households, illiterate households, households with large family sizes, households headed by women, unemployed graduates, women and elderly ones, who are rarely accessed to socioeconomic safety nets. Nigerians, especially women are worse off in the economy due to the wickedness of poverty since eighty up till today. As individual women had been affected so do their families, as they are in many instances responsible to take care of children and home in general. Whereas, they are being deprived and denied from accessing many basic amenities such as electricity, safe drinking water, housing, education, health care, e.t.c. (Adepoju, A. 2004). Poverty in the country is appear to be feminization of poverty that is the situation which is frequent in the midst of women-headed households than in the midst of men-headed households due to discrimination and bias against the erstwhile at different levels and sectors in the economy. In terms of job opportunity, women are with less chance to be given appointment, they are being paid lower income in the working place and similarly backward in terms of education as compared to men. Going with all these factors, women in Nigeria are considered to be poorer than men (Anyanwu, J. C., 2010).

It has been argued that the bitter realities in Nigeria is the experience of rising poverty and the Nigerian women have different ways of experiencing this problem of poverty as compared to their counterpart men. The erstwhile are economically being deprived, socially being discriminated, politically being marginalized, culturally being saddened, and ecologically being affected. For the women in the country, all these threats are had become part of their daily lives, in other words, they are simply living with these problems. The struggle of women in the country is more importantly to ensure food security, nutrition, and good health of their family, community and the entire country despite all these they are only being rewarded negatively (Sofo, C. A. & Toni, P., n.d.:48). It has been differently argued that men are more food secure than women, particularly those women-headed households, in the sense that women are expend their income mostly to support the family members especially the children in terms of food, nutrition, and general development (Olubunmi Idowu Yetunde Ajani, 2013:IFPRI). Upon all the efforts of the government in participating and collaborating with the international community with regard to the women empowerment and recognition in the society, the women still have higher number of poor in the country as compared to men. The government has yet to pull them out of poverty problem in the society.

"According to a gender analysis of poverty in Nigeria, poverty has a feminine face. Women lag behind men in most indicators of socio-economic development. Women constitute the majority of the poor, the unemployed and the socially disadvantaged, and they are the hardest hit by the current economic recession, with about 52 percent of rural women living below the poverty line. Unfortunately, most poverty alleviation policies of the government lack special provisions for women. Gender inequality in disfavor of women features prominently in access to and control of land, credit facilities, technologies, education and health, and as a result, women are more vulnerable to poverty than men." (Olubunmi Idowu Yetunde Ajani, 2013:IFPRI).

Mostly women in rural areas that comprises of larger percentage of the population that lives below the designated poverty line in the country can only survive with relatively limited social services and infrastructural facilities. They are majorly relied on the agricultural activities to support themselves and their family members for food consumption and small income. Fayomi, O. O. (2009) argues that the poverty situation of Nigeria is the concept of feminization of poverty in the sense that women make larger percentage of the poor, out of 61.9% absolute poverty in the country. Women are also suffering from

gender inequalities at various levels and sectors such as economic, social and political spheres of development in which aggravate their disadvantaged position in the country.

Part of the challenges put forward that impoverish women that are shea buter producers in Fufu community in Ilorin south local government areas in Kwara state are lack of access to piped borne water, unreliable power supply, inadequate health facilities, problem with transportation and access to markets. Despite the fact that these local producers are industrious, their product attract foreign demand, earning income and supporting the family members, thus those challenges mentioned above deprive them from producing more and better for the economy in Kwara state. Although, Empowerment of African Women Organization (EOAWO) has prepared to give necessary support to these women in agriculture in order to alleviate poverty among them and eventually bring sustainable growth and development to the state at large (www.eoaw.org/index.php?option=com...view...women...).

Women in Kwara state has been confirmed poorer than their counterpart men in the rural area. According to the study carried out by Olorunsanya, E. O. and Omotesho, O. A. (2011) in the North Central of Nigeria using Kwara state as a case study found that women-headed households were more less-privileged than their counterpart men-headed households in the state. Likewise, widow-headed households are more significantly deprived or disadvantaged compared to the mere women-headed households in the state. The study was carried out among the rural farming households in the state and the data from the survey were analyzed using descriptive statistics, social indicators and Foster-Greer-Thorbecke class of weighted poverty indices.

Similarly, the founder of An Islamic Charity Group, Ar-Rahmah Zakat Foundation, Femi Omo-owo in Ogun state, Nigeria claims that there is widespread of poverty in the state therefore, the institution is mainly established to effectively and efficiently used the Zakat money to assist the financially-poor people to uplift their lives. The foundation targets those women that engaged in small scale enterprises in the state in order to keep their business moving, a way of economically empower the women in the state. This gesture is in line with the purpose of Zakat in Islam which is to ensure equitable distribution of wealth and resources in the Muslim society (Sunday Punch, 2013:5).

### **4.4 CAUSES OF POVERTY**

Ijaiya, G. T. et al., (2011) has pointed out that part of the causes of poverty in Kwara state can be attributed to insufficient or lack of socioeconomic amenities and services such as electricity supply, pipe borne water supply, roads and transportation network, sanitation facilities in which are burden for the people in the state and equally particularly affect the businesses in the state. Problem of all these necessary facilities of lives are poorly provided in the state due to their interruption in supply. Business women hardly well prosper in their micro businesses because most of these socioeconomic facilities and services that are expected to aid their venture are either poorly supplied or not there at all. Therefore, this leads many businesses to bear unnecessarily huge cost of production in which subsequently lead to higher market prices of goods and services in the state. More so, this dwindle away lion share of their profit/income to be enjoyed after the sale and equally exacerbate their living condition.

They further argue that in the history, Karl Marx viewed the operation of capitalists as a way of impoverishing the labourer in the society of Europe which resulted in so-called industrial reserved army. Although to the capitalists, it was a labour-saving technique which brought about increase in production and profit. Meanwhile, Marx termed this as profiteering as it reduced labour merely to the low subsistence level of wages, create pull of unemployment and eventually, exacerbate the welfare of the many proletariat and their families.

Yahaya, K. A. (2011) similarly through his recommendation for the government to ensure sustainable entrepreneurial activities mostly for the women in the state, should ensure the availability of essential

socioeconomic amenities that would assist the potential entrepreneurs to improve their productive capacity. This has been identified as one of those factors that hinder them from attaining in their businesses. The state has been known with the poor and dilapidated infrastructures and the latter has been causing impoverishment in the economy due to its negative impact on the women in entrepreneurship in the state.

Poor and interrupted power supply has become mundane issue in Nigeria's economy, big issue that creates greater concern to both Nigerian authourity as well as Nigerian people because of the constant problem causing for the economy. Failure of the government to restore the electricity and related amenities has been considered jeopardizing the efforts of many ordinary Nigerians in businesses, likewise, causing more people to be poor. According to the World Bank Vice President for Africa, Dr. Mukhtar Diop (2013), without steady power supply poverty would still remain big challenge in the economy despite recent eight percent economic growth witnessed by the country, as the lives of people would continue to be worsening and long-term capital projects are discouraged in the economy, both domestically and strategically, due to lack of improvement in the infrastructures.

However, various anti-poverty programs and policies introduced in the country and of course, in Kwara state, have largely failed to overcome the three reasons for this persistent poverty that is, social, economic and political problems facing the country since the inception of the programmes. NAPEP was introduced since 2001 till date to replace those previously failed poverty alleviation programmes. The finding in the study carried out on the effectiveness of the poverty reduction programmes in Nigeria between 1980s and first decade of the 21<sup>st</sup> century, a case study of Enugu state by (Ntunde, F. O. & Oteh, C. O. 2011) shows that many poverty alleviations programmes introduced in Nigeria were failed to have significantly positive impact on the lives of the target-groups, the poor. In other words, they are hardly reduced poverty level and rate in the country. The rationales behind their failure are attributed to insufficient funds to run the programmes, mismanagement of available resources as well as lack of infrastructures.

Similarly, Aderonmu, J. A. (2010) laments that no significant outcome despite all the resources both human and capital devoted on alleviating the lives of the rural dwellers by the past governments in Nigeria through their various poverty reduction programmes. Among the reasons account for their failure include low level of participation by the poor, lack of political will, corruption and poor accountability, discrimination based on gender, ethnicity, religion and party affiliation, more so, over reliance on grants and loans from international financial institutions and other private donor agencies, in which their attached conditions eventually affect the poor's needs and interest. Arogundade, et al., (2011) are of the similar view as they suggested different anti-poverty agency to replace the existing one in order to serve the people better by alleviating poverty in them and not causing more poverty for them.

Some of these macroeconomic policies introduced to fight poverty appear to be adding to the problem because, the more these anti-poverty measures are introduced the worse is the incidence of poverty in the country and also in Kwara state. This can be justified from the data on the Nigerian poverty by the National Bureau of Statistics, NBS 2010. Absolute poverty in the country increases by 7.2% between 2004 and 2011 (54.7 and 61.9, respectively). This shows that instead for the programmes and the policies to reduce the poverty level, the reverse is the case in the country's situation. It equally means that the latter are causing the country and the state to be poorer.

As many causes or elements attributing to the persistent of poverty in Nigeria according to Ogunleye, S. O. (2010) among other factors are disparities in income of people and unemployment, which are seen as wider to the extent that it neutralizes the existence of middle class and pool of unemployed graduates among the youth and women. More so, gender inequality also plays strong role in causing poverty in the country and Kwara state, mostly against women. He also argues that women have fewer accesses to

economic resources or microloans, less social and political powers than their counterpart men in the state worsening the poverty situation. Couple with these, are the disparities set in education and health sectors which make it harder for already-poor people and their family members to get out of this economic mess. Lastly, other causes of poverty according to him are the long time neglect of agricultural sector and poor infrastructural base. These have been worsening in the country and in the state. The former is being jettisoned for the oil boom discovery since early seventy while the latter's development is relatively below expectation which result in relatively low level of productivity and eventually poverty skyrocket.

Most factors consider as causes of poverty are found positively related with the latter. These include among others, physical limitation, corruption, rapidly increase population, bureaucratic stiffing, heavy reliance on highly developed economies/countries as well as domestic exploitation by the elites. Other factors raised by (Adawo, M. A. 2011) can be grouped as socioeconomic, political as well as natural causes of poverty in the country. Similarly, poverty is being viewed as macro obstacle in which its causes among the people include political instability, lack of access to education, socioeconomic disparities and prejudice, natural disasters, corruption, lack of infrastructures or other causes such as severe conditions as civil war. The aforementioned factors are believed to be major causes of poverty in many developing economies (World Development Report, cited in Fapohunda, T. M. 2012). She further argues that poverty could be as a result of flooding and droughts.

Omoyibo, et al. (2010) claim that the women in Nigeria are culturally, socially and politically being denied of their many rights that lead to their sufferings in the society. The discrimination against them toward the gender bias, participation, representation, and decision making at every tier of government make them look inferior to their counterpart men in the society. This prevents them from access to power, property as well as prestige in society eventually creates gender inequalities. The position and roles of women in family, economy and power relations vary from culture to culture. Restriction of women or female education to minimum level result to their high incidence of illiteracy and powerlessness equivalent to discrimination against them in which make them to remain poorer as opposed to men. Political and social factors are observed as causes of women poverty in Nigeria in general and kwara state in particular. Therefore, government's legislation, policy framework and sufficient funding of project are required to alleviate gender inequality and women poverty in the country.

Nigerian women are being poor because of the tradition and culture associated with land ownership as well as inheritance. Since most of these rural women rely mostly on agricultural activities, to own land by them is very rare in the rural area due to the traditional practice for long period of time. Women do not have right of ownership and only confine to cultivate land and plant crops. Likewise, they are being deprived to inherit their late husbands' land property except their male children or heirs after attaining certain age. Therefore, the right or privilege of inheritance is not enjoyed by the widows, which make them to remain landless in the village and aggravate their poverty problem. Their situation continues worsening as they don't gain access to education and educational facilities, as well as other vital resources to survive, such as safe drinking water (Okoji, A. M. 2001).

In the study carried out by (Akindola, R. B. 2010) on the causes of poverty in Oyo state, Nigeria, found numerous numbers of the causes of poverty in the country in which they are being described as multifaceted and complex in nature as well as attributed to blaming the system. The study is a qualitative in nature and the findings show that poverty is being caused majorly due to high rate of unemployment, corruption, which is high and considered as structural one, poor administration, poor road networks, high rate of population growth, and macro-economic distortions. Many Nigerians are dissatisfied with the way the government is being run in the country as the leaders are so much corrupt without genuine vision and mission for the country.

The final report of the Japan International Cooperation Agency (JICA) in 2011 on the Federal Republic of Nigeria Study for Poverty Profile (Africa) shows that several factors aggravate poverty incidence in Nigeria. Among the factors raise is governance, which is believed weak and poor. This is coupled with corruption to bring bad effect on the effective implementation of previous anti-poverty programmes in the country. Physical infrastructure is another factor considered seriously causing poverty in the country. This includes drinking water circumstances, sanitation, power supply and transport infrastructure. The rate of processed drinking water supplied through network in Kwara state from 2005 to 2008 is declined or worsened from 22.1% to 7.3% while the aggregate supply rate for the country also dropped from 12.7% to 7.7% for the same years, this proves poor provision of water infrastructure in Nigeria (National Population Commission, 2009 is cited by JICA).

Other infrastructures that are not impressive in condition include electricity supply and transportation networks. Power Holding Company in Nigeria (PHCN) is main body responsible for the power supply in the country and it succeeded National Electric Power Authourity (NEPA) as part of commercialization and privatization process in the country. Relatively less than half of Nigerian people rely on PHCN for power supply today. In the year 2007 and 2008, only 47.3% and 40.4%, respectively, rely on PHCN for power supply in Nigeria while for the same years, 41.4% and 48.0%, respectively, are not consuming adequate electricity or power supply from the PHCN source. Likewise, there is no significant improvement in the transport network particularly in the road and railway networks. The existing ones are not properly maintained while the new ones are hardly provided (JICA, 2011:38-43).

Islamically speaking, some causes of poverty could be incurred on a person from Allah, as it is confirmed that a person would be rewarded or punished based on his action, both richness and poverty are tests from Allah on every human being as reward and punishment. Therefore, poverty could be caused as a result of test from Allah or punishment for sins. This is more or less spiritual causes of poverty as opposed to the material causes that have aforementioned in our discussion, although, the latter causes of poverty are also mentioned in Islam such as unemployment, corruption, bad leadership, insufficient provision of socioeconomic amenities etc. all of these are the causes of poverty that Islam also believes are as a result of happenings in a Muslim society or system runs in such society (The Fatwa Center at Islamweb).

The two types of poverty mentioned above i.e. the spiritual and material are the two ways Islam views poverty. To compare the two poverty, Islam sees the former one as the worse than the latter one, in the sense that a person who is spiritually poor is ultimately against both the right of Allah and the fellow human being and such person mostly considered or become *kafr* i.e. disbeliever. The tradition or say of the Prophet Muhammad (SAW) had clearly described the person who is spiritually poor in Islam, this was narrated by Muslim from Abu Hurayrah, said:

"Do you know the one who is bankrupt? They said, 'The bankrupt is the one who has no money and no possession.' He said, 'Among my Ummah, the one who is bankrupt is the one who will come on the Day of Resurrection with prayer and fasting and Zakah (to his credit), but he will come having insulted this one, slandered that one, consumed the wealth of this one and shed the blood of that one, and beaten that one. So they will all be given some of his hasanaat (good deeds), and when his hasanaat run out, before judgement is passed, some of their sins will be taken and cast onto him, then he will be cast into the Fire." (Muslim: 4/1998, Hadith no. 2581).

As Islam ordains Muslims to seek for the blessing of Allah in this World and the Hereafter and use judiciously whatever form of wealth and resources at their capacity to benefit themselves and others. Today, in the Muslim countries, there are many other factors that leads to poverty due to the mismanagement and corruption of resources in which Allah had previously discouraged Muslims from such actions in the Holy Qur'an: "But seek, through that which Allah has given you, the home of the Hereafter, and [yet], do not forget your share of the world. And do good as Allah has done good to you. And desire not corruption in the land. Indeed, Allah does not like corrupters." (Qur'an: 28:77).

#### 5. RESULTS

It is revealed that the general causes of poverty and of women poverty in particular are multiple with different facets. Many literatures and studies have shown that those causes are much more related to socioeconomic issues and national economic system which are beyond the influence of the individual poor especially women. Since the poor group is handicapped to prevent the situation like this, they remain in poverty until the system changes to favour them. Mostly, women in Nigeria and of course, in Kwara state are potential to be living above the poverty line of one dollar per capita per day it is unfortunate that they could not meet up with this level because of other exogenous factors which are not created by them. The blame is on the system and the society that create hardship for the poor and failure of the government to provide sufficient socioeconomic infrastructures that can assist to improve the incomes of the women in enterprises and alleviate their suffering. As Yahaya, K. A. et al. (2011) pointed out that government in the state ought to make essential availability of the major infrastructures that could greatly assist to improve the productivity of the micro entrepreneurs that characterizes by women.

Besides, there are some causes of poverty in Nigerian society that are controllable ones like those associated with economic, social and political, in the sense that they can be checked by the system or government by placing on ground strong policy which can be implemented. Even those ones that are viewed as uncontrollable they can be controlled by the system or government if they are responsible enough to do so. For instance, flooding and storm which their effects further impoverish some rural poor and particularly rural women can be controlled by providing necessary drainages and strong policy and inspection on housing structures that can minimize the effects of these on the poor people. Likewise the rapidly increase in the incidence of population of Nigeria can be checked by reasonable population and immigration policy. Albeit, the genesis of this can be traced or attributed to the micro level as individual household responsible for its control but still government can put in place at least an effective moderate birth control measure for the sake of the economy. Alternatively, since population is considered as a resource for any given country, Nigeria can make optimal utilization of this by turning it to asset for the economy instead of viewing it as liability in the system. With availability of other natural resources and endowment in the country, the current population figure can be manageable. Can individual Nigerians or women do all these? Definitely no, only the system or government can do them.

# 6. CONCLUSION

The study has proved that the causes of poverty cannot be blamed on the individual poor rather the blame should be shouldered by the system and the society at large. Most especially, the government has created a lot of economic and social difficulties in the lives of Nigerian masses, particularly women. We can justify this from the former's injustice in the distribution of national income and resources, wastage of national resources on different and abortive anti-poverty programmes, ineffective macro-economic policies, structural corruption, mismanagement and poor administration. Although there are immediate causes of poverty such as civil unrest, religious and ethnic tensions continue to reoccur day in day out in different parts of Nigeria result in outbreaks of violence in which in turn aggravate poverty and malnutrition. Those women previously lived in these troubled areas and are forced to return home find it hard to survive without getting anything tangible doing as their businesses had been destroyed because of series of violence.

Based on the results of this study, the following policy measures are being recommended to tackle the problem of poverty in general and of women poverty in particular in the state:

 Government should ensure regular basic necessities such as provision of power and safe drinking water, health care and motorable roads, since these basic necessities are most needed by the poor especially women both for their micro business and life in general, for instance, is likely to attract women entrepreneurs, a development which could revamp both local and national economy.

- Anti-poverty programmes, measures, initiative, strategies and agencies, particularly National Poverty Eradication Programme (NAPEP) need to be reformed and restructured, so that the goal of eradicating poverty in the country can be attained without further delay, as scrapping of this peculiar programme is not the best option to address its ineffectiveness.
- Workable macroeconomic policies that are people-friendly ones need to be introduced.
- Islamically, if the government can formally support and standardize the management of Zakat and
  Waqf collection among Nigerian Muslims which are the sources of alleviating poverty in Islam, it
  would be a such of help to the government of the day to achieve her goal of poverty eradication in
  the country, reduce government spending on poverty and attain faster economic growth and
  development in the country.

Revert to the poverty scenario and women as the key point in this paper, it is agreed that this paper is limited to the data available from the literature review analysis. Thus, this paper is suggested to expand the scope of the study to be more focus on the enhancing access to women empowerment as a strategy of poverty alleviation in Kwara State, Nigeria to be conducted in future research.

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#### APPENDIX

**Table 1: Nigeria Poverty Numbers and Percentages** 

	2004 (%)	2010 (%)	2011 (%) Est.
Estimated Population (mil.)	126.3	163	168
Relative Poverty	54.4	69	71.5
Absolute Poverty	54.7	60.9	61.9
Dollar Per Day	62.8	61.2	62.8

Sources: National Bureau of Statistics, NBS, Nigeria Poverty Profile 2010.

Table 2: Household Assessment of Livelihood: Subjective Poverty Measurement

	Very Poor (%)	Poor (%)	Moderate (%)	Fairly Rich (%)	Rich (%)
Urban	6.1	30.1	56.2	6.3	1.2
Rural	11.6	41.9	41.2	4.5	0.8
Total	9.5	37.2	47.2	5.2	0.9
Kwara	3.8	36.6	57.0	2.4	0.2

Sources: NBS, Nigeria Poverty Profile 2010.

# IS HIRING WOMEN AS A LEADER IN AN ORGANIZATION A RISK? : A CASE OF MALAYSIAN TAKAFUL COMPANIES

Affiaine Ahmad<sup>1</sup> Safeza Mohd Sapian<sup>2</sup> Zuriah Abdul Rahman<sup>3</sup>

#### **ABSTRACT**

The main purpose of this paper is to examine the relationship of commitment, management, attitude and risk of hiring women as a leader. This empirical study focuses on Malaysian Takaful Companies. The study utilized a survey approach which involved 150 respondents. The sample for this study was drawn from urban population in Klang Valley. Findings showed that all factors have no significant relationship with the hiring of women. Future studies could include other factors such as cultural, economic circumstances, learning, media and information system as independent variables. The study has provided a basis understanding on women credibility of Malaysian Takaful companies. The findings of this paper also have several implications, which would undoubtedly benefits the Takaful companies to bring innovation management into the organization while at the same time making them to realize the equal potential of workers in Malaysian Takaful companies.

Keywords: Commitment, management and attitude.

#### 1. INTRODUCTION

The purpose of this research is to analyze the relationship risk factors and women in the leadership positions. The study will introduce about the meaning of leader, especially in an organization and also would be able to identify the challenges and risks that were faced by women who act as a leader which obviously would differ from male. Women's today are more intelligent than man which can be seen in the universities and also in many big companies. Women are more talented in handling some complicated tasks and usually are multi-tasking. Women's today are not like women in an ancient time which only depends on men only. Now, women can make their own decision without any help from men.

Leadership today has always been associated with the power, money, and status of the position and also descendent which contribute to the title of leadership that someone is holding. The power that they have will dominate a group which is smaller than them. But, today, this power is fast disappearing. Now, we are more confident and ready to move by the power of brilliant ideas, innovations and creativity. The awkward fact about the good ideas is that no one can monopolize them.

In the modern era of workplace, leaders always fronted with the organizational challenges in many aspects. In determining how leadership would affects the performance of organizations, among the issues that must be considered is the gender since it is a common element being used in contributing to the effectiveness of leadership in the organizations. If gender has been identified as a main element of leadership, then it should be able to answer what is the bearing that gender exhibits in evaluating the effectiveness of an individual leader? It seems obvious that males and females will communicate in different manner whether in both, inside or outside the workplace. Given the fact that, the globalization

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era of today's world, instant access to information, and also advanced communication services and products has possibly changed the path of how we conduct the business. These changes may help to overcome any possibility of gap in the communication style and most importantly is to build good communication between men and women at the workplace.

#### **Problem Statements**

With the increase of women participating in senior management, not all employees at every level in the organization could accept the reality of the position being monopolized by women. It is difficult for them to accept the reality that their leaders are women. At present, we can see almost all private sector tends to prefer women as their chief to lead the organization. The important thing is we need to find out whether there are significant risks faced by the organization itself or not when they decide to take women as a leader because of the differentiation between women and men where women were much more concerned.

This study is focusing more on the risk of hiring a female as a leader in an organization where we would examine the differences between women and men in terms of leadership as well as investigating whether the independent variables are related to the dependent variable or not.

# Research Objectives

The aims of this study is to understand women as a transformational leaders, to understand what factors could possibly influences the differences between male and female and to identify the varieties of challenges and barriers for women in upper managements.

# Research Questions

Does sex determine the effectiveness of a person in becoming a leader? What are the differences between the two genders with regard to leadership? What are the differences between the genders in terms of communication?

# Hypothesis

 $H_0$ : There is a significant relationship between commitment and risk faced by an organizational when hiring women as a leader.

 $H_0$ : There is a significant relationship between management in an organization and risk faced when hiring women as a leader.

 $H_0$ : There is a significant relationship between attitude of leader and risk faced by an organization when hiring women as a leader.

#### Definition of Terms:

Gender: When focuses on gender, the aim is to identify and highlighting the differences between man women (Jayne & Dipboye, 2004). Gender's definition is refer to a culture's social structure that make up the comparison between the sexes. This included different attitude, behaviors between women and men and how they are expected to control it (DeMatteo, Eby, and Subdstrom, 1998; Northouse, 2004).

*Leadership:* According to Capezio and Morehouse (1997) leadership can be defined as the ability to influence individuals, group to think and to take the action in order to achieve an objectives.

*Organizational Structure:* refers to those which employee perceives, and hope that perception creates a pattern of beliefs, values, and expectations (Schein, 1990).

#### 2. LITERATURE REVIEW

### Meaning of Leadership

Leadership is a science and an art which is creative, propelling and discipline, Capazio and Morehouse (1997) Leadership underlines relationship at work and in the organizations and involves the acceptance of the responsibilities. Adler (2000) felt that in view of changes in leadership roles and organizational practices female leaders have come to symbolize a new type of leadership that connotes greater effectiveness and synergy than leadership past. Many female executive think that they must to achieve the highest standards of performance than the males. Women nowadays tend to have more strength and fewer faults than male in order for them to achieve the highest level. In addition, Dess and Picken (2000) wrote that in order to survive, the corporation should know the boundaries. The 21<sup>st</sup> century is here and the organizational leaders will face a whole new set of managerial problems: the globalization of the marketplace, the rapid changes of information and communication and the scarcity of the world's natural resources.

Dess and Picken (2000) further states that an organization will need a strategic vision, explicit or implicit and effectively employed, a clear future direction, and a framework for the organization's mission and goals. The job of leadership is to give meaning, not just to make money.

Lapp (1999) stated that successful leaders can reduce complex ideas into simple massages, such as they communicate using symbols, analogies and acts as storytellers to help the employees to understand the information or message conveyed. In order to see another person's perspective on certain issues, they must be able to express empathy and possess high level of understanding towards conflicts among workers. Women have the special advantages of having fresh ideas in seeing the way out on issues and able to identify new solution to old problems.

#### Commitment

Another significant difference that was identified is the way the women and men being recognized with their commitment in jobs. Male think that their own identities are being complex and multifaceted and difficult to share the information. The female executives, however, regularly schedule their time for sharing information (Fairholm, 2004). Nowadays, women tend to lead from the center of an organization rather than from a top of the command hierarchy.

Accordingly, Billing and Alvesson (2000) found that organizational life, information, and expertise have often being perceived to be the sources of organizational power. Female leaders tend to be more educational in nature as a leaders, making commitment to share about the information, so that, the others will become more effective as organizational participants and leaders.

Lots of women become justifiably frustrated from the belief that a double standard exists for men and women were related to the key business leaders (Callas & Smircich, 1999). Leadership behaviors that may be praised and rewarded in males may be ignored when exhibited by females. For examples, leadership would be described as assertive when exhibited by men and may be described as too aggressive when exhibited by women.

However, women with a wedding band may be perceived as having potential for high rates of absenteeism. This is because of the pregnancies or other child-related responsibilities, and short employment tenure related to the possible employment relocation of the spouse. While male leaders may be characterized as a detail-oriented that may exhibit the same behaviors as women leaders characterized as obsessive. Where male leaders may be seen sensitive and female leaders characterized as overly emotional.

# Attitude of Leader

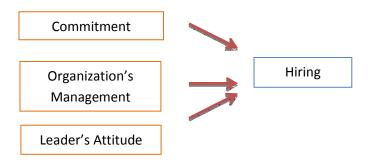
On the other hand, there are some notable advantages for women in educational leadership positions. Many female head teachers (the British equivalent of principals) felt that because "they did not fit the stereotypical male mold", they had more freedom in the leadership behaviors they choose to adopt and "They did not have to operate within the dominant discourse of male leadership" (Coleman, 2003). Bass (1990) found that subordinates are more likely to describe female leaders as charismatic, and that female leader are more inclined to temper any criticism they gave with positive feedback.

(Dana and Bourisaw, 2006) have attempted to characterize a specific female leadership style, identifying preferred collaborative practice, instructional focus and a transformational approach. The findings suggested that many women also fail to support other women in that such positions.

# Organization Management

Clark (2005) determined that there has been a two-fold increase in the number of women in corporate leadership positions in the past ten years; however, many women are leaving large companies to start their own business. With labor shortages worsening, women leaders are becoming more important to employers (Hewlett, 2008). Individuals in leadership positions are often unaffected by issues of race or gender as long as they are part of the dominant social group (Ruderman & Munusamy, 2007).

It is generally assumed women lead differently from men, yet women's effectiveness is measured in traditional ways (Klein, 2009). Bradford (2008) observed the transformational style is the most effective leadership model. These leaders mentor their followers by encouraging self-development and providing increased responsibility within the organization (Bradford, 2008). Accordingly, study by Toland (2006) evidenced that, because of a mentor's presence, women rose to executive management positions within the organization at faster rates. Additionally, these women reached higher levels of management quicker, earned more money and successfully built career networks (Toland, 2006).



#### 3. METHODOLOGY

#### Data Collection Method

The methods that were involved are acquiring primary data and secondary data and questionnaire. These data were collected from internal and external sources. Primary data is referring to the information that was obtained in the firsthand manner. The method used in collecting the data is survey questionnaire. It is an efficient data collection method when the researcher knows what is required and how to measure these variables. There are about 150 respondents were involved in the survey. On the other hand, secondary data is used as an additional information for the researcher. Example of several types of secondary data

such as articles and Journals which was extracted from PROQUEST and Internet information because it can be the easiest and fastest way of data collection. In this drastic changes of technology and a vast global networking era, information are available easily and can be accessed just a click away and everything is at our finger tips.

#### Sampling Technique

Sampling is the process of selecting a sufficient number of elements from the population. Sampling is needed in order to collect data. By studying the sampling, it will be more reliable, reduce fatigue and also will reduce the number of mistakes. The method of sampling that will be use is probability sampling. Probability sampling is when all the elements in the population have equal chance to select as a sample. So, 150 respondents will be selected randomly in order to answer the questionnaire.

# Data Analysis Technique

After all the data are collected, the researcher will use Statistical Package of Social Science (SPSS) to analyze the data. The finding result acquired from the analysis is described by the data in hypothesis testing.

# Hypotheses Testing

Testing the hypotheses is important for confirming the significant relationships and it is expected that solutions can be found to correct the problem that will be encountered. The theoretical framework earlier noticed the relationship among the independent variable (commitment, management of organization and attitude of leader) and dependent variable (risk faced when hiring women as a leader). The aim is to know whether all the independent variables have positive relationship with the dependent variable.

#### 4. ANALYSIS OF DATA AND FINDING

A questionnaire is developed in order to obtain the information from the respondent. 150 sets of questionnaire were distributed to be analyzed. The questionnaires are divided into 5 sections which are A, B, C, D and E. Section A consist of 6 questions related to the demographic profiles of the respondents which are consists of employees in several Malaysian Takaful companies.

Section B consists of 5 questions relating to commitment their leader toward her work. Section C consists of 4 questions relating to the management of organization during her as a leader and section D consists of 4 questions relating to attitude of leader itself towards on her performance at organization. The researcher using the multiple regressions in order to get the significant relationship between all the variables as well as between the independent variables and dependent variables. The multiple regressions is including model summary, Annova and Coefficient of the relationship.

# **SECTION A: Demographic Profile**

According to the question distributed, the result shows all the 150 respondents are Malay. According to this question, the majority of the researcher respondents are female. It shows 62% higher than male which shows 38%. The question for education level will include, certificate, diploma, degree, and master level. From the result, it shows that the researcher's respondent more incline to degree compared to other. This question regarding to the respondent's position in department. The result shows that 44% respondent coming from executive title. This question investigate about the period that the respondent working in Takaful industry. This shows that most of the respondents have 5-6 years working experience.

### **SECTION B:**

Table 1: Model Summary<sup>b</sup>

Ī	Model	R	R Square	Adjusted R	Std. Error of the
				Square	Estimate
Ī	1	.231 <sup>a</sup>	.053	082	2.35668

a. Predictor: (Constant), AL, MO, COM

b. Dependent Variable: RT

This table shows the significant relationship between three independent variables (commitment, management of organization and attitude of leader) and risk faced by an organization. The value of R-Square of .053 explain that only 5.3% has a significant relationship between the independent variables and the dependent variables.

Table 2: ANOVA b

Model	Sum of Square	df	Mean Square	F	Sig.
	6.577	3	2.192	.395	.758ª
Residual	116.633	21	5.554		
Total	123.201	24			

This ANOVA<sup>b</sup> table explain that significant relationship which using F- Test as a measurement.

Table 3: Coefficients<sup>a</sup>

	Unstandardized	Coefficients	Standardized Coefficient		
	Offstaffdafdf2cd	•	Coefficient		
Model	В	Std. Error	Beta	t	Sig.
1 (Constant)	17.729	8.011		2.213	.038
COM	347	.440	220	789	.439
MO	.045	.508	.023	.088	.930
AL	.055	.285	.045	.194	.848

This coefficient<sup>a</sup> table shows that commitment, management of organization and attitude of leader did not have positive relationship with the risk. The T-test above shows negative sign. Thus, there is no significant relationship. The positive relationship in T-test can be shown if the significant 0.000.

# 5. CONCLUSION

To put it in a nut shell, the researcher can conclude that Malaysian Takaful companies did not have any risk when they decided to hire women as a leader in their company. In addition, from the multiple regressions, there is also no significant relationship between all the independent variables and dependent variable. Last but not least, there is totally no practical difference between men and women. As a human which have variety of choices, they also have their own style and attitude towards their works.

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# THE RELATIONSHIP BETWEEN LEVEL OF INCOME AND WILLINGNESS OF MUSLIM COMMUNITY TO CONTRIBUTE FOR ISLAMIC WAQF BANK

Mohd Asyraf Yusof<sup>1</sup> Muhammad Ridhwan Ab. Aziz<sup>2</sup> Fuadah Johari<sup>3</sup>

#### **ABSTRACT**

Islamic waqf bank is a special designed financial institution in Islam. This bank will benefit the student and also their parent, due to its unique structure that could finance students education in term of fees and cost of living. Islamic waqf bank use the concept of cash waqf in term of funding the education. Cash waqf means the dedication of some money from one's possessions and establishing a waqf based on that amount and offering it to the benefit of people. In addition cash waqf is defined as the devotion of an amount of money by a founder and the dedication of its usufruct in perpetuity to the prescript purposes. In the other hand education is very important for the development of human capital for Muslim community. The Objective of this paper is to examine the relationship between level of income and willingness of Muslim community to contribute for Islamic waqf bank for financing in education. The methodology of this paper is a quantitative research based on 128 respondents of Muslim community on this country. The general finding of this article shows that there is an extreme willingness among Muslim community to contribute for Islamic waqf bank for funding the education.

**Keywords**: Waqf, cash waqf, Islamic waqf bank, waqf for education.

#### 1. INTRODUCTION

Waqf, an Arabic term that literally means confinement or prohibition. The word is used in the Islamic Law in the sense of holding certain assets or belongings whilst preserving it for the confined benefit of certain patronage, forbidding any use or disposition of it outside its specific objective. According to Imam Abu Hanifah, the legal meaning of waqf is the detention of a specific thing in the ownership of waqif and the devoting of its profit or product for the purpose of charity to the needy. In the other hand Imam Abu Yusuf and Imam Muhammad stated that waqf signifies the prevention and detention of an assets and donated it for the benefit of mankind solely for the sake of Allah.

Waqf is different from donation because waqf generates an endless profit to the needy and a reward to the donors. Waqf applies to non-perishable properties which it can be use without excruciating the property itself. Therefore waqf widely relates to land and buildings. However, there are waqf of computers, note books, machinery, vehicles, share and stocks and cash money. In fact, even University Al-Azhar is a form of waqf.

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The first words revealed of the Quran was *Iqra'* which meant read or recite. It is obvious that this verse shows the importance of education. Thus, to seek knowledge is a sacred duty, it is obligatory on every Muslim. Education is very essential for the improvement of human capital and success of an individual's financial viability, the society, and the nation at large. Nevertheless, to achieve these goals a particular student needs to think how to finance or fund their study. Unfortunately our institute of higher learning required our students to get a loan to finance their studies. Most of them receive their loan or financing from the Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN). It will be troublesome for them to repay back their PTPTN loans after they have completed their studies due to several commitments such as car loan repayment, house rental, cell phone bill and etc.

According to data taken from PTPTN's website, until April 2010, PTPTN has spent RM 32 billion for education loan and only 52% of the borrowers have managed to repay their loan according to the agreement. For the next few years, it is expected that less than 50% of total loan given to the borrower will be able to be collected by PTPTN due to the increasing number of unemployed graduates recorded in this country, which is almost to 177 840 graduates until September 2011. Anyone who wishes to further their studies should have *waqf* as their source of education funds. In order to solve this problem and to help Malaysian students in funding their education without worrying to payback their loans.

#### 2. LITERATURE REVIEW

The word waqf in Islamic Law is used for the principle of contribution intended for religious purpose, family welfare, charity and other things for the sake of Allah. Some Muslim jurists agreed that giving waqf are one of the ways to express our submission to Allah. According to Baharuddin Sayin there are no accurate definitions of waqf declared from our Muslim scholars. The definitions that they have given are different from each other thus lead to dissimilar legal practice from four different schools of thought.

According to al-Sharbini, (1933) waqf means holding something such as properties or belongings that can be use and remain its physical form in accordance with regulation approved by Islamic Law. Furthermore according to Ibn 'Abidin (1966) waqf is detain a belonging in condition on the owners and it must be utilize. Other than that according to al-'Asqalani (1959) waqf is hold a property that can be use permanently and channel the used for a good purposes. On the other hand according to al-Shaukani (1964) waqf is holding a property in the path of Allah for the needy but the properties is still owned by the donor. However according to al-Asqalani Waqf is to hold an asset that can be used on a condition that the item stays intact and provided that it is channeled towards a permissible profit. While according to al-Qurtubi (1980) waqf is to give wealth and the benefit that we possess in order to subjugate our self towards Allah.

From the explanation given by Muslim jurists, we can say that *waqf* must have characteristic such as *waqf* item must be clear in term of type and ownership. *Waqf* item are not from prohibited source. *Waqf* property must be nonperishable and everlasting. Outcome or profit from *waqf* properties are for the benefit of the public or for specific purpose and *waqf* properties cannot be used for other purpose then what has been stated by the donor. (Baharuddin Sayin 1996)

In the Quran there are no direct commands about *waqf*. However during the time of Prophet Muhammad whereby companion Umar Al-Khatab (r.a) acquire land in khaybar and went to Prophet Muhammad (PBUH) and seeking advice regarding the land. The Prophet further said that the land should be endowed and the profit given to charity (Hadith by Muslim). Therefore, *waqf* is professed as a permanent dedication by Muslim of any property for a good faith purpose that is recognized as being pious or charitable.

There are some opinions saying that *waqf* is exist during the time of Prophet Ibrahim as he endowed the *Masjidil Haram* and surroundings to his children's and grand children's. Other evidence of *waqf* is after the apostolic of Prophet Muhammad (PBUH) as he endowed a land that left by Mukhairiq. (Baharuddin Sayin 1996). There are some of Muslim Jurists saying that the *waqf* system did not exist during *jahiliya* and only form by our Prophet Muhammad thus what it is now known *waqf* is previously charity or alms deeds *Saadaqah Jariyah*. (Dr Hossien Esmaeili 2013)

From historical point of view there is no precise history to identify "What time was the emersion of *Waqf* exactly?" However from some historical surveys we can deduce that *waqf* was originated at the same time of synagogues and shrines emersion which had some vows to consume in charity purposes and restructuring of them (e.g. shrines). So not only *Waqf* was not created by Islam presence, but also it has been a rational deed(Hăshemi Nasab,1999,P.109). Some inductions on this claim are such as, Imam Khomeini in his book said "*Waqf* was common in other nations, even it probably have been common on impious nations" (Khomeini Mousavi, Vol.3, P.81). Dr Abouzohre in his book stated "Before the emersion of Islam, *Waqf* was prevalent in other names. As far as we concerned there were shrines, synagogue and even some mosques (*e.g. Al-Aqsa mosque*) that so many lands and properties were allocated for their maintenance by beneficent people. Therefore we can't assume whose ownership was for some specific people; those lands and properties and the income which was made form them were consumed for people who worshiped in those buildings" (Hăeri Yazdi, 2002, P.44).

Consequently, although waqf has played a considerable role before the emersion of Islam, Islam was the first religion that developed its legal and regulated form. Islamic jurisprudents believe that initial building which consecrated for worshiping was Ka'bah. In addition, along the history, there were so many shrines, synagogues, churches and such these buildings which consecrated for doing religious deeds and ceremonies (Săfi, 2006, P.62). The history of Islam shows that Quba mosque in Medina was the first foundation which was endowed by Prophet Mohammad (Peace be upon him) in 622 A.C. It is stable nowadays but in extending structure (Shakoori, 2007, P.10 & 11). As we mentioned in the topic, this paper is intent on discussing about cash waqf. So in following the most of materials are about cash waqf. Previously, waqf of buildings and lands were the most popular forms of waqf. Nowadays, cash waqf has become increasingly well known particularly because of its flexibility which allows distribution of the waqf's potential benefit to the poor anywhere (Mannan, 1999, P.5).

Although, some historians believe that initial root of cash *waqf* returns back to 8<sup>th</sup> century in Islamic era (Saădat Far; Dădgar, 2008, P.3) - while various questions about the usage of such *waqf* were asked from "Zafar Ibn Hazil" and he answered that those amount of money have to be accomplished by *mudharabah contract* others believe that after emersion of cash *waqf* in Rome, it was firstly introduced in Ottoman era in Egypt (Dian Masyita, P.2). Professor Mannan then socialized cash *waqf* in Bangladesh through Social Investment Bank Limited (SIBL). SIBL issues cash *waqf* Certificate to collect funds from the rich and to distribute gains of the managed funds between the poor (Mannan, 1998, P.10). Like those of Bangladesh, in other Islamic countries, most of people are poor. Therefore, effectiveness of cash *waqf* certificate program to help reduce poverty in Bangladesh gives hope that a similar program can be successfully implemented in other countries. So, by the time, this *waqf* model has developed day to day. These days this model is expanded through most of Islamic and even western countries.

There are two ideas in *Shia* school about cash *waqf*, some jurisprudents believe that it is not acceptable e.g. *Mohaqeq Helli* (Mohaqeq Helli, 1982, Vol.3, P.444), *Sheikh Tousi* (Tousi, Vol.3, P.288) and others are in contrast e.g. *Shahid Săni* (Shahid Săni, 2001, P.520) and *Mămaqăni* (Mămaqăni, 1983, P.322 & 323). The believers of later idea assume that the significant conditions of cash *waqf* accuracy are based on two components 1) to make juridical profit from those cash, 2) and the origin of cash must be survival perpetually. According to precede statements, firstly we focus on *waqf* in general and then discuss on cash-*waqf* in details.

There are three types of waqf. First is religious waqf. This type of waqf usually allocated for mosque and religious school thus the majority of mosque and religious school is fund by religious waqf. Second type of waqf is philanthropic waqf where the waqf is allocated the benefits to public for to support the needy and promote social activity. For example waqf library, education centre, health care, environment care and etc. The third waqf is family waqf. This waqf pointed from parent to their children and heir. (Dr Habibollah Salarzehi 2010)

Waqf can be divided in to two categories that are general waqf and specific waqf. General waqf have the characteristic of sacrifice and charity for the needy and fi-sabililah. This type of waqf does not need the element of acceptance; on top of that the assets directly belong to Allah. The waqf is managed by government and distributed for charity purpose. Specific waqf means group of receiver or beneficiary is stated clearly by the donor, either to a person, to a group of people or to a specific family. Thus the waqf properties will belong to the person stated by the donor, and that person is the only beneficiary of the assets. (Baharuddin Sayin 1996)

Instead of waqf land, the other important and potential waqf is a cash waqf, which has developed considerably since the time of Prophet Muhammad (PBUH). Cash waqf has become increasingly well known due to its flexibility, which allows distribution of the waqf's potential benefit to the poor anywhere (Mannan, 1999). However, cash waqf is not aggressively practiced nowadays due to a certain conceptual argument concerning perpetuity and inalienability.

The study of cash waqf was done by several researchers in recently time. Murat Çizakça (1998) explains that historical evidence indicates that the real exiting potential lies in the cash waqf. The waqf system has provided throughout Islamic history all the essential services at no cost to the state and a successful modernization of the system implies a significant cut in government expenditure and all the associated benefits including downsizing the state sector and a reduction or elimination of riba. Cengiz Toramanet.al.(n.d.), conclude that in a society where health, education and welfare were entirely financed by gifts and endowments, the cash waqf carried serious implications for the very survival of the Ottoman empire.

Islahi (1992), stated that the internationalization of the voluntary institution of *waqf* is needed nowadays, by setting up a non-government Muslim foundation which should provide public goods on large scale and attempt to combat illiteracy, sickness and lack of technical know-how.

Monzer Kahf (1998), explain the importance of *waqf* for socioeconomic development, which is consists of creating and developing a third sector distinct from the profit-motivated private sector and the authority-based public sector, and changing this third sector with the responsibility of performing a group of tasks whose nature will make them better achieved. This third sector assigned in education, health, social and environmental welfare. Furthermore, it can provide defense services and public utilities in many instances.

Chowdhury *et.al.*(2011) explain that cash *waqf* would also help to reform the present institutional setup and their networking throughout the country with a view of increasing their performances. Moreover, Tahir (2010) explains that the *waqf* bank can be applied as the bank of the poor. It is permissible in Islam based on the validity of cash *waqf* and the need of *waqf*, its beneficiaries as well as the society. But, if there is favorable political will and strong support from the government, the institution of *waqf* through the establishment of *waqf* bank will contribute significantly to the society.

Tahir & Hamid (2006) explain that the new formulation of waqf may be realized by making a distinction between the perpetuity of the physical being of the object and a 'dedication' of benefits. New form of waqf can be declared in the non-traditional way. Old waqf, however, may still remain subject to the old conditions as long the greater interests of the waqf are not threatened by these conditions.

Wafa (2010) explains that the impact of developing *waqf* for education in Malaysia not only promoting the significant rule of *waqf* towards the country, but also will (1) promote the third sector of Islamic economic, (2) establish economic activities through several projects, and business, (3) complement the government aid, benevolent and educational programs, and (4) promote the oneness of society.

Cash waqf can be defined as the donation of an amount of money by a founder and the dedication of its usufruct in perpetuity for the prescribe purpose (Abdel Mohsin, M.I. 2008). According to history, cash waqf already started during the time of Prophet Muhammad (PBUH) in that the Prophet's Companion was reputed to have used waqf to donate their farmland for development purposes. The revenue from the land would be solely used for the sake of the development of society. Consequently, cash waqf is targeted to become an effective option for poverty alleviation programs, especially in Muslim countries. These programs require a huge amount of funds, which cannot be provided by the government. In the Islamic socio economy concept the source of social funds, called cash waqf, is economically and politically free of charge. The cash waqf trustee collect the funds from the waqif and invest the money in real sector such as SMEs or in any Islamic based investment firms

In term of education, cash waqf seems to be effective in helping the Islamic education institutions. This has been proven by the success of the education system in Egypt. According to Danna, D.R. (2007), the Al Azhar University was built through the cash waqf fund and invested most of its cash waqf fund to built the storage warehouse at Suez Canal. In addition, the Egyptian government also borrowed the waqf fund from Al Azhar University for government consumption. As a result, the sustainability that Al Azhar has gained proves the effectiveness of the cash waqf fund, even though the university is not a profit oriented institution.

Similarly, the cash waqf in Malaysia has the potential to develop. Muhammad Salleh (2009) said that cash waqf has the potential to promote the development of ummah. He estimated that the cash waqf collection in Malaysia could reach RM4.3 billion a year if each Muslim adult Malaysian citizen donated RM1 a day or RM30 a month to the cash waqf fund. Furthermore, Penang state has a very high potential to develop a cash waqf fund because of its planning and marketing strategy that are used for the promotion of the cash waqf funds. Muhammad Salleh (2009) estimated that the cash waqf fund could reach RM7 million a year, which could create many opportunities for the Muslim community.

In addition, Baharuddin Sayin, et al. (2006), corroborated the cash waqf implementation through Selangor Waqf Shares Scheme, which has a high potential growth. This scheme has encouraged Muslims to implement waqf via cash money while purchasing share units offered by the Selangor State Religious Council (SSRC). The waqf fund collected by the SSRC will be used for the benefit of the Muslim society instead of giving a fair chance for the poor to implement waqf.

Therefore, the idea of establishing an Islamic *waqf* bank purposely design for education financing is very attractive. From conventional bank perspective inclusive PTPTN, these institutions earned by collecting deposits from customers or fund from government and then granting the loans to the customer or student. They also charge transaction fees on financial services, and earn interest on lending. Islamic banks do earn the same but avoid usury, uncertainty (*gharar*), gambling, and investment in prohibited (*haram*) businesses. An Islamic *waqf* bank would do the same in addition they need to comply with rules of *waqf* and avoid all forbidden elements.

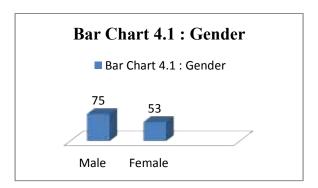
For this, the permissibility of cash waqf and suitability of capital of Islamic bank be considered as waqf as well as its business and structure will be explored in details in his study. There is no primary text in Islamic law prohibiting the establishment of Islamic waqf bank or waqf bank, and almost all waqf issues are rational (ijtihadi). The permissibility of cash waqf can be extended to Islamic waqf bank; and the need of waqf, its beneficiaries, and the general interest of the society or public interest (maslahah amah) demand the validity of Islamic waqf bank.

#### 3. RESEARCH METHODOLOGY

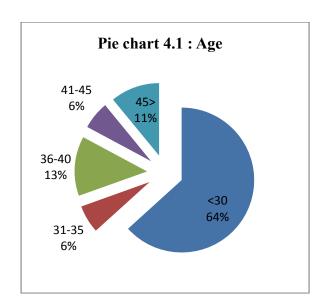
The research methodology used by the research is quantitative method. The method used throughout the research is through the questionnaires as the data collection instrument thus the uses of questionnaires allow us to get information without having to take a long time to acquire data from each respondent. The questionnaire forms would be printed and distributed directly to each of the targeted respondents that live in Klang Valley area. Each respondent must answer all the questions in the form using any stationery in less than 10 minutes. Researcher would randomly choose assigned respondents from various related parties. To analyze the data, there are some methods that should be used. After a thorough survey, data from respondents' answers are analyzed statistically through the use of SPSS version 17. This study will analyze the frequency of each variable in the survey questions, since each respondent has their own evaluation on the issue, which is useful in this analysis. Results of the analysis will determine the level of assessment of each respondent on various aspects of this study.

#### 4. DISCUSSION AND FINDINGS

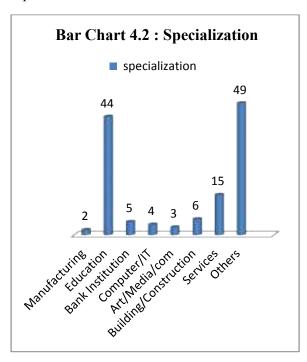
From the survey, below are the descriptive analyses of the respondents. The bar chart 4.1 reveals that male respondent is 75 persons which are 17.2% higher than female respondent, which are only 53 persons.



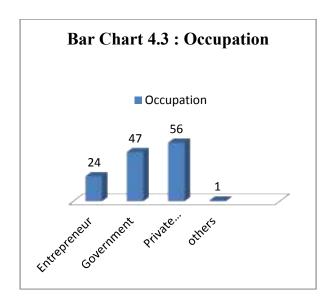
The pie chart 4.1 shows that the respondent aged below 30 years old is the majority respondents (81 people) representing 63.3% out of 128 total respondents, followed by 36-40 years old with 17 respondents or 13.3% of it. Next, respondent with 45 years old and above, 14 persons (10.9%). The last category of respondent is in the age of 31-35 and 41-45 years old, where both are 8 respondents or 6.3% of the total respondents.



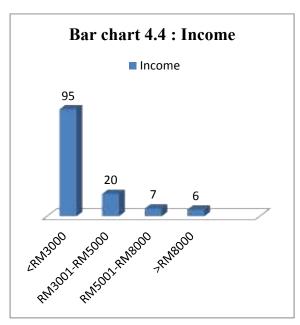
The Bar Chart 4.2 of job specialization indicates that the majority of participants are from others specialization which is 49 people. Comprising of 38.3 %, and followed by education sector, 44 persons which is 34.4% out of total respondents.

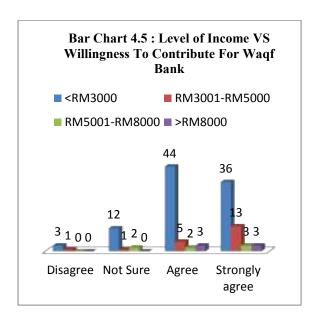


The Bar Chart 4.3, shows that majority of participants are from private enterprise and government sector, which are 43.8% and 36.7% respectively. In the other hand, entrepreneurs and other sector are only 18.8% and 8% respectively.



Based on Bar Chart 4.4 below, the majority of respondents have income less then RM3000 per month or 74.2%. The other respondents have income more than RM3000 or 25.8%.





The above Bar chart 4.5 indicates that there are strong willingness or strongly agreed to contribute for Islamic *waqf* bank from all level of income. Respondents who have income less than RM3000 shows strong willingness to contribute for Islamic *waqf* bank. There are only three participants who disagree to contribute for Islamic *waqf* bank and twelve respondents who are not sure to contribute for Islamic *waqf* bank. Perhaps they have many commitments and do not have enough income to support their basic needs. There are forty four respondent who agree and thirty six respondents who strongly agree to contribute for Islamic *waqf* bank.

Respondents with income between RM3001 and RM5000 also show strong willingness to contribute for Islamic *waqf* bank. There are only one person who disagree and one person who not sure to contribute for Islamic *waqf* bank. This is probably because of the low confidence over the mechanism for collecting the fund. There are five respondents who agree and thirteen respondents who strongly agree to contribute for Islamic *waqf* bank.

Respondents with income between RM5001 and RM8000 also have strong willingness to contribute for Islamic *waqf* bank. There are only two respondents who not sure to contribute for Islamic *waqf* bank due to lack of general knowledge about *waqf* itself. The other two respondents are agreed and three of respondents are strongly agree to contribute for Islamic *waqf* bank. Furthermore respondent with income more than RM8000 are all agreed to contribute for Islamic *waqf* bank.

This research shows that the level of income does not affect the willingness of Muslim community to contribute for Islamic *waqf* bank. The only reasons that they did not want to contribute for Islamic *waqf* bank is lack of knowledge about *waqf* and lack of trust for the people who represent as an agent for Islamic *waqf* bank to collect *waqf* donation.

#### 5. CONCLUSION

General findings out of this article shows that each and every level of income willingly to contribute for Islamic waqf bank. It is because each and every one of them is aware of the important of education and how Islamic waqf bank will support their child in the future. The willingness of each Muslim to

contribute in Islamic waqf bank is very high thus will lead to the establishment of Islamic waqf bank. Since education is very important for the development of human capital and achievement of economic well-being for oneself, society and nation at large, the idea of establishing an Islamic waqf bank which designed for education financing is very attractive and timely. The permissibility of cash waqf and suitability of capital structure of Islamic bank can be considered as waqf instrument in solving the financing problem of students.

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  List of Specific and General Waqf can be derived from official website of Jabatan Zakat, Wakaf dan Haji, Jabatan Perdana Menteri (<a href="www.jawhar.gov.my">www.jawhar.gov.my</a>) (2013)
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#### CASH WAQF MODELS FOR FINANCING IN EDUCATION

Muhammad Ridhwan Ab. Aziz<sup>1</sup> Fuadah Johari<sup>2</sup> Mohd Asyraf Yusof<sup>3</sup>

#### **ABSTRACT**

Cash waqf is a trust fund established with money to support services to mankind in the name of Allah. The gifted capital was "transferred" to borrowers for certain period, which was then spent for all sorts of pious and social purposes inclusive for the investment objectives. It is recognized that there is no ample study in the area of cash waqf. Again literature is very scanty relating to the cash waqf area especially for the establishment of Islamic financial institution for financing in education. The main objective of this paper is to examine and compare various cash waqf models as proposed by many Muslim scholars. The methodology of this paper is a qualitative research through document analysis of relevance references pertaining to cash waqf models. The general finding of this article shows that there is possible structure for waqf instrument that can be implemented in the future for the financing of education. It is expected that with a proper mechanism of waqf financing provided by specific Islamic financial institution, it is able to benefit many parties in getting financing facilities as well as for investment purposes that may attain the both objectives of this world and the Hereafter.

**Keywords:** Wagf, Cash Wagf, Islamic Bank, Islamic Financial Institutions

#### 1. INTRODUCTION

The word waqf is derived from the Arabic root verb "waqafa" means 'causing a thing to stop and standstill'. It also takes the meanings of 'detention', 'holding' or keeping. Waqfwhich (pl. Awqaf) is called Boniyad in Iran and Habs (pl. Ahbas) in North and West Africa. However, by taking its different meanings into consideration waqf can be applied to non-perishable property whose benefit is extracted without consuming the property itself. Although, waqf is not specifically mentioned in the Holy Quran, the concept of wealth distribution is strongly emphasized therein (Chowdhury et.al., 2011). Distribution of wealth is a key issue in the modern economy to make it more dynamic, prejudice free and entrepreneurial. However, a hadith narrated by Abu Hurairah [May Allah be pleased with him (Ra)] is considered as the origin of this institution in the world of Islam. "Abu Huraira (Ra) reported Prophet Mohammad [Peace be upon him (Pbuh)] as saying: when a man dies, all his acts come to an end, but three; recurring charity (sadaqah jariyah) or knowledge (by which people are benefited), or a pious offspring, who prays for him" (Reported by Muslim, No. 4223)

Generally, waqf can be classified into several categories on the basis of three diverse aspects that is, timing, purpose and the object of waqf (Jalil and Ramli, 2008).

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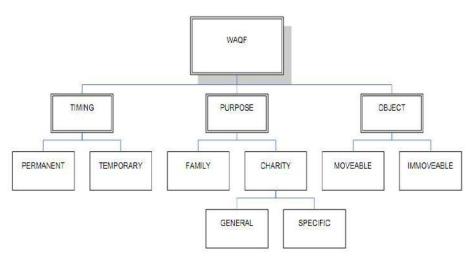


Figure 1: The Categories of Waqf in Islamic Jurisprudence

From *shariah* point of view, *waqf* may be defined as holding a maal (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness or philanthrophy. this definition also covers several news forms of *waqf* that were not discussed in the classical literature, such as the *waqf* of financial rights and *waqf* of usufruct, are covered by the definition of the word *Maal* (asset) according to the majority of fuqaha' and as expressly mentioned in the collective fatawa, especially tha OIC Fiqh Academy(Monzer Kahf, 1998). The contemporary jurists also justify the validity of the cash*waqf*, because it is in the interest of the *waqf*, its beneficiaries and the society (Tahir, 2011).

In addition waqf assets can also be immoveable or moveable (e.g. cashwaqf). In cashwaqf alwaqif (donor) endowed cash instead of realestate. Cashwaqf begin in primeval Mesopotamia, Greece and the Roman Empire. In fact, in the eighth century, Imam Zufar had approved cashwaqf in the Islamic World for the first time. According to him cashwaqf would be invested through Mudarabah and profits would be spent for charity. Nevertheless, cashwaqf did not expand and mature until the 16th century and after that century it became popular, especially among the ottomans. Although there was controversy on the legality ofcashwaqfamong the Shariah scholars but thousands of cashwaqf continued to be endowed. In particular, cashwaqfwas supported by the Ottoman Sultans, because funds were financed in the expansion of Islam in Europe (Cizakca, 2004, 2010).

Therefore, many Muslim did not get chance to participate in waqf endowment because there is a wrong perception among Muslims that there may be waqf endowment through only land not in cash. They believe land can fulfill the three conditions of waqfsuch as perpetuity, irrevocability and inalienability. However, land may be subject to demolition, destruction due to the natural calamity and waqf will only last till its value exist (Mohammad, 2008). Through proper cashwaqfmanagement, it is easily possible to holdwaqf value as well as value enhancement. As a result, those who do not have land can participate in endowment through cashwaqf. In addition, nowadays people have more choices for waqf by including cash into waqf.

Furthermore, cashwaqf is far more important since it is more productive compared to land, buildings, books, cattles and so on, as it is testified by the existing research studies and have been found profitable in the practices of modern Islamic financial system. In fact, in cashwaqfthe amount or value of the waqf is not an important issue, rather it is worthy to involve whole ummah in the process of waqf, so that everyone irrespective of financial condition could be involved by contributing as little as a cent within the prescribed systems of institutionalizing

the concepts under government or private initiatives and guidelines provided by Islamic doctrines. Because, it is not only the preserve of the wealthy (Chowdhuryet.al, 2011). That is anyone, subject to certain *Shariah* conditions, can be *al-wagif* (donor) through cashwagf.

# 2. CONCEPT OF CASHWAQF

Cashwaqf are charitable endowments established with cash capital. What distinguishes these from the standard real estate endowments is the nature of their capital, corpus, which is in the form of cash. The corpus of the real estate waqfs, by contrast, is in the form of real estate. Thus, whereas a well to do Muslim normally endows his real estate and channels its rent revenue for charity, in the case of a cashwaqf, not real estate but cash is endowed and the revenue generated out of the investment of this cash is then channelled for charity(Murat Cizakca, 2004).

Cashwaqf can only be distributed and allocated for anything not against Sha'riah Law. This form of waqf provides opportunities for facilitating its participation in social development (Tanim Laila, Undated).

- a) Mass Participation: It provides an opportunity for participation of all segments of the Muslim society and not just the wealthy Muslims, like in the case of real property *waqf*. This gives every interested Muslim a chance to participate, contribute with whatever means he has to offer, even with the simplest amount.
- b) Rightful Utilization: cashwaqf scheme can gather the scatteredendowments to create a common fund to maximize its utilization rather than the endowment being spent in mere consumer consumption. This lends itself to employ an efficient management scheme of moder n financial system and thereby protect waqf being destroyed by incompetent Mutawallis.
- c) Social and Economic Development: Such a scheme can enhance the government's national development plan for poverty eradication and social services through co-ordination. In fact the fund raised by cashwaqf scheme can be used to fund microfinance projects which are currently funded by high interest rate and charges.

Dunya listed the significances of cashwaqf as: (a) compare to immovable property many members of the public have cash.(b) cashwaqf is the best way for a joint waqf(waqf mushtrak/waqfjuma'i), thus, it can attract finance for the development of diverse and big projects. (c) cashwaqf can be invested in diverse economic activities, and therefore greater revenue can be expected. (d) It can be for any objective, and any social purposes. (e) The chances for the growth of this waqf are higher. Maiman added that it is easily liquefiable compare to realty(Tahir, 2011).

Ammar further listedthe benefits of cashwaqf. They are: (i) currency as the benefits or replacement of coins is the medium for exchange of goods. (ii) Currency is replaceable with similar (i.e. it is a mal mithli).(iii) cashwaqf enables everyone to donate as waqf, whereby the poor and needy can benefit from the abundance of resources. (iv)cashwaqf is capable of creating more economic stimulus, and it can be a welfare fund used to sponsor many educational, social and health projects. To sum, the coins of the old, the paper currency of today,or any other form of liquid asset, under modem banking practice, can be the object of waqf. For the purpose of loans and investment, currency will be more useful to a bank, while other forms may end up in non-liquefiable asset, unless prudent deeds of waqf are in place, empowering the bank touse certificates of shares, sukuk and others as currency(Tahir, 2011).

#### 3. LITERATURE REVIEW

The study of cashwaqf was done by several researchers in recently time. Murat Çizakça (1998) explains that historical evidence indicates that the real exiting potential lies in the cashawqaf. The awqaf system has provided throughout Islamic history all the essential services at no cost to the state and a successful modernisation of the system implies a significant cut in government expenditure and all the associated benefits including downsizing the state sector and a reduction or elimination of riba. Cengiz Toramanet.al. (undated), conclude that in a society where health, education and welfare were entirely financed by gifts and endowments, the cash awqaf carried serious implications for the very survival of the Ottoman social fabric.

Islahi (1992), stated that the internationalize the voluntary institution of *awqaf* is needed nowadays, by setting up a non-government world Muslim foundation which should provide public goods on large scale and in much more significant fashion than has been the case up till now, to combat illiteracy, sickness and lack of technical know-how.

Monzer kahf (1998), explain the importance of *waqf* for socioeconomic development, which is consists of creating and developing a third sector distinct from the profit-motivated private sector and the authority-based public sector, and changing this third sector with the responsibility of performing a group of tasks whose nature make them better achieved. This third sector assigned in education, health and social and environmental welfare. Furthermore, it can provide defense services and public utilities in many instances.

Chowdhury et.al.(2011) explain thatcashwaqf would also help to reform thepresent institutional setup and their networking relationship throughout the country with a view to increasing their performance in the direction of the efficient and need based dynamic management of the waqf affairs and systems which total policy dimensions at micro and macro mixed with the diversified objectives of innovations and development in the waqf management systems complying with the Shariah guidelines.

Again Tahir (2010) explains that the *waqf* bank can be applied as the bank of the poor. It can be permissible in Islam based on validity of cash *waqf* and the need of *waqf*, its beneficiaries as well as the society. But, If there is favourable political will institution of *waqf* through *waqf* bank contribute to society geatly. The institutions of *waqf* have the unrealized potential to establish a *waqf*Bank.

Tahir & Hamid(2006) explain that the new formulation of waqf may be realized by making a distinction between the perpetuity of the physical being of the object and it is not 'dedication' of benefits. New form of waqf can be declared in the non-traditional way. Old waqf, however, may still remain subject to the old conditions as long the greater interests of the waqf are not threatened by these conditions.

Wafa (2010) explains that the impact of Developing *Waqf* For Education In Malaysia not only promoting the significant rule of *waqf* towards the country, but also will be impact to (1) promoting the third sector of Islamic Economic, (2) establishing economic activities through several projects, and business, (3) complementing the royal aid development, benevolent and educational programs, and (4) promoting the oneness of society.

#### 4. MODELS OF CASHWAQF FOR EDUCATIONAL FINANCING

The permissibility of cashwaqf can be extended to waqf bank for several reasons. (1) waqfissues are rational (ijtihadi), (2) The Utility of a Waqf Bank, (3) Compliance of the Structure and Operation of a Waqf. Thus, the establishment ofwaqf bank could be allowed for the benefit of waqf, its beneficiaries, and also public interest of(maslahah) as long as it is not against Shariah principles. The function of cashwaqf can be the function of a waqf bank through loans to the needy, and investment onmudarabah,mu'malah, and ijarah. If a wider application is given to the idea, a waqf bank can use such cashwaqf for the same purposes(Tahir, 2011).

# 4.1. Waqf Bank Model 1

As a rule, productive *waqf* must be kept invested and income generating, which can be best achieved by going to the business of banking. The contemporary Islamic banking practice provides evidence of successful cash investment methods that are not only good for expecting good returns on the investment but also protection of the capital which will be discussed in due course.

Additionally, the bank will use cashwaqf for its capital according to fiqhi principles in its operations (both loans and investment). Therefore, the core characteristic of waqf i.e. perpetuity of the object or the capability of recurrent use and benefit, would apply to both the cashwaqf and waqf bank alike.

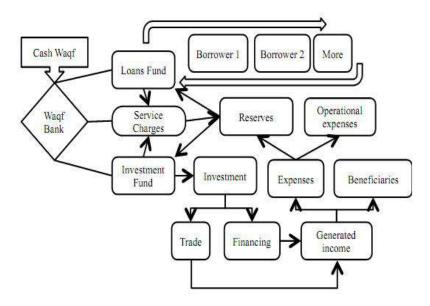


Figure 2: Waqf Bank Model 1

Fig. 1. Waqf Bank's Proposed Structure and Operation

First, the bank can be entrusted with cashwaqf or collect cashwaqf from the public for special purposes disclosed and easily available to the donating public. Once such deposits are made, the bank can disburse the cash, which is dedicated for loans, to the indebted, for marriage, and for any other welfare project. As borrowers settle a loan, the repaid amount can be once again loaned to another. This will be repeated whenever an amount is available in the given fund. The cash can be maintained perpetually, provided compensations for losses and market fluctuations are planned and paid. For this, a special account called the reserves account will be needed. As

the Loan's Fund will be disbursed interest free, minimum service charges will be imposed on borrowers, a proportion of which can be for making good on losses and damage suffered by the fund.

Second, the waqf bank can be entrusted with investment deposits or its own waqf capital. The same as cashwaqf, the bank has to operate the entrusted capital in an income generating business. This capital is not to be used for purposes other than investment; its protection and growth will be the main function of the bank. Such funds are established to use its income for the benefit of the society or the purpose for which the donors have dedicated them. Therefore, the capital has to be invested in any permissible transaction capable of generating income. The waqf bank can use all these modes. This is particularly true in the case of cash, which is not donated to be disbursed for loans. In other words, the bank will use cash the income of which is dedicated for welfare, in the majority of its investment transactions.

The bank will benefit waqf, and its beneficiaries, as it can provide adequate capital to waqf institutions. It can attract a large sum of cash, both waqf and non-waqf. It is possible that the mission and the ethical system of the bank will attract many individuals and entities either to donate or to save and earn profits.

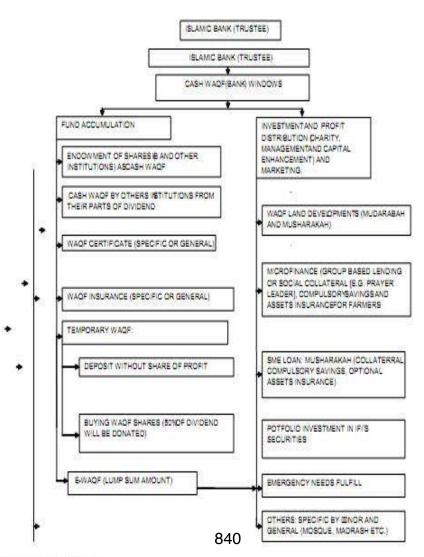


Figure 3: Waqf Bank Model 2

Figure 2. Cash WAQF model.

In doing so, the mechanism of this figure is as follows;

First, Islamic Bank will act as a trustee for cashwaqf. It will supervise and monitor the collection of waqf fund, investment and distribution of profit to the charity activities. Although, Islamic Bank will monitor all activities of waqf, but actual financing, investment and profit distribution will be done under proper management of its cashwaqf windows. If in the future the windows activities expanded in a large extent, then it would be operated as a separate waqf Bank.

Second; The mentioned techniques in the cashwaqf Model can be used to raise cashwaqf fund. It requires diverse techniques because different al-waqif (donor) prefers dissimilar way of cashwaqf endowment. The techniques as follows; (1) Endowment of shares (Islamic bank and other institutions) as cashwaqf, (2) cashwaqf by other institutions from their parts of dividend, (3) waqf certificate, (4) waqf insurance, (5) temporary waqf, (6) deposit without share of profit, (7) e-waqf.

Third,in term of investment, the use of cashwaqf fund in the best Islamic mode of financing, such as Musharakah, diminishing Musharakah and Mudarabah, or a combination of both two. In doing so,waqf fund should be used to finance pious people and other IFI's, basically for two reasons. Firstly, al-waqif donates money not only to help poor people but also to get reward hereafter or to satisfy Allah and secondly, honesty is very important for successful Musharakah and Mudarabah contract. The investment can be invested through waqf land developments, microfinance, small and medium enterprise (sme) loan, portfolio investment in Islamic financial institution's (IFI's) securities.

Fourth,the profit distribution should be distributed according to the donor's will. However, if he assigns the responsibility to the bank, then it can be distributed in three ways: (1) to charities such as mosque, *madrassah*, poor, socialactivities, training of youth, marriage for poor girl,religious education etc, (2) to management includes maintenance, managerial expenses and future development and capital enhancement, (3) to marketing because when there is any natural disaster (emergency needs fulfill) or illness etc. then through publicity by television,radio or newspaper it is always easy to raise donated fund. So through proper marketing policy it is possible to encourage people to endowed more cashwaqf.

#### 5. CONCLUSSION

From the discussion above, the general finding of this paper shows that there is possible structure for *waqf* instrument that can be implemented in the future to the education financing. Again the discussion about cash*waqf* needs to be more extensive to find the best system and model to establish the development of country.

Because of education is very important for the development of human capital and achievement of economic well-being for oneself, society and nation at large. In doing so, the idea of establishing an Islamic waqf bank which designed for education financing is very attractive. The permissibility of cash waqf and suitability of capital of Islamic bank can be considered as waqfas well business with good structure to solve the problem of students in his education financing. Its also can be extended to Islamic waqf bank and the need of waqf, its beneficiaries, and the general interest of the society or public interest (maslahah) demand the validity of Islamic bank.

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# DEMONSTRATING ACCOUNTABILITY THROUGH ACCOUNTING AND REPORTING: LESSONS FROM AN *AWQAF* INSTITUTION OPERATING IN A NON-ISLAMIC SOUTH EAST ASIA COUNTRY

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#### **ABSTRACT**

The accountability literature is growing remarkably specifically on the role played by accounting and reporting in not-for-profit, religious-based organizations and its implications for the accountability discourse. Consistent with such stream of research and with the aim of exploring the intertwined nature of accounting, reporting and the religion of Islam, we examine in this exploratory research, how management, accounting and reporting are being practiced and how these "official exercises" provide systematic essences in the organization's accountability trajectory. Focusing on a single awqaf institution (waqf-S) operating in a non-Islamic South East Asia country, our analysis allows us to observe the influence of multiple factors influencing its organizational-wide accountability policy. We consider this as a contribution to the literature as it generates knowledge on how management, accounting and reporting are being devised as strategic tools in the institution's accountability policy framework, beyond the normal office management, financial data recording and disclosure per se. The multiple factors effectively drive the structured and transparent reporting by waqf-S to transcend beyond the traditional financial accounting and reporting boundary of meeting regulatory requirements; it reaches the concern of ensuring the necessary accountability towards stakeholders are appropriately observed and consistently uphold.

**Keywords** - Awgaf, Islamic endowments, accountability

#### 1. INTRODUCTION

Awqaf (Islamic endowments) is receiving increased attention and interest by the *Ummah* (Muslim community) due to its proven socio-economics contributions of providing wide range of public goods. During the Islamic *Ottoman* era for instance, awqaf plays important roles as a bank, free education

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provider, healthcare and other social services in many Muslims Nations. The cash *awqaf* fund complements *zakat* (Islamic tithe) fund and was used as financial aid to the poor and needy, besides financing the construction of public infrastructures (Saduman and Aysun, 2009). The most prestigious *awqaf* institution in the world which remains until today is the *Al-Azhar* University in Egypt which was established on endowment basis thousand years ago. It has produced and still producing thousands of religious scholars scattered throughout the world. Many other products of *awqaf* system are however, noticeably vanished as a result of various factors including but not limited to mismanagement, colonization and imperialism (Deguilhem, 2003; Hidayatul and Shahul-Hameed, 2011).

Given the nature of endowment which requires trust and integrity as well as the economic importance which the *awqaf* system carries, the observance towards accountability by *awqaf* managers are therefore imperatively crucial. The sustainability of *awqaf* institutions greatly depends on prudent management and administration. Specifically, *awqaf* managers must ensure that *awqaf* deeds are honoured and the *awqaf* usufructs reach the intended beneficiaries. Extant *awqaf* literature indicates that the accountability aspects of *waqf* trustees or managers are still lacking due to several reasons. Among others it includes unqualified human capital, insufficient resources to maintain and develop the *waqf* properties, mismanagement of *waqf* funds, and lack of transparency (Hidayatul and Shahul-Hameed, 2011; Shahedur, Aftekhar, Zulkifli *et al.*, 2012; Siti-Rokyah, 2004). The accountability literature has also been relatively scant on the role played by accounting and reporting in *awqaf* institutions which are considered as not-for-profit, religious-based organizations. Accordingly, the plausible implications for the accountability discourse in the religious context remain unexplored. This is with the exception of very limited studies focusing on Malaysian cases (e.g. Hidayatul and Shahul-Hameed, 2011; Hairul-Suhaimi and Hisham, 2011; Siti-Rokyah, 2004).

Drawing from the accountability literature and setting management, accounting and reporting as strategic accountability devices in our intellectual framings, we embark on an exploratory study which examines the contemporary management, accounting and reporting practices of waqf-S. The aim is to explore the intertwined nature of management, accounting, reporting and accountability in the awqaf context. We build up the understanding of how management, accounting and reporting are being practiced and how these "official exercises" provide systematic essences on the organization's accountability trajectory. Specifically, our exploratory research is guided by the following objectives of (1) to review, understand and document the contemporary waqf-S management, financial accounting and reporting practices; (2) to understand relevant drivers behind the current accountability culture in waqf-S.

By adopting a qualitative approach of a case study, necessary data were collected from semistructured interviews, archival documentation review and analyses. Physical observations on randomly selected *awqaf* properties were also conducted with the aim of eliciting primary data. Further, secondary data were also gathered from the institution's annual reports, related news and other publications. By focusing on a single *awqaf* institution operating in a non-Islamic South East Asia country, our analysis enables us to observe the influence of multiple factors influencing *waqf*-S's organizational-wide accountability policy.

Our exploratory inquiry finds that waqf-S is a highly regulated institution and its awqaf funds and properties are professionally managed. Its accounting and reporting practices are comprehensively governed by relevant legislated Acts. Its annual financial statements being the prime means of communicating accountability to stakeholders are found to be systematically and timely produced and audited yearly, both internally and externally. The relevant disclosures reveal that usufructs were systematically distributed to the intended beneficiaries. Transparency by waqf-S is further improved as its annual reports are being made available on-line on its corporate website. Ironically, these materialized despite the institution is currently operating within human resources constraint. The results of our semi-structured interviews suggest that the culture of accountability observance in waqf-S is driven by three strategic factors of regulatory, stakeholders' demands and religious image.

We consider our research endeavor as a contribution to the literature as it generates knowledge on how management, accounting and reporting are being devised as strategic tools in the institution's accountability policy framework, beyond the normal office management, financial data recording and disclosure *per se*. The institution's structured and transparent reporting primarily transcend beyond the traditional financial accounting and reporting boundary of meeting regulatory requirements; it reaches the concerned with ensuring accountability towards stakeholders is observed and uphold. The remainder of the paper is structured as follows. Section 2 revisits discussions on *awqaf* which provides brief introduction to the Islamic endowment concepts and practices (past and current). Section 3 describes the link between accounting, reporting and accountability in the specific context of Islam and *awqaf* institution. We then proceed to explain our adopted research approach and techniques in section 4, followed by results in section 5. Final section summarizes and concludes the paper.

#### 2. AWOAF REVISITED

Awqaf (singular: waqf) is literally defined as the holding of assets and the distribution of its usufruct to others (Hairul-Suhaimi and Hisham, 2011). Its operations are closely connected to the concepts of "confinement" and "prohibition" in which when a particular awqaf asset is given out as awqaf, its ownership is regarded as "belong to God-Allah" and therefore "prohibited" from being taken private or even transferred to government ownership (Hashmi, 1984; Hassan, 1984; Kahf, 1998; Qasmi, 1999). The awqaf asset's usage is also "confined" to the predetermined purposes identified by waqif (awqaf asset's donator). The management of awqaf assets can be in the form of direct and indirect. The former means that awqaf assets are managed by the donator himself/herself while the latter involves the appointment of third party called "mutawalli" or waqf manager.

Awqaf system is pillared by four elements (see Gaudiosi, 1988) namely (1) waqif (the donor); (2) mauquf (the assets); (3) mauquf-alaih (beneficiaries); and (4) al-sighah (waqf deeds or contract). Islam requires waqif to be of sound mind and intellect when giving out his/her assets as waqf which assets must also be wholly and legally owned by the waqif. The beneficiaries are required to be clearly identified and the waqf deeds are required to be drawn in the case of indirect form of awqaf management as it acts as a governance device in any eventualities of dispute between the appointed mutawalli and relatives or descendants of the waqif. Awqaf literature (e.g. Fyzee, 1974; Zarqa, 1947) further outlines specific conditions enforcing the validity of awqaf transactions which includes (1) perpetuity—assets are given out perpetually; (2) objectives—waqf purpose(s) is clearly stated; (3) irrevocable—agreed awqaf transactions are final, unless by consensus or fatwa (religious decree) for istibdal (change of property with a similar value or location). Waqf is different from zakah (Islamic tithes) in the sense that the latter is compulsory to all able Muslims while the latter is absolutely voluntary. However, awqaf is a highly recommended act as in the following verse of the Qur'an:

"By no means shall ye attain righteousness unless ye give (freely) of that which ye love; and whatever ye give, of a truth God knoweth it well" (Qur'an, 3:92).

Although *awqaf* is not specifically mentioned in the Qur'an, it falls under the on-going or recurring *sadaqah* (donation) classification. Good deeds will continue to be rewarded even after the donator is passed away as per the *hadith* (sayings of Prophet Muhammad, peace be upon him) narrated by *Abu Hurayra*:

"When anyone dies, his acts come to an end, except three, regular (recurring) charity, knowledge which he has imparted to other or a God fearing (pious) child who makes supplication for him".

Awqaf exist in different form namely (1) waqf al-khayr; (2) waqf khas; (3) waqf fi-ahli or waqf al-aulad (posterity waqf); and finally (4) the cash waqf (Kahf, 2003). While the usufruct from waqf al-khayr is open for any beneficiaries and thus it can be distributed to any religious purposes or social

benefits such as education, healthcare and public utilities, usufruct derived from waqf khas on the other hand can only be distributed according to the specific objectives stipulated in the waqf deeds. Waqf fi-ahli allows only a small proportion of its usufruct to be distributed to others while the remaining larger portion is meant for the waqif's dependents and posterity. This effectively ensures that closed relatives being the beneficiaries are taken care of after the waqif died. This closely resembled the concept of "trust" which is common among non-Muslims.

Unlike the previous forms of *waqf* which involve illiquid assets, the cash *waqf* refers to the collection of cash money or funds (Hoexter, 1998; Hairul-Suhaimi and Hisham, 2011; Sadeq, 2002). Modern approach to managing cash *waqf* entails the investment of principal amount collected and any returns are subsequently used to cover operational and distributional costs according to the pre-agreed *waqf* deeds. The money is commonly used for general purposes such as aid for the poor and needy (Cizakca, 1998), educational assistance (Van-Leewun, 1999) and even for healthcare maintenance for the chronic diseases patients (Yedyyildiz, 1996).

# 3. SHOWCASING ACCOUNTABILITY THROUGH ACCOUNTING AND REPORTING IN AWQAF

Accountability is a derivative word of "accountable" which root word is "count" and its secondary word is 'account'. Bovens (2007) argues that accountability is originated from the *Anglo-Norman* period and it is closely connected to "accounting" as it also means book-keeping. The accountability concept according to Bovens (2007) could be traced back to William-I reign during which the Norman conquered England in 1066. He then ordered all the landlords to provide 'a count' of their possessions and subsequently used for taxes and to strengthen royal governance (Bovens, 2007). In a modern context, accountability implies the need for equitable and transparent reporting to all users covering both financial (e.g. financial statements) and non-financial information (e.g. explanatory narratives) (Patton, 1992; Yasmin, Haniffa and Hudaib, 2013). Accounting and reporting are therefore considered to be one of the most important devices for accountability (Tower, 1993; Connolly and Hyndman, 2004).

In view that charitable environment like *awqaf* operates within the parameters of trust and integrity, accountability observance by *awqaf* managers is thus not an option. As *mutawalli*'s responses towards prudent management and transparent reporting greatly affect the sustainability of *awqaf* institutions, accounting and reporting are therefore considered as the most important device for *mutawalli* to discharge his/her accountability obligations (Hairul-Suhaimi and Hisham, 2011). Transparent reporting in charitable environment effectively increases public confidence (Perrin, 1985) whilst facilitating stakeholders' strategic evaluation which forms the basis of their decision of supporting the charitable institution or otherwise (Hooper, Sinclair *et al.*, 2008).

Prior studies examining the actual reporting practices of charitable entities and its linkages to accountability are primarily concentrated in a non-Islamic context (e.g. Connolly and Hyndman, 2004; Connolly and Dhanani, 2006; Dhanani, 2009; Dhanani and Connolly, 2012; Hooper *et al.*, 2008; Yasmin *et al.*, 2013). The accumulating research essentially investigates the reporting of non-Islamic charitable entities based on information disclosure found in the organization's annual reports. Results from these prior studies generally reveal significant differences in reporting and disclosure practices across the selected samples charitable institutions and alarmingly, majority did not even meet basic accountability criteria in reporting. Results on prior studies also indicate that charitable institutions mainly report basic information representing fiduciary accountability covering probity and compliance, consistently deemphasizing reporting on information related to managerial and operational performance (e.g. Connolly and Dhanani, 2006; Dhanani, 2009).

Limited prior studies have also been conducted in the Islamic environment. Hairul-Suhaimi and Hisham (2011) for instance examine *mutawalli's* accountability from the lens of management, accounting and reporting using Stewart (1984) accountability ladder and found that a lot of

improvements are needed for the selected Malaysian *awqaf* institution to fulfill both its primary and secondary accountabilities. Consistent with results found in prior studies in the non-Islamic context, Hidayatul and Shahul-Hameed (2011) found that transparency and efficiency of two selected Indonesian *awqaf* institutions are significantly different. The disparity in reporting practices are found to be attributed to different management style and human capital availability. Recent study by Yasmin *et al.* (2013) mirrored earlier study by Hairul-Suhaimi and Hisham (2011) albeit in a different research setting. Using the same research framework of Stewart (1984) accountability ladder, Yasmin *et al.* (2013) compare the reporting of Christian and Islamic based charity organizations in England. Results indicate that the UK sample charity organizations treat the exercises of disclosing mandatory information in their financial reports as merely rituals affairs, thereby neglecting the specific information details therein. The study further identifies donors' trust, informal organisational structure with concentrated decision making power, manpower expertise and costs being the contributing factors towards the lack of communicated accountability among the selected charitable entities.

#### 4. RESEARCH METHOD

Consistent with the established research objectives, this study adopts the qualitative research approach of case study research involving semi-structured interviews and archival documentation review and analyses. The relevant documents include *waqf*-S annual reports, related news and other relevant, publicly available government publications. This method allow the study to understand complex phenomenon involving human interaction and organizations (Yin, 1994) whilst enabling the collection of rich data (Firestone, 1987) and allowing contextual analyses in understanding occurring phenomena in the selected sample organization (Moore, 2000). In view that quantitative research approach and measurement provide limited explanatory ability towards specific social phenomenon in the natural settings particularly those involving human, qualitative approach of case study research is thus preferred as it provides appropriate research platform for the researcher to explore or describe phenomenon in context using a variety of data sources (Baxter and Jack, 2008).

The sample waqf institution selected for this study is coded as waqf-S which actual name is withheld for confidentiality reason. This is the condition which current study has to agree and honour when the institution agreed to become our research sample. Waqf-S is selected as a sample in this study on the basis of purposive sampling method. This judgmental or convenience sampling approach is chosen premising on the fact that it addresses notable weaknesses (management, accounting and reporting) associated with samples chosen in previous awqaf-accountability studies. According to the operational review of waqf-S presented in the international waqf seminar held in the country in which waqf-S is operating, managerial and operational weaknesses in terms of human capital, awqaf assets management as well as transparency and awqaf reporting infrastructure are claimed to be minimal and in some cases are not present. The operations of waqf-S have also been acknowledged by various scholars in many international awqaf conferences and seminars as the best in the world.

To elicit important data which is non-observable explicitly from the relevant published documents, semi-structured interviews which refer to face-to-face conversation between the researcher and the respondents were conducted. Electronic recording device was used to record the conversation and the transcription is kept in separate electronic data storage for further analysis in deriving important meanings and themes (Baxter and Jack, 2008) besides for future reference. This also reduces potential error risks and misinterpretation of the conversation (Leonard and McAdam, 2000). The interviews were conducted with the Assistant Director of waqf-S (Ms. S) and the Executive Officer (Mr. X) which was held in waqf-S's head office located in the city centre of the Country. A corporate video was also shown during the interview highlighting waqf-S recent activities. Prior to the interview sessions, published financial statements of waqf-S for eight years period (from 2004 to 2011) were downloaded from its corporate website and descriptive statistics were conducted. It covers four main accounting statements namely (1) Statement of Income and Expenditure; (2) Balance Sheet; (3) Cash Flow Statements; and finally (4) awqaf assets register.

#### 5. RESULTS AND DISCUSSION

### 5.1 Administration and management

Waaf-S is operating in a modern and most developed nation (Coded country-S) in the South East Asian Region. Muslims only constitute a fraction (less than 30%) of the country-S's population. Whilst Islam is not its official religion, two of its closed neighboring countries are populated by Muslims and Islam is documented as the official religion in their respective constitutions. The regulatory framework governing awqaf in general and waaf-S in particular in country-S is notably comprehensive and well established. The first awqaf legislation was passed by the colonial authority in 1905 and it was provided under the "Muhammadan and Hindu Endowments Ordinance" (chapter 27). The chapter explicitly defines awqaf concept and its different types, institution responsible of managing it [Islamic Council (IC)] and the provision allowing IC to be corporatized. It also outlines other responsibilities of IC including the administration of other Islamic related activities of collecting Islamic donations (e.g. tithes), arranging the Muslims' pilgrimage to Mecca and the administration of mosques and religious schools in country-S.

Supplementing the Ordinance is the parliamentary act of "Administration of Muslim Law Act" (thereafter "The Act"). Specific provisions related to awqaf in the Act could be seen in Section 59 which empowers IC to administer all awqaf assets in the Country. The regulatary apparatus was further strengthened in 1995 during which it was amended to require all awqaf in the Country to be registered under IC. This is to avoid any discrepancies due to poor management and selling of awqaf properties without IC's knowledge. In keeping with modernity and subscribing to the decentralization philosophy, the administration and management of all awqaf properties are put under the purview of specific management unit called "Zakat and Wakaf Strategic Unit". Other matters such as the selling and development of awqaf properties are handled by the IC and the specific established committees. Whilst the Fatwa Committee decides on any arising shari'ah issues, the Investment Committee oversees the purchase, investments and any financial obligations of waaf-S. Strict internal control is noted to be in place whereby any transaction that exceeds five million in currency value will require the appropriate approval by the minister in-charge of Islamic affairs. The following figure 1 depicts waaf-S's organizational structure (as in 2012).

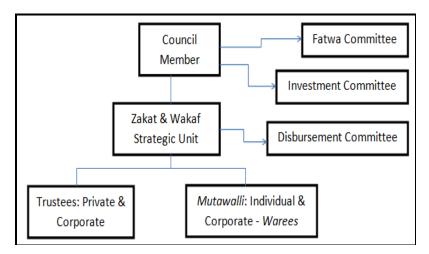


Figure 1: Waqf-S Organizational Structure (source: Waqf-S website)

Waqf-S is a separate body created under the Zakat and Wakaf Strategic Unit and acts as a regulatory body to ensure compliance by trustees and mutawallis. The Act also requires all trustees and mutawallis to submit annual accounts for monitoring and control purposes. According to our documentation review, whilst private trustees are mostly the relatives or descendants of the waqif, only one corporate trustee (coded BMT) was recognized by IC to manage the awqaf properties and BMT has actually existed much earlier than the formation of waqf-S and the IC. To ensure proper

awqaf management, the appointment of trustees and mutawallis in country-S requires official approval from waqf-S. Periodic meetings with trustees and mutawallis are conducted to ensure that awqaf properties and awqaf funds are properly managed and administered. In recognition of waqf-S's excellence awqaf management, the ISO-9001 certification was duly awarded. This reflects international recognition towards the efficiency and effectiveness of the established rules and procedures in its operations.

It is very interesting to note that *awqaf*-S is effectively managed by only two persons—the Assistant Director (Ms. S) and the Executive Officer (Mr. X). Their job scope covers almost everything from handling financial transactions to answering (in)formal enquiries on *waqf*-S. This has been made possible by virtue of the comprehensive systemization and computerization of operations which limits the dependency on human capital. The Assistant Director (Ms. S) explained:

"The technology helps us termendously as we are working under tight human resource capacity"

Waqf-S is currently handling ninety nine awqaf, thirty three (33%) of which are managed by trustees and the remaining 66% are directly managed by waqf-S. The awqaf records show that two third of the waqifs are males and the remaining thirty three are female waqifs. The beneficiaries according to the waqif's will are notably heterogeneous and classified in the awqaf record into "local-within country-S" and "foreign-outside country-S". While the former refers to disbursement of awqaf funds to purposes within country-S, the latter relates to expenditure on purposes in foreign land. Our documentation review also revealed that the last awqaf was made almost twenty years ago (in 1993) and the potential reasons are explained by the Assistant Director (Ms. S):

"The ever increasing in property prices and lack of awareness on awaaf benefits among Muslims in this Country might potentially explain this worrying fact"

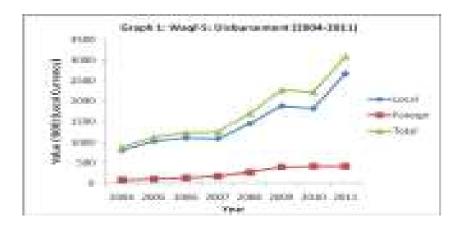
To soften the impact of soaring property prices on the normal property-based *awqaf* practices, *waqf*-S shifted the focus on attracting Muslims to join the *awqaf* philantrophic platform by marketing the cash *awqaf* type whereby each Muslim family in the Country is encouraged to donate a quantumn amount (according to economic status proxied by the monthly salary) to the established cash *awqaf* fund which was later used for pre-specified religious purposes of building mosques, religious schools and even financing the purchases of strategic *awqaf* properties in the city centre. During the physical visit, the researcher was shown several high rise buldings located in strategic locations in the city centre which are currently managed by *waqf*-S on *awqaf* basis. These high-end office buildings are currently tenanted and the collected monthly rental are pooled back into the *awqaf* fund. It is truly impressive albeit ironic that many highly valued properties located in strategic locations in the heart of Country-S's city centre are owned and managed by Muslims and this is happening in a non-Islamic country.

#### 5.2 Disbursements Ratios

Utilizing relevant financial information available in *waqf*-S financial statements, table 1 and graph 1 below present basic analyses on *awqaf* funds disbursements made over the eight years period (2004 to 2011).

Table 1: Awqaf funds Distribution Ratios (local currency) (source: Waqf-S Annual Reports)

('000')	2004	2005	2006	2007	2008	2009	2010	2011	Total
Local (L)	804	1,026	1,103	1,087	1,440	1,879	1,817	2,675	11,831
Foreign (F)	77	106	128	165	259	391	404	408	1,938
Total (T)	881	1,132	1,231	1,252	1,699	2,270	2,221	3,083	13,769
% change (L)	)	28%	8%	-2%	33%	31%	-3%	47%	
% change (F)	)	38%	21%	29%	57%	51%	-3%	1%	
% change (T	)	28%	9%	2%	36%	34%	-2%	39%	



The average increase in total distribution over the 8-years period is calculated at 18% per year whereby the average increase is greater for foreign distribution compared to local. This is due to the high fluctuation in the rate of increase with respect to local distribution compared to foreign. The awqaf distribution surpassed one million (local currency) mark in 2005 and two million (local currency) in 2009 and three million (local currency) in 2011. These reflect the strenghtening of awqaf funds managed by waqf-S over the eight years period. Detailed analysis of the category of distribution and the beneficiaries is disclosed in "Appendix 1".

#### 5.3 Accounting and Reporting Practices

The financial accounting and reporting environment in country-S is noted to be comprehensively regulated. In view that *waqf*-S is established as a statutory body under IC, it has to strictly follow the country's administrative policies and guidelines as well as other financial regulations issued by the relevant regulatory bodies. Some of these written rules (e.g. financial reporting rules) are derived from acts mandated by the parliament, warranting for non-compliance to be resulted in severe punishment in the court of law. This directly motivates *waqf*-S being the *mutawalli* to exercise due care and diligent in managing and reporting *awqaf* assets and funds. The Assistant Director (Ms. S) explained:

"Our operations and financial reporting practices are practically governed by comprehensive set of rules some of which are mandated by the Parliament. We consider the presence of these tight rules as a blessing in disguise as it insulates us from malpractices"

The annually published financial statement of waqf-S includes (1) Consolidated statements of comprehensive income; (2) Balance sheets; (3) Statement of changes in funds; (4) Consolidated statement of cash flows; and (5) Notes to the financial statements which consist of comprehensive listing of all awqaf subsidiary accounts. These official documents are audited internally (by the internal audit department) and externally (by big four international accounting firm) and made available online for public scrutiny. This is in compliance with the prevailing country-S's accounting standards (Accounting Standard Act, Chapter 2B, Revised Edition 2008). Additionally, waqf-S also maintains a comprehensive non-current asset register to record all awqaf assets managed and registered under waqf-S since the early 1900s. All assets are given a reference number and the list includes a photograph of the respective properties. In compliance with the prevailing accounting standards, depreciations are charged to each awqaf properties and appreciation are captured accordingly in its yearly financial statements. Awqaf properties are also subject to yearly valuation by an independent professional valuation company registered in country-S. This enables the current or market value of awqaf properties to be reflected in the published financial statement.

With regards to the basis of preparation, the financial statements of waqf-S are prepared using the accrual reporting basis, consistent with country-S's financial reporting requirements. Accordingly, "fund accounting" system commonly recommended in the awqaf literature for cash awqaf is not

adopted. The system separates the Balance Sheet and Income Statements into several entities according to the established fund (Hooper *et al.*, 2008). The Assistant Director (Ms. S) explained:

"We are not using the fund accounting for our cash awaaf as the requirements set out in the prevailing Accounting Standard Act do not require us to. However, we do have a subsidiary accounts for each of the individual awaaf assets and they are presented as the notes to the accounts in the awaaf section financial statements"

Upon our inquiry during the interview, the Assistant Director (Ms. S) explicitly identifies target users for *waqf*-S financial statements to include (1) the public; (2) donors (*waqif*); (3) government as regulator; (4) *awqaf* beneficiaries; and (5) management personnel including its Board of Trustees.

"As a public interest body, our financial affairs are the interest of various stakeholders such as the public, government, beneficiaries and our board members"

This implies that waqf-S's financial statements are produced to cater for the informational demand by wide range of relevant stakeholders. The published documents are also noted to be easily obtainable through various means including direct request from waqf-S's office and online. Relevant questions may also be posed to waqf-S's personnel particularly on issues related to collection and disbursement of the awqaf funds and it is the institution's policy to attend and respond professionally to each public's inquiry.

#### 5.4 Drivers for Accountability

Multiple drivers for observing and upholding accountability by waqf-S are analyzed in this exploratory research through three specific lenses of (1) Regulatory; (2) Stakeholders; and (3) Religious image of Islamic organization. These are considered as pertinent driving forces that are expected to mould the accountability culture in waqf-S, thereby improving the effective management and transparent reporting by the institution. Results based on the semi-structured interviews indicate that all three driving forces are considered as equally important to waqf-S in influencing its accountability trajectory. Whilst regulatory apparatus and stakeholders' demand are observable drivers for high accountability observance, religious image of Islamic organization seems rather subtle and intrinsic.

The fact that comprehensive regulatory apparatus on *awqaf* management, accounting and reporting provide profound impact on *waqf*-S's accountability culture is irrefutable. Comprehensive regulatory framework covering various statutory enactments (ordinance and the Act) on *awqaf* operations and financial reporting (Accounting Standard Act) reiterates if not reinforces the need for *waqf*-S to properly observe and uphold accountability. The Assistant Director (Ms. S) explained:

"Our organization is effectively a regulatory driven entity. The prevailing inclusive regulatory framework drives our accountability culture and hence it dictates our operational exercises, whether management, accounting or reporting"

Apart from sound regulatory framework, waqf-S's accountability culture is also noted to be driven by the ever increasing stakeholders' demand. Among others are the demand for efficient management and disbursement of awqaf assets by waqifs as well as transparent reporting by ummah being the prospective waqifs in building their trust towards waqf-S. The Assistant Director (Ms. S) explained:

"We operate as an entity managing public funds. It is thus our utmost concerns that all stakeholders are effectively and appropriately served to the best of our ability. Observing accountability is thus not an option to us as it primarily ensures stakeholders' trust is inherently developed and strongly built".

The strengthening of awqaf funds as reflected in the increasing value of disbursements across the eight years period provides initial indication of increasing trust by waqifs whom continuously

contributing to the established *awqaf* funds. As these stakeholders place their demand for efficient management and disbursement as well as transparent reporting in return for continuous supports and trust towards in *waqf*-S, such forces for enhanced accountability becomes apparently inherent in the institution's accountability culture.

The final observable albeit subtle and intrinsic driving force for accountability in waqf-S relates to the inherent religious image of Islam attached to the organization. Awqaf in itself is an Islamic based philanthropy whereby its existence and operations are based on Quranic injunctions and hadiths. This necessitates for waqf-S being the institution managing the awqaf system to properly act in line with the spirit of Islam which mould awqaf operations. The Assistant Director (Ms. S) explained:

"The philanthropic system we are managing is seen as representing specific religious values. Public whether Muslims or otherwise tend to equate our organization to being a flag bearer of Islam by virtue of awqaf system finds its root in the religion. This carries significant meaning to our conducts with specific reference to accountability observance"

#### 6. SUMMARY AND CONCLUSION

This exploratory research paper investigated auxiliary issues with regards to accountability practices of a single *awqaf* institution (*waqf*-S) operating in a non-Islamic South East Asia country. Specifically, we examined how the management, accounting and reporting are being practiced and the impact it provides on the institution's accountability trajectory. We also investigated multiple factors influencing *waqf*-S's organizational-wide accountability policy. By considering management, accounting and reporting as "official exercises" continuously conducted by the institution and subsequently setting them as strategic accountability devices in our intellectual framings, we collected relevant data from multiple sources including semi-structured interviews, physical observations, archival documentation review and analyses.

Our exploratory inquiry revealed that the institution is operating in a highly regulated environment, inducing its *awqaf* funds and properties to be professionally managed whilst information disclosure to be relevant and comprehensive. Relevant enactments and regulatory provisions guide the effective management of *awqaf* assets and funds whilst ensuring information disclosure are relevant and sufficiently comprehensive to enhance stakeholders' trust and hence support for the institution. Our qualitative research approach further revealed the fact that accountability observance in the institution is driven by three strategic factors of regulatory, stakeholders' demands and religious image. These collectively motivate *waqf*-S to ensure that accountability is continuously observed in their operations.

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Appendix 1: Waqf-S Disbursement (Sources: Waqf-S Website)

	Recipients	2011		2010		2009		2008		2007		2006		2005	
		Amount	%												
Local	Masjids	1,897,300		1,144,930	63	1,227,578	54	914,100	53	553,950	44	595,765	48	466,640	41
	Madrasah	282,315		239,800	10	218,300	10	193,700	12	100,500	8	139,500	11	130,000	12
	Poor, Burial	92,000		196,000	11	205,300	9	138,050	8	122,400	10	100,500	8	87,490	8
	Charitable	163,760		67,126	4	120,185	5	112,525	7	246,000	20	201,900	17	-	
	Others	122,310		169,044	9	107,604	5	81,664	5	64,150	5	64,900	5	71,450	6
	Education	-		ı		ı		-		-		ı		270,100	24
	Poor relatives	116,765		-		-		-		-		-		-	
Total		2,674,450		1,816,900	82	1,878,967	83	1,440,039	85	1,087,000	87	1,102,565	89	1,025,680	91
Foreign	Hadramaut			147,498	37	167,920	43	145,782	56	90,652	55	57,117	44	48,140	45
	Makkah			72,923	18	62,916	16	26,548	10	15,683	9	22,634	18	7,130	7
	India			76,100	19	64,100	16	39,060	15	24,150	15	16,090	13	25,080	24
	Indonesia			65,500	16	60,430	16	30,430	12	22,300	14	21,600	17	21,600	20
	Medina			41,489	10	35,702	9	16,850	7	12,315	7	10,834	8	3,990	4
Total		407,710		403,510	18	391,068	17	258,670	15	165,100	13	128,275	11	105,490	9
<b>Grand Total</b>		3,082,160		2,220,410		2,270,035		1,698,709		1,252,100		1,230,840		1,131,170	
Change		861,750	39	(49,625)	-2	571,326	34	446,609	36	21,260	2	99,670	9	249,430	28

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# POTENTIAL OF WAQF FUNDS AND INSTRUMENTS IN CONTEMPORARY ECONOMIC SYSTEM

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#### **ABSTRACT**

The act of making waqf is verily one of the good deeds enjoined by Islam. The practice of waqf has been around since the time of Prophet Muhammad SAW until today. The potential of waqf funds has been made significant contribution in dealing with the recent global financial crisis, shrinking public revenues and highly demand and increasing cost of health expenses, education and community development. Thus, the main objective of this paper is therefore to review these various waqf funds and instruments in contemporary economic system. This paper is based on the literature review research work and descriptive analysis to get an overview of the instruments in enhancing the potential of Waqf Fund in current practices. Information on the instruments has been gathered from the previous research and literature for the period of 1999 until 2013. At the end of this research found that, seven (7) instruments have been identified and the instruments are 1) cash waqf and waqf shares, 2) waqf in financing education. 3) Waqf in Microfinance. 4) waqf as social bank /trust fund. 5) Waqf and Mudarabah Investment. 6) Waqf and Sukuk Investmen and 7) Waqf in Business growth and economic development. All these instruments are assumed can inspires a positive sustainable development through the Islamic Economics System.

Keywords: Waqf Funds, Revival Waqf Instruments, Contemporary Economic System

## 1. INTRODUCTION

A number of cooperating factors have contributed to the interest and effort to revive waqf management, administration and funding in particular in the areas of funding higher education. The recent global financial crisis (2008-2009) and its effect on global trade, economic growth and consequently Government revenues, has implications on the ability of the Government to provide additional resources to finance development of the social sector (e.g health, education and community development). Success of the voluntary sector - waqf, sadaqa, hibah and wasiyya - in Islamic history in providing social and public goods are excellent benchmarks to follow. An excellent example in higher education is Al-Azhar University in Egypt – an awqaf-led institution – which has provided free education and training from primary to tertiary level to students local and foreign. Both Albukhary International University and Islamic International University Malaysia have benefited from endowments. Revival of the wagf institution in this country requires the enhancement of the charity culture the waqf way among members of the Muslim society in particular. There has been the perception that endowed waqfs are in the form of mosques, madrasahs and Muslim burial grounds only. But significant developments have occurred in recent decades with the introduction of other instruments of waqf that are syariah-compliant. The main objective of this paper is therefore to review these various instruments.

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The term waqf has not been specifically mentioned in the Al-Quran or al-hadith but are interpretations made by the fuqaha on sadaqa jariya (Abdul Shakor Borham, 2011). What is meant by waqf (singular); awqaf (plural)? 'A waqf is an act of holding certain properties and preserving them for the confined benefit of certain philanthropic purposes that disallows any use or disposition of them outside the specific objective (Kahf, 1998). According to Imam Mohammad al-Khatib Syarbiniy waqf is holding something that could be used to perpetuate the form ('ain). Therefore, all transactions are subject to the laws of Islamic syariah (al-Sharbiniyy, Mohammad Khatib, (1933: 376). Interestingly, AOAFI mention on the definition of Waqf in Arabic to mean preventing something from movement. In Shariah's terminology, waqf refers to making a property invulnerable to any disposition that leads to transfer of ownership, and donating the usufruct of that property to beneficiaries as specified by the endower.

## 2. WAQF PRACTICE IN SOME ISLAMIC COUNTRIES: A REVIEW

Most of the endowment assets developed by some countries are in the form of building for educational institutions, mosques and even business premises. Al-Azhar University in Egypt for example is a great benchmark in developing the institution of waqf endowment assets for the Islamic higher education. This pioneer university was founded in 975 AD. The University received full financial contribution enables fund for free education for students from all over the world. Al-Azhar education system covering from primary, secondary to university. The success of Al-Azhar University is also inspired by managing the endowment in other countries such as the construction of Al-Qurawiyyin in Fez and Madrasah Nizamiya in Baghdad (Mashitoh, 2006). Other than for the purpose of education, the commercialization of waqf lands were also taken into account by the waqf administrators in Singapore and Bangladesh. Islamic Religious Council of Singapore (MUIS), through its subsidiary Warees Pte Limited has been successful in developing waqf land in Bencoleen Street from the site of an abandoned donated land to a commercial residential buildings that have generated large returns to MUIS to be distributed to Muslims who are in need (Shamsiah, 2006).

Recognizing the importance of having business premises to Muslims, waqf authorities in Bangladesh have built business premises for rent and the rents would be counted in the endowment fund. In Bangladesh, the cash waqf certificate introduced by the Social Investment Bank Limited (SIBL) has helped the construction of mosques for Muslim use. Muqarada scheme Waqf Cash Deposit Account (MWCDA) was offered to individuals and organizations to open deposit accounts and used for endowment purposes (Abdul Halim &Kamaruzzaman, 2006). The experience of waqf institutions in the country of Kuwait which uses the concept of centralized administration is also a good example of management implementation to develop the waqf property. Government of Kuwait has established the Awqaf General Foundation of the Kuwait or the Kuwait Awqaf Public Foundation (KAPF) to execute all activities related to waqf mainly for promotion, fundraising and development of waqf properties (Abdul Halim & Kamaruzzaman, 2006). The establishment of waqf fund such as waqf fund for Mosque, and waqf fund for Health, have contributed to the improvement of society.

According to Dato' Nik Mustapha Hj. Nik Hassan, Director General, Institute of Islamic Understanding Malaysia, the *awqaf* mechanism is a very relevant and a dynamic approach in organising the present economic society. The purpose of the mechanism of *awqaf* "is religiously to encourage individuals who are well-to-do in the society to voluntarily donate some of their properties to be used for a specific purpose like building of mosque, hospital, cemetary, hostel, play ground, etc. or for general purposes that can be beneficial for the present and future generations" (Nik Mustapha, 2013).

If it is properly mobilized and managed, waqf can be an important instrument in the socioeconomic development of the Ummah and society. Islam encourages and provides mechanisms for the redistribution of wealth from the rich to the poor and the needy.

#### 3. THE POTENTIAL OF WAOF: A CASE OF MALAYSIA

The investment in real estate's sectors has a high potential to be developed as it represent the most preferable mode of investment. In case of Malaysia, a research done by JAKIM in 2000 recorded that there are 20,735.61 acres of registered *waqf* lands (refer appendix 1). The potential is to develop the registered waqf land under the State of Islamic Religious Council (SIRC). On top of that, it is found that *waqf* lands in Pulau Pinang, Federal Territory and certain part of Johor particularly within the area of Johor Bahru are considered as the most strategic and valuable property in term of high demand for commercial purpose (ZulkifliHasan and Muhammad Najib Abdullah, 2008).

In order to make the waqf land to yield more benefits to the ummah, the managers of the waqf land should start to think on how to optimize the potential of waqf land so that the ummah can gain the benefit for a long period of time. Creative and innovative strategy on how to implement the intention of the *al-waqif* to the specific of purpose should be taking place. For example, the intention to build a mosque on waqf land. It is a normal concern or traditional perception as when we talk about waqf, then the intention is more on to build a mosque, grave yard or etc. The problem is that the need of the mosque is not urgent as there is already sufficient number of mosques around the area. But to embrace the purpose of the intention, the building should be built up several levels with multi-functions to incorporate the mosque or musolla with other urgent needs such as commercial premise, education purpose or healthcare centre. However, to fulfil this require innovative initiative besides additional funds to support this project. Herein lies the importance of the cash waqf or waqf shares.

The development of waqf assets should also be supported by cash flow either by generating profit from the property's business or contributions in cash waqf by society. The cash flow's funding is essential to ensure the waqf assets can be maintained and continue to contribute significantly and be able to be used by the current society and the future.

Since the early years of independence, the government has implemented numerous policies including the New Economic Policy (NEP) and the latest policy namely New Economic Model (NEM). However there has not been significant change on Bumiputera capabilities through equity possessions. Until 2006, the Bumiputeras only hold the equity of ownership around 19.4% compared to 43.9% non-Bumiputeras (Chinese 42.4%, Indian 1.1% 6.6% Non-nominee and others 0.4%), while foreign ownership is 30.1%. However, it is reported that Bumiputeras have achieved success in the field of employment where until 2005, a total of 58.5% of Bumiputeras were in professional jobs compared to Chinese 31.9% and Indian 8.2%. On top of that, 59.5% of Bumiputeras were involved in technical and associated profession while Chinese 29.7% and 10% were Indian (Ragayah Mat Zin (2011).

Ability and achievement of Bumiputera in professionals fields should be translated in the form of ownership in terms of waqf possession with waqf possession benefit would be continuously gained by the future generations. By the ability of equity ownership, it is not seen as a limitation possession of an individual people, but rather on the ability of the equity ownership in togetherness as one society or one ummah. This effort would be to strengthen the government's policy in the form of equity holdings of Bumiputera through the waqf property. This policy is also very useful to enhance the community and the country and best practice in Islam as to support the sustainable development.

#### 4. RESEARCH METHOD

This paper is essentially based on the literature review research work and descriptive analysis to get an overview of the instruments in enhancing the potential of Waqf Fund in current practices. Information on the instruments has been gathered from the previous research and literature for the period of 1999 until 2013. Thus, this study aims to identify the instrument to enhancing the potential of waqf fund. At least seven (7) instruments have been identified. The instruments are *firstly*, cash waqf and waqf shares. *Secondly* is waqf in financing education. *Thirdly* is Waqf in Microfinance. Fourth is waqf as

social bank /trust fund. Fifth is Waqf and Mudarabah Investment. Sixth is Waqf and Sukuk Investmen and *finally*, Waqf in Business growth and economic development.

# 5. THE INSTRUMENTS AND THE POTENTIAL OF WAQF FUND

## 5.1 Cash Waq fand Waqf Shares

Cash waaf is now becoming popular mode of waaf not only in Malaysia but also in other countries such as Syria, Turkey, South Africa, Singapore, Pakistan and Egypt. A cash waq fis another avenue for the Islamic Religious Council to gain financial resources. A general public may dedicate a sum of money to the council and this money will be put into a special wagf fund. The fund can be used for social and welfare activities including investment. To encourage people to dedicate property for a charitable purpose, the government has provided a tax incentive for any donation given including a cash waaf in section 44(6) the Income Tax Act 1967 (Reference no. LHDN.01/35/42/51/179-6.5621 Government Gazette No. 14369 dated 27.07.2004) (Zulkifli Hasan and Muhammad Najib Abdullah, 2008). Another way to raise income for a purpose of funding the investment of waqf land is through waqfs hares scheme. Some states have initiated a scheme of waqf shares. Waqf share is a scheme where individual or organization purchase a few units of shares with the minimum value for example of RM10.00 per unit offered by the Islamic Religious Council. Waaf shares in form of certificate with the necessary value will be offered to the general public. The purchased waaf shares will be dedicated in perpetuity for the purpose of charity and hence the purchaser will not be given any dividend or profit. Several states such as Johor, Melaka and Selangor have already issued waaf shares. This is in line with the resolution of Majma' Figh Islami on 24th november 2005. The success of this scheme can be shown by referring to Johor Waaf Shares Scheme which has been launched in 2005. It is reported that the scheme has contributed to several economic and educational developments in Johor such as Building of Johor Waaf Shares at cost of RM4 million, plantation project of 3,800 acres land and purchase of a six-storey hostel at Cairo, Egypt for students' accommodation (Zulkifli Hasan and Muhammad Najib Abdullah, 2008).

# 5.2 Waqf in Financing Education

Waqf in financing education in Malaysia, has been implemented with initiatives from both public and private Malaysian Institution of Higher Learning themselves. Among them are a) Albukhary International University, Kedah Malaysia, b) Dana Wakaf Ilmu, Universiti Putra Malaysia, c) IEF (Islamic Endowment Fund, International Islamic University Malaysia) d) Tabung Pemberian Islam, Universiti Kebangsaan Malaysia, e) Universiti Islam Malaysia f) Pusat Pembangunan Pembiayaan Wakaf (PPPW) / Center for Awqaf Development Financing, Universiti Sains Islam Malaysia (USIM).

- a) Albukhary International University, Kedah Malaysia. This university was established based from the endowment from the Yayasan Bukhary for the purpose of facilitating high quality education and empowering the students either local or international those who are from low income and handicapped on condition that they satisfy entrance requirements.
- b) Dana Waqaf Ilmu, Universiti Putra Malaysia. UPM has established the waqf fund called "Dana Wakaf Ilmu". This is an initiative to raise funds for UPM endowment approach. Resource of Waqf funds are donations from individuals, corporate sector, cooperatives, nongovernmental organizations (NGOs), the return of the endowment assets, returns from a portfolio of money market etc. Endowment funds collected provide complementary and sustainable fund resources to fund academic activities at the university. (http://www.fund4knowledge.upm.edu.my)
- c) International Islamic University Malaysia's Islamic Endowment Fund IEF. The IEF was established in 1999 inspired by the al-Azhar University Waqf. Funds for the IEF have been raised from many sources viz. internal and external parties, organisations and companies, zakat collections through cooperation with Lembaga Zakat Selangor, business collaborations

- and RM Campaign. The main of objective of IEF is to help poor and needy students who are academically qualified to finance the costs of their studies at IIUM. (http://www.ijum.edu.my)
- d) TabungPemberian Islam, UniversitiKebangsaan Malaysia. UKM has established anwaqf fund named "TabungPemberian Islam" under Yayasan Islam Chancellor. UKM Endowment Fund provides space for fund-raising and donation. Among the objectives of the Endowment Fund is to fund teaching and learning (T & L), research, publications, establishment of Chairs of Excellence, community service and industrial relations. <a href="https://www.ukm.my/yc/?page\_id=4">www.ukm.my/yc/?page\_id=4</a>).
- e) Universiti Islam Malaysia. Universiti Islam Malaysia (UIM), the pioneer university in Malaysia granted with the mandate of The Rulers Council, has received a huge waqf amounting MYR 5.18 million from seven contributors including private company, clubs and inviduals. The endowment was presented to the Sultan of Selangor Sultan Sharafuddin Idris Shah in a special ceremony in the Bukit Kayangan Palace. The main donor is the Permodalan Nasional Bhd (PNB) that contribute MYR 5 million.
- f) Pusat Pembangunan PembiayaanWakaf (PPPW) / Center for Awqaf Development Financing, Universiti Sains Islam Malaysia (USIM). The center was established by USIM with the cooperation of the State Islamic Religious Council (SIRC), Negeri Sembilan, to create a special fund called the Al-Abrar USIM Waqf Fund. PPPW's objectives are to 1) Manage the collection and distribution of waqf fund based from the decision-MAINS Waqf Council and Waqf Fund Committee of Al-Abrar USIM Waqf Fund. 2) Identify and define the activities and projects that can be funded with waqf funds. 3) Develop products that are appropriate to the USIM's waqf fund. 4) Conduct research on waqf financing of higher education.

#### 5.3 Waqf in Financing Microfinance

Habib Ahmed (2007) suggested that Waqf-based Islamic microfinance institution should be introduced as an alternative to replace conventional microfinance institution. The role will be, in alleviating poverty and to attaining development in Muslim nations. The role of waqf in financing microfinance is the support system to develop successful entrepreneurs. This view is supported by Habibollah Salarzehi, et al., (2010) as he shows the significance of Waqf in developmental fields.

#### 5.4 Waaf as social bank / Trust Fund

Mohammad Tahir Sabit Haji Mohammad (2011) argued that the waqf bank can be the bank of the poor and underprivileged. It can be permissible in Islam based on validity of cash waqf and the need of waqf, its beneficiaries as well as the society. The current banking system has failed to attend to the poor majority in the muslim countries. With special emphasis of cash waqf, it is show that, according to Mannan, M. A. (1999) Cash waqf certificate practise can monetize the Islamic voluntary sector and assist to accumulate social capital & national wealth- through global mobilization and creation of cash-waqf fund, forming a confederation of Islamic voluntary organizations, globalization of Islamic voluntary sector activities, strategic and futuristic social investment by committee of volunteers.

## 5.5 Waqf and Mudarabah Investment

Murat Çizakca, (2004) highlighted on cash waqf to be invested through Mudarabah. Cash waqf started by philanthropist through savings for charity and borrowing with collateral. Emphasis on partnership to cash Waqf Corporation, and the merger of cash waqfs and islamic banks is to tackle financial difficulty. He proposed rebirth of cash waqf to be waqf company relation. He suggests a model in which the concept of cash *waqf* can be used in contemporary times to serve the social objectives in the society.

# 5.6 Waqf and Sukuk Investment

Issuance of Bond or Sukuk through Waqf Fund as to support the sustainable development and to optimizing the potential of the Islamic Financial system locally and globally. The main objective is to

provide long term support with a focus on building capabilities and showing results. Sukuk is a proven Shari'ah-compliant financial product which has been used in Malaysia as well as in the other Muslim countries. This instrument could be the best practice to development of the awqaf properties or a specific economic activity permitted by Shari'ah. Singapore for instance has implemented the issuance of bond or sukuk to develop the waqf properties. The Zam Zam tower complex, in Saudi Arabia was also built with waqf assets using sukuk intifa' on the basis of time-share bond (SIti Mashitoh, 2007).

## 5.7 Waqf in Business growth and economic development

Azliza Azrah Mohd Zakaria (2012), suggested that, waqf instrument could contribute immensely to business growth and development. She proposed a model with special characteristics in philanthropic venture waqf practices that could be implemented in Malaysia's scenario. The characteristics are 1) low price of essential goods and services, 2) Creation of employment opportunities, 3) stimulates the growth of Islamic financial institutions and 4) establishing a waqf-based financing. Waqf instrument is vital in business growth and economic development as Alias (2012) suggest that Enterprise *Waqf* Fund (EWF) model that combines the cash *waqf* model with relevant concepts from venture capital is suggested to enhance the dynamism of cash *waqf*.

#### 6. CONCLUSION

In Conclusion, seven (7) instruments have been identified and the waqf institution has great potential in enhancing the socioeconomic development of the Ummah given the fact that we are starting from a low base. Creative and innovative instruments have been developed. The critical success factors are firstly enhanced awareness among the Muslim society on waqf especially its position as of the good deeds enjoined by Islam. Secondly to ensure an effective delivery system require proper implementation of Waqf Enactments by professionals trained in management, investment finance and syariah requirements. Reflex to the potential of waqf funds and instruments in contemporary economic system, it is agree that this paper is limited to the data available from the literature review analysis. Thus, this paper suggested to expand the scope of the study to be more focus on the readiness of current society to contributing the waqf fund and what are the pulling and pushing factors that effects the successful of waqf financing in contemporary economic system.

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## AR RAHNU: A SHORT TERM FINANCING ALTERNATIVE

# Imani Mokhtar<sup>1</sup> Shah Rizal Zambahari<sup>2</sup>

#### **ABSTRACT**

Islamic pawn broking or *ar-rahnu* can be considered as the promising business. Ar rahnu is viewed as the most suitable form of micro financing particularly to cater for the individuals and small businesses who may have limited access and support via the conventional banking system. This paper undertakes to explain the concepts and importance of *ar rahnu* as a form of short term financing alternative particularly to Malaysian customers on a conceptual basis. Moreover this paper also attempts to highlight the significant or benefits of Ar Rahnu and issues faced in implementing the Islamic pawn broking (*ar rahnu*) in Malaysian context from shariah principles. Apart from that this paper also explains the differences between conventional and Islamic pawn broking. This paper concludes *ar rahnu* is beyond doubt that it is fundamentally upholding the *shari'ah* principles aiming to achieve its objective (*Maqasid al-Shari'ah*). In this context of *ar rahnu*, applying and achieving the objectives of *shari'ah* (*Maqasid al-Shari'ah*) become the main concern. Hence, the introduction of *ar rahnu* as a permissible micro financing tool based on the *Maqasid al-Shari'ah* gives Muslims customers an alternative of getting a fast and low-cost interest free cash advances. Finally in view of the fact that this paper is on conceptual basis, the method employed is descriptive in nature based on the available existing literatures.

**Keyword**: Islamic banking product, Islamic pawn broking, shariah principles, micro financing tool

# 1. INTRODUCTION

Malaysia is considered as the leader of the introduction of Islamic finance and banking in Southeast Asian countries (*Nakagawa*, 2011). Islamic financial system has been promoted in Malaysia since 1983 with the establishment of Bank Islam Malaysia by the government. Ten years later, Islamic Banking Scheme was started which enable banks to introduce Islamic banking and expand it across the country while creating a more competitive business environment.

In the early years, the basic approach of Islamic banking implementation was the replication of the conventional banking, basically transforming the sources and application of funds into products and services which are acceptable in Islam. However, due to some factors such as competition, institutionalization and quest for authentic Islamic products and services, the industry has take an initiative to develop its own products and services which undoubtedly uphold the *shari'ah* principles and guidelines. In this context, Islamic banks play an important role in providing the Islamic based products and services in order towards the achievement of *maqasid-al-shari'ah* in the economic system (Manan, 2008).

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To date, several Islamic banking products have been developed such as Islamic bonds (sukuk), Islamic insurance (takaful) and Islamic pawn broking (ar rahnu). Among the Islamic banking products currently available in the market, ar rahnu can be considered as the promising business. Ar rahnu is viewed as the most suitable form of micro financing particularly to cater for the individuals and small businesses who may have limited access and support via the conventional banking system (Aziz, 2006). Ar rahnu was basically introduced because the existing conventional pawn broking's practices are inconsistent with the shari'ah principles and guidelines. As such, now it can be said that Muslim customers have an alternative form of financing from the conventional pawn broking towards Islamic pawn broking (ar rahnu).

## 1.1 Objectives of the study

A review of the pertinent literatures was carried out in order to identify the differences between conventional and Islamic pawn broking. In addition, this paper undertakes to explain the concepts and importance of *ar rahnu* as a form of short term financing alternative particularly to Malaysian customers on a conceptual basis. Moreover this paper also attempts to highlight the issues faced in implementing the Islamic pawn broking (*ar rahnu*) in Malaysian context. Therefore, the significance of this paper is to give a better understanding on *ar rahnu* as a permissible financing tool and should be regarded as one of the main short term financing alternative currently available in the market. Finally in view of the fact that this paper is on conceptual basis, the method employed is descriptive in nature based on the available existing literatures.

#### 2. LITERATURE REVIEW

## 2.1 Development of conventional and Islamic pawn broking (ar rahnu) in Malaysia

Pawn broking services have been introduced in Malaysia way back in the 15<sup>th</sup> century based on the Chinese and Malaccan empires' diplomatic relationship. The first pawnbrokers were the Chinese merchants that stayed in Malacca and providing their services to both locals as well as the other trade merchants (Cheong & Sinnakkannu, 2012). At that time, the number of pawn broking licenses shows an increasing figure which is translated into an increasing demand of pawn broking services.

The conventional pawn broking business in Malaysia has been governed by the Pawnbrokers Act 1972. This Act basically outlines the basic guidelines and principles for both clients and pawnbrokers. Even it is governed by the Act, it is still unacceptable according to Islamic Law due to its provision that allows for the taking of interest. Due to this reason, a concerted effort has been put in order to set up an interest-free credit facility particularly to fulfill the need of the Muslim community (Ismail & Ahmad, 1997).

As a result, *ar rahnu* was basically introduced because the existing conventional pawn broking's practices are inconsistent with the *shari'ah* principles and guidelines. The development of Islamic pawn broking in Malaysia started in 1992 with the establishment of Majlis Agama Islam by the Kelantan state government and Muassasah Gadaian Islam Terengganu (MGIT) by Terengganu State Government. It is noted that at that time, the establishment of this Islamic pawn broking system which adhered to the methods considered *halal* under the *shari'ah* tenets gives as an alternative to the customers in obtaining short term funds. Then, "Skim Ar Rahnu" (SAR) was announced by the Minister of Finance in 1993 through the effort of Bank Negara Malaysia (Malaysia's central bank), Bank Kerjasama Rakyat Malaysia Berhad and Malaysian Islamic Economic Development Foundation. Consequently, latter in the same year, several branches of Bank Kerjasama Malaysia Berhad had launched this "Skim Ar Rahnu" (SAR) for their customers (Appannan & Doris, 2011).

In 1995, the Kelantan state government has stepped forward to impose new ruling on the cessation of all *riba* or interest based conventional pawnshops, thus lead to the termination of the operation of the conventional pawnshops in Kelantan. However, those conventional pawnshops which are primarily operated and owned by non-Muslims may continue to operate as long as they adhere to the *ar rahnu* principles (Shaari & Azlina, 2003).

## 2.2 Conventional versus Islamic pawn broking (ar rahnu)

There are several differences between conventional and Islamic pawn broking (ar rahnu) found from the literatures. The followings discuss about the similarities and differences under both conventional and ar rahnu.

Traditionally, conventional pawn broking appears to be the fastest and simplest sources of short term secured financing. Primarily its main target customers are those groups of people with no and little cash, working for themselves and difficult to acquire loans from banks as well as other financial institutions (Othman, Hashim, & Abdullah, 2012). It is considered as a quick way to obtain financing as there are no complex and tight credit evaluation procedures to go through as compared to financing application from conventional financial institutions. It is also regarded as procedurally non-cumbersome type of financing as there are no specific restrictions set in terms of how the fund can to be utilized (Cheong & Sinnakkannu, 2012).

Pawn broking is generally a contract that involve pledging a security and becomes binding once possession of the pledge being done. Conventional pawnshops are regarded as "poor-man's bank" which plays a significant role in providing financing in which customers need to pledge certain amount of jewellery or other such items of value (Shaari & Azlina, 2003). In conventional pawn broking, pawned items can be in various forms namely jewellery, electronic assets, diamond or other items that that are easy to be stored as well as items that do not depreciate in value over certain period of time (Ismail & Ahmad, 1997); (Amin, Chong, Dahlan, & Supinah, 2007).

Moreover, this conventional pawn broking also imposes certain amount of interest rate on the amount borrowed by the customers regardless of the value of the collateral (Appannan & Doris, 2011). This is also highlighted by Bhatt and Sinnakkannu (2008) where conventional pawn brokers charges a fixed twenty four percent interest rate per annum on the amount borrowed, which is considered relatively high for those lower income group of customers.

Additionally, under conventional pawn broking scheme, if the customers default in payments or if the pawned items are not redeemed within the stipulated period, those pawned items will then be possessed by the pawnshop owners (Ismail & Ahmad, 1997).

Adversely, the concepts of conventional pawn broking mentioned above can also be identified as the shortcomings or weaknesses of this conventional pawn broking system. Specifically Abdul-Razak (2011) mentions that among the weaknesses of the conventional pawn broking are non systematic or transparent ways of valuing the pawned goods, higher interest rate charged by the pawnbrokers and misconduct or immoral practices done by the pawnbrokers such as auctioning the pawned goods without notifying the customer.

As a consequence of these conventional pawn broking weaknesses, an Islamic *shari'ah* based pawn broking system known as *ar rahnu* was introduced. In general, the operations of both conventional and *ar rahnu* transactions are somewhat similar. However, there are several underlying principles that govern the *ar rahnu* transactions as opposed to the conventional pawn broking. These basic principles governing *ar rahnu* are the one that actually differentiate it from the conventional one.

Similar to conventional pawn broking, *ar rahnu* enables the customers to acquire fast cash for any transaction or emergency purposes. It was designed to offer an alternative source of easing temporary financial difficulties targeted at the low-income conventional pawnshops patrons. It is regarded as one of the Islamic based micro-credit and financing tool catered primarily for those low-income earners seeking for financial assistance in meeting their working capital needs (Amin, 2011). However, *ar rahnu* extend

this feature in the sense that one of its principles governing the scheme is pertaining to the concept of *Qardhul Hassan* (benevolent loan). According to Amin, Rahman, Sondoh Jr, and Hwa (2011), *Qardhul Hassan* is referred as a beneficial loan which is a form of interest free type of financing. Based on *Qardhul Hassan* principal, the lender (al murtahin) helps the borrower (ar rahim) by providing them the financing required without charging any extra money apart from the amount borrowed.

Likewise *ar rahnu* allows its customers to pledge their valuable assets as a form security to obtain financing. However, it is noted that gold and gold jewellery are the only allowable pledged item in the *ar rahnu* transactions and the amount of borrowing is dependent on the value of that gold (Appannan & Doris, 2011); (Ismail & Ahmad, 1997). Here, gold is used as collateral over other items due to its advantages such as it can be conveniently traded, its purity can be ascertained easily and its value is relatively stable. Along the same line, another principle governing *ar rahnu* scheme is related to *Wadiah Yad-Amanah* (trustworthiness). In relation to this principle, *wadiah* is one of the main concepts in Islamic banking that agree on the custody of another person's valuable assets (Mansor, 2009). In *ar rahnu* scheme, the borrower (*ar rahim*) who has pledged their assets for the purpose of obtaining the loan has trusted the lender (*al murtahin*) to take care of their wealth or assets within the loan period. The lender (*al murtahin*) is not bound to be responsible to the collateral in case if there is anything happens to it provided that it is not due to the his negligence. At the maturity of the stipulated period, the borrower (*ar rahim*) needs to pay equal amount borrowed in order to redeem the collateral (*ar rahn*) pledged.

The next point to compare between both schemes is concerning to interest or service charges. As mentioned above, certain amount of interest will be charged to the customers under conventional pawn broking scheme. However in *ar rahnu* scheme, the cost of borrowing that is the service charge is imposed instead of interest. This service charge is relatively lower if compared to the conventional pawn broking scheme (Amin, 2011). Cheong and Sinnakkannu (2012) further supported that the cost of borrowing under the Islamic pawn broking is about half of the cost charged by the conventional scheme. The cost of borrowing is in the form of storage fee and it is calculated based on the value of the assets pledged (Appannan & Doris, 2011). Thus, this proved that the cost of borrowing under Islamic pawn broking is relatively cheaper as compared to the conventional pawn broking. This principle of storage fee governing the *ar rahnu* scheme is called as *Al ujrah* (safekeeping fee). In explaining this principle, the reasonable service fee payable is allowed to be charged by the lender (*al murtahin*) in safeguarding the wealth or assets of the borrower (*ar rahim*). This service fee is given to the lender (*al murtahin*) may be to compensate him for taking some precautionary measures in looking after the wealth or assets.

Unlike conventional pawn broking, *ar rahnu* scheme is conducted based on the concept of *Wadiah Yad-Dhamanah* (guaranteed storage). In *ar rahnu* scheme the lender (al murtahin) at any circumstances is bound to be responsible in safeguarding the assets pledged by the borrower (ar rahim). The lender (al murtahin) is deemed to be responsible in case if the assets are missing or damaged while it is in his or her custody. In the same context, if the borrower (ar rahim) fails to redeem the collateral within the stipulated period, a notice auctioning the assets will be given to the borrower (ar rahim). If the lender (al murtahin) still does not receive any response, the assets will then be auctioned in order to recover the amount of loan outstanding. Here, if there is any surplus derived from auctioning the assets, it shall be returned back to the borrower (ar rahim). However, in case if the borrower (ar rahim) cannot be detected therefore it should be the responsibility of the Islamic institutions to handle it, such as it should be put in the *Baitulmal* account for the benefits of both borrower (ar rahim) and his or her beneficiary (Cheong & Sinnakkannu, 2012).

# 2.3 Islamic pawn broking (ar rahnu) from shari'ah perspectives

The Arabic term of *ar rahn* means collateral or mortgage which refers to possessions offered as security for loan in case of default payment of the debt (Jalil & Rahman, 2010). According to the *ar rahnu* concept, the borrower (*ar rahim*) is required to pledge redeemable collateral (*ar rahn*) normally in the

form of gold jewellery as a guarantee of repayment of loan. Ar rahn is considered an essential instrument as a security of loan as it reduces the lender's risk and also increases the borrowers' cost in case of default in payment.

*Ar rahn* is permissible in Islam where there are proofs of its legality mentioned both in the *Qur'an* and *Sunnah* (Ismail & Sanusi, 2005). For instance based on the Surat al-baqarah verse 283, Allah states:

"And if you are on a journey and cannot find a scribe, then a security deposit [should be] taken. And if one of you entrusts another, then let him who is entrusted discharge his trust [faithfully] and let him fear Allah, his Lord. And do not conceal testimony, for whoever conceals it - his heart is indeed sinful, and Allah is Knowing of what you do"

In the above verse, Allah states that in the event of no scribe available at hand, sufficing to pledge is allowed as a mean of documenting and insuring of debt. The pledge serves as a deposit and guarantee of payment to the creditor but treachery of this pledge is a great sin. At the end of the verse Allah also emphasizes the importance of protection of deposits, delivering the rights of others and at the same time warned about the concealment of testimony.

In addition, there are also several evidences on the legality of *ar rahn* that can be derived for the *Sunnah*. For example in one of the *Hadith* narrated by Anas (mAbpwh), he states:

"The Prohphet (pbuh) pawned a shield with a Jew in Madinah and he took from him some barley for his family"

Based on the above verse and *Hadith*, therefore, it can be concluded that Islam permits the use of *ar rahn* in a pawning transaction. It is noted that among the main objective of the use of *ar rahn* is to guarantee the repayment of the loan and in the event of non-payment, the creditor then has the option to sell it (Nor, Abdullah, Ali, & Zakaria, 2012). Thus it is also clear that the philosophical foundation of this *ar rahnu* is to uphold virtue and justice in its transaction. In this context, any kind of unjustified enrichments by the creditors or any kind of oppression on the debtors, such as *riba* (interest) must be totally avoided.

Literally the Arabic word *Riba* can be defined as an expansion, increase or growth (Manan, 2008). From *shari'ah's* perspective, *riba* is related to the premium charged by the fund provider on the amount of loan granted to the borrower or for extending the maturity period of the loan. It is not doubt that Islam has strictly prohibited the imposition of *riba* on every business activities (Jalil & Rahman, 2010). Allah has stressed on this prohibition of *riba* and the punishment for dealing with *riba* in several versus of the *Holy Qur'an*. For instance based on the *Surat al-bagarah* verse 275, Allah states:

"God has allowed trade and forbidden riba (interest)"

In the above verse, it is clear that trade is allowed and encouraged in Islam however it should not involved any elements of interest such as any forms of additional returns or premium imposed due to the postponement of the repayment of loan. Hossain (2009) also states that *riba* is not allowed in Islam because it serves as a dangerous weapon which may exploit those needy and poor people, thus creating an imbalance circulation of wealth among the society. Additionally, the word *gharar* refers to all elements of uncertainty or ambiguity (Manan, 2008). It is stated that in Islam, all financing transactions and activities which are covered under the framework of Islamic business law (*fiqh ul muamalat*) must avoid this element of uncertainty (*gharar*).

## 2.4 Significance of Islamic pawn broking (ar rahnu)

There are many benefits that can be derived from *ar rahnu* services as opposed to conventional pawn broking and other forms of financing alternatives.

The first advantage is related to the transparency of *ar rahnu* in its business conducts. Since *ar rahnu* follows closely the Islamic code of conduct in their transactions, therefore it can be said that *ar rahnu* scheme does not involve the imposition of *riba* and *gharar* in its dealings. It is clear that every steps involved in the process is made known to the customers. Every process such as the acceptance of items tendered as well as the valuation process is conducted openly in front of the customers (Othman et al., 2012).

Second, *ar rahnu* does consider the sensitivity of its clients, who are mainly the Muslim women who owned small-scale business. They regularly need fast money for various reasons for any transactions or emergency purposes. *Ar rahnu* is regarded as one of the main source of capital for these small-scale businesses who have no access and capacity to other types of immediate financing for certain period of time (Aziz, 2006). In short, *ar rahnu* services are important as it caters the sensitivity of the needs and requirements of their customers.

Third, the groups of customers as mentioned above are able to use the *ar rahnu* services due to its fast, flexible and easy procedures. The customers will need to bring their valuable goods as collateral and their applications would normally be processed in a short period of time. The approvals are prompt as they are fully supported by the collaterals. Furthermore the process can be expedited as there are no complex and tight credit evaluation procedures to go through as compared to financing application from conventional financial institutions (Amin et al., 2007).

Finally, all of the items tendered will be kept in safe places which are insured under government protection. Each customer will also be notified on monthly basis related to the items tendered such as the date to surrender the items to them and giving their excess money from selling the items in case they do not want to claim back those items (Othman et al., 2012).

# 2.5 Issues in implementing Islamic pawn broking (ar rahnu)

It is undeniable that there are huge potential of *ar rahnu* as a short term financing alternatives however several issues need to be properly addressed in order to ensure the increase in the usage rate of *ar rahnu* among the public.

Among the prominent issues in implementation of *ar rahnu* is to consider the factors that influence customers on the use of *ar rahnu* services. According to Appannan and Doris (2011), the low cost of loan is the most important factor influencing the public to use *ar rahnu*. Similarly, Cheong and Sinnakkannu (2012) mention that customers choose to use ar rahnu services over conventional pawn broking services because of its *riba*-free attributes, transparent, quick and hassle-free micro-credit financing alternatives. In addition, Amin (2011) also identify three important factors that have an impact of Eastern Malaysia Muslim women's usage intention. He explains that religious obligation is one of the influencing factors in determining one's intention to use *ar rahnu* financing. Besides that, transaction cost associated with *ar rahnu* services is also found to be one of the main contributing factors in influencing the use of this financing alternative. Similarly Amin et al. (2007) mentioned that customers' *shari'ah* view on *ar rahnu* is one of the main factors affecting their acceptance level. The issue of reasonable fees charges instead of imposing *riba* is their main concern in using the *ar rahnu* services provided.

Another critical issue that need to be addressed pertaining to *ar rahnu* implementation is creating and enhancing customers awareness. To date, it can be said that the level of customers' awareness and acceptability of this *ar rahnu* system is relatively low. Sam, Tahir, and Latif (2010) highlight that most of the customers are not aware of the service currently provided by the Islamic pawnshop. They also mentioned that most of the customers do not favour to use it as a financing tool as compared to the other types of short term financing alternatives available. Similarly Appannan and Doris (2011) also report that majority of Indian customers are not aware of *ar rahnu* as compared to Malay and Chinese customers.

Finally, today's market segments pertaining to the pawn broking customers are different compared to before. Shaari and Azlina (2003) demonstrate that *ar rahnu* basically serves different groups of market segment. They conclude that *ar rahnu* seems to attract relatively higher income group of the society irrespective of their gender. It is also found that *ar rahnu* seems more appealing to the relatively younger segments of the society. Additionally, customers with significantly different lifestyles who are more sociable and outdoor in nature regards *ar rahnu* as more attractive compare to the conventional pawnshop.

## 3. DISCUSSION

Based on the review of the literatures, *ar rahnu* is allowed in Islam where it is a form of short term financing that does not involved the elements of *riba*. It is also noted that a clear set of guidelines has been outlined in *ar rahnu* scheme. It is no doubt that all the guidelines governing *ar rahnu* transactions are made clear for the sake of safeguarding the welfare of both parties, the borrower (*ar rahim*) and the lender (*al murtahin*). Thus, in view the similarities and differences between conventional and *ar rahnu* mentioned above, it can be said that *ar rahnu* transaction is somewhat similar to conventional pawn broking. However several general principles underlying *ar rahnu* scheme namely *Qardhul Hassan*, *Wadiah Yad-Amanah*, *Al-Ujrah* and *Wadiah Yad-dhomanah* differentiate it from the conventional one (Appannan & Doris, 2011). These Islamic principles governing *ar rahnu* scheme has proved that *ar rahnu* is a form of short term financing which adhere to the *shari'ah* guidelines. Customers nowadays have an alternative in deciding on their short term financing. *Ar rahnu* serves as an alternative source of financing which is in line with the *shari'ah* guidelines are expected to drive away particularly the Muslim customers from involving in the interest-based financing instruments which are available in the market nowadays (Sam et al., 2010).

Based on the above issues in implementing *ar rahnu* scheme highlighted, it is crucial for *ar rahnu* providers to carefully evaluate those issues in order to attract new customers thus increasing its usage rate. These factors that influence the customers demand on *ar rahnu* includes *shari'ah* based and low fee charge are strong key points of *ar rahnu* over the conventional pawn broking that should be highlighted in order to increase the awareness and usage by the customers. Besides that, additional information about this *ar rahnu* services are also crucial and should be disseminated in order to expose potential customers to familiarize and understand the concepts behind *ar rahnu* system.

Moreover, since the awareness and level of acceptance among Malaysians are relatively low, necessary actions should be taken to promote *ar rahnu* services as the form of micro financing alternatives. Therefore, creating awareness of *ar rahnu* products through several promotional tools such as advertising could be considered as appropriate approach in order to inculcate public's awareness. Such approach will assist in creating good perceptions among the public with regards to *ar rahnu* product. Among others, the Islamic pawn brokers also need to clearly identify their target market in order to promote its products. To summarize, it is undeniable that Islamic pawnshops institution in Malaysia have the potential to expand in the future as there is still big market yet to be tapped. It is hoped that one day, Muslim customers especially, could regard *ar rahnu* as their main priority in deciding on their short term financing alternative.

#### 4. CONCLUSION

In conclusion, ar rahnu is beyond doubt that it is fundamentally upholding the shari'ah principles aiming to achieve its objective (Maqasid al-Shari'ah). In this context of ar rahnu, applying and achieving the objectives of shari'ah (Maqasid al-Shari'ah) become the main concern. Hence, the introduction of ar

rahnu as a permissible micro financing tool based on the Maqasid al-Shari'ah gives Muslims customers an alternative of getting a fast and low-cost interest free cash advances.

The introduction of the Islamic pawn broking (ar rahnu) should not considered as a competition to the conventional pawn broking but it is aimed to compensate the rising demand of Islamic-based financial products of today's society. Ar rahnu was basically introduced to fulfill the social responsibilities which are inconsistent with the shari'ah principles and guidelines. In order to achieve this maqasid-al-shari'ah, all business activities conducted and products used in the economy must uphold the basic shari'ah principles particularly in relation to the prohibition of riba and gharar. If all Muslim customers choose those products which are permissible by shari'ah such as ar rahnu, as a result the Maqasid al-Shari'ah will be achieved that is to safeguard the interest of the mankind and at the same time to prevent them from harm, both in this world and hereafter. Once Muslim customers have a choice that would later rival the conventional ways of obtaining short term financing which involved the elements riba or gharar, there would not be any question of Muslims not fulfilling their obligations to uphold Islam in their daily lives.

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# AGRICULTURAL PRODUCT AND LOST SHARING (aPLS) AS A POTENTIAL SCHEME FOR ISLAMIC MICROFINANCE IN AGRICULTURE

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#### **ABSTRACT**

The agricultural sector works in an environment of its own. This sector is vulnerable to many natural risks such as droughts, floods, and also attacks from wild animals, and these need to be taken into account by the farmer and the landlord. Due to these risks, financiers are reluctant to invest or finance this sector. Comparatively speaking, these risks are not common in industry, trade, services, and other sectors. Structurally, agricultural projects in Malaysia are often in the form of small holdings owned by families and households in rural areas. Private ownership is, by and large, the predominant attribute in the ownership of properties and assets. Most of these small-scale agricultural and non-agricultural enterprises are left to themselves. They have limited capacity to generate revenues beyond the equivalents of subsistence needs of the families. This is a reflection of the production capacity which is small and depends on the immediate needs of the household in the rural sector. Therefore, this paper attempts to highlight the farmers' lives in Malaysia and their problems in developing agricultural land. Based on the problems faced by farmers, Islamic solutions are proposed to be considered by the governing bodies. Consequently, this paper investigates the possibility of agricultural development utilizing Islamic microfinance schemes in order to help farmer's sustainability.

Keywords: Agricultural Land, Islamic agricultural finance, Malaysia.

#### 1. INTRODUCTION

There is no doubt that the Islamic finance industry is regarded as one of the fastest growing industries in the world. However, there are still many potential Muslim customers especially in rural areas whose banking needs are not being met, and who do not have access to lending products or credit products due to their poverty level. In the meantime, the agricultural sector is presumably the sector in which entrepreneurial projects would have the greatest impact on economic growth.

Based on arguments from Hoshmand (1995), it was stated that the financial problems faced by the agriculture sector were caused by the risks of debt financing and a lack of access to the capital market

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respectively. He proposed that the partnership contracts could offer a solution to the problems of credit availability as well as reducing the risks of debt financing.

In addition, one of the major contributing factors to the idle land problem in Malaysia was the inadequacy of debt finance as a means of providing agricultural credit and the related issue of financial insolvency among landowners and farmers.

Meanwhile, agricultural projects in Malaysia are often in the form of small holdings owned by families and households in rural areas. Private ownership is, by and large, the predominant attribute in the ownership of properties and assets. Most of these small-scale agricultural and non-agricultural enterprises are left to their own devices. Therefore, they have limited capacity to generate revenues beyond the equivalents of the subsistence needs.

Thus, it is necessary for financiers to be aware of and to understand the reality of the lives of farmers and the risks they face, in order to effectively finance agricultural land development and eventually to contribute to economic growth. Since Islamic finance is regarded as a flagship of Islamic economics and agricultural development is one of the important aspects in Islamic economic discourse which has still not been emphasized enough by Islamic economists in the current age, there is potential space for the discussion of Islamic microfinance for agriculture sector and for the enrichment of literature on Islamic economics as well as Islamic banking and finance.

Furthermore, in agricultural land contracts between farmers and landlords, the cost of input usually requires a huge initial investment of money or funds to implement it. If the matter of utilizing idle land is not managed properly, and an inefficient agricultural contract is drawn up, this can be a cause of the poverty among farmers.

Islamic jurists who validated *muzara'a* and *musaqa* contracts as partnership agreements were also concerned about sharing input costs between landlords and tenants. Hence, it would make the contract between both parties more efficient if they were to include joint responsibility for the financing from the financial institution in their partnership agreement.

On the other side, in reality, partnership modes of financing are marginalized in practice among Islamic banking and finance institutions even though these principles are idealized in the theory of Islamic finance as an alternative to *riba*.

However, partnership contracts in agricultural land development based on the principles of *muzara'a* and *musaqa* can be promoted as a potential scheme for Islamic microfinance, if appropriately modified to suit the current situation, as an alternative for financing agricultural land development.

Therefore, there is an urgent need to develop a sound Islamic agricultural microfinance system in order to developing agricultural land and to achieve increased and sustained growth in farmers' and landowners' incomes and to reduce poverty.

# 2. METHODOLOGY

This paper is using descriptive and exploratory method of study which refers to the situation of agricultural sector in Malaysia. Based on the issues of financing in agricultural development in Malaysia, this paper seeks for potential solutions, i.e., Islamic microfinance which attempts to create a suitable approach to ensure the sustainability production in agriculture.

## 3. THE 'NATURE' OF AGRICULTURE IN MALAYSIA

Generally, four major types of physical assets that form the farm capital are; farm land and buildings, implements and machineries, livestock, and stored crops. Land derives its value from its usefulness in agricultural production and not from its potential as urban estate or in mining (Tostlebe, 1957). The value of land can be raised by the investment of effort and money in cultivating and preserving jobs. In general, labour is the key factor of production while profit is the reward given as motivation for them.

The misunderstanding about where the value of land derives, drag the initiative to activate agricultural land with a structural and technological transformation into the increment in the size of idle agricultural land instead. This is what happened in Malaysia when a program named as "pertanian kontrak" results failure (Amriah & Ratnawati Yuni, 2011).

Majority farmer in Malaysia can be classified as small holding farmers, whose normally facing similar situation, which is a financial difficulty. They have gone through cycles of growth and decline in their use of credit. Such cycles take a long time to complete, regularly lasting more than a generation. (Hunges, 1986)

It is a fact that agricultural production is a seasonal process. Farmers have to pay for all production inputs such as seed, fertilizer, land preparation and machinery at the beginning of farming season; but they are only able to produce the output at the end of the season. The lag between the time that they have to pay for their expenses and when they receive output revenues requires them to take a loan to maintain their liquidity.

Therefore, improving the availability of agricultural credit enables farmers to use enough inputs and engage in farm investments in order to produce the optimal level of output and achieve or increase their profits. Thus, agricultural finance helps farmers to expand their production activities and earn their living; in the absence of which both their output supply and their welfare would decline.

In term of structure, agricultural projects in Malaysia are often in the form of small holdings owned by families and households in rural areas. Private ownership is, by and large, the predominant attribute in the ownership of properties and assets. Most of these small-scale agricultural and non-agricultural enterprises are left to their own devices (Muhammad Hakimi, 2012).

They have limited capacity to generate revenues beyond the equivalents of the subsistence needs of the families. This is a reflection of the production capacity which is small and depends on the immediate needs of the households in the rural sector. Therefore, the asset holdings and products of these agricultural activities are not amenable to market transactions.

Based on the fieldwork done to the farmers of six states in Malaysia (Muhammad Hakimi, 2012), three major issues found. The first issue is about financing. The first and foremost matter that needs to take into consideration among financial institution in Malaysia is about non-cash element in farmers daily live. Cash transactions are necessary in trading sectors, commerce, manufacturing, and construction, but not in agriculture. Farmers do not use money for food, because they eat what they get from their farm. Therefore, incomes from their agricultural products are their net income.

Second thing that require serious attention from financial institutions in Malaysia is lack of support from financial institutions towards farmers in developing their agricultural land. Several factors cause the low involvements of farmers with financial institutions are:

- a) Muslim farmers are not willing to involve in the interest-based (*riba*') financing which is prohibited in Shariah.
- b) Bankers are reluctant to finance small farmers.

- c) The farmers are frustrated with the bureaucracy of the financial institutions.
- d) The small farmers feel that the agricultural government bodies will give them support.
- e) Fear among farmers about paying back a loan or financing from conventional financial institutions.

Third issue on financing is about financial problem that particularly happen during second cultivation cycle. Most of the farmers received full subsidies from Department of Agriculture (DOA) during their first cultivation but have to survive on their own during next cycle of cultivation. Due to financial problem, many of the farmers are not able to cultivate their land and let the land abandoned as how happened to the developed idle agricultural land that again became abandoned.

Fourthly, farmers prefer to make informal financing which is making a loan from relatives, landlords, or unauthorized moneylenders. They are more comfortable to borrow from family members rather than formal institution since it is more flexible if they have problem in repayment. Hence, there are significant numbers of farmers who actively involved in informal financing. This issue, can be said as a consequence of all issues that had been mentioned above.

The second main issue arise is the farmers themselves. Farmers face few tribulations in developing their idle agricultural land. Most of the farmers in the interview only use traditional method in activating their land. They are unorganized and do not have proper transaction records of their agricultural input and output. Because of this, farmers fail to accurately calculate their income or profit and drag them to the unpredicted problems and put them in trouble for the next cultivation.

Another issue from farmers arises reflected in government's policy which is about the change from cash crops to permanent crops. Farmers who cultivate cash crops during the first harvesting cycle consider changing into permanent crops such as palm oil and rubber as farmers want to increase their income. Indirectly, this changing affects the government mission of food security.

Lack of cooperation among farmers and problems in marketing their agricultural products are other issues that occurred among farmers in Malaysia. The influences of middleman who control the market lead to marketing problem where farmers do not get the fair price for their output.

Thirdly, land issues are also crucial to take attention. It can be stated that the size of farm significantly affects the farmer's income. Based on the fieldwork, farmers who involved in small scale farms of one to five hectares got an income of RM 1000 – RM 2000. While farmers who dealing with large area of land from 11 to 15 hectares got a monthly income of RM 3001- RM 4000 and above. Majority of respondents who are dealing with more than 20 hectares got RM 4001-RM 5000 income. It can be determined that farmers with large scale farming get a higher income. However, it is hard to find those who own and cultivate their land at the same time. Therefore, the only way for agricultural entrepreneur to get a better income is deal with the landowners who own a large scale farm or several landowners that have small scale farm each.

Another issue of land that occurred is about scattered land ownership and uneconomic sized holdings. Generally, much of land in Malaysia has been alienated on permanent titles. The land is normally held under a single ownership, but over the years, Islamic and customary law of inheritance, as well as the sale of land have gradually given rise to the multiple ownerships and the fragmentation of land.

The change on the status of land from agriculture to another profit orientation such as industry and commercial housing is a serious matter to ponder. The status change will disturb the ecology and of course the food security.

Basically, the issues discussed are the reality picture of farming. All parties either farmers, landowners, financial institutions, or government are chasing to meet their goals, but without right understanding and the feel of responsibility among each other, nobody can sustain in achieving their missions.

Accordingly, in Malaysia, even though agricultural markets are free arenas, there are certain inflexible elements such as government subsidies and support programs in which we find direct intervention from the government in the market mechanism, prices and resource allocations. This can be seen through the direct participation of the Department of Agriculture (DOA) in Malaysia to support farmers in developing agricultural land.

However, high dependence to the subsidies and programs from government results to the cycle of idle land which had been discussed before. As mentioned earlier, shortage in capital happen in second cultivation as they only get subsidies at start. In this situation, farmers need financial aid, but financier reluctant to give financing due to the risks in agriculture. Farmers, at this moment strive to sustain with borrowing money from relatives, or landlords. However, this traditional method will not long last and at the end will result unsustain in cultivation. Therefore, Islamic microfinance is suggested as a way to overcome the capital shortage that farmers faced.

#### 4. THE SIGNIFICANCE OF ISLAMIC MICROFINANCE IN AGRICULTURE

In general, the need for financing is universal in society, whether or not it is based on conventional or Islamic finance. However, I would like to highlight three main arguments supporting my opinion that we need to apply Islamic financial principles in order to activate or finance agricultural land, particularly in the case of Malaysia.

# 4.1 Shari'a Compliancy

In any case, Islam is a complete way of life and addresses all aspects of man's life including finance. In brief, Islamic finance is based on the Shari'a which provides guiding principles for all aspects of Muslim life, including religion, society, politics, economics, banking, business and law. Islamic or Shari'a compliant financing constitutes financial practices that conform to Islamic law which is based on al-Quran and Sunnah.

In addition, Shari'a compliant finance was designed to enable Muslims to buy financial products that comply with the tenets of their religion. Just as non-Muslims do, Muslims require banking services such as savings accounts, financing for education, home loans and many other services which banks offer their customers.

History from the establishment of *Tabung Haji* in Malaysia in 1962 and the first Islamic bank in Egypt in 1963 to the present day has proven the great need for Shari'a compliant banking or financial products in rural communities.

According to El-Gamal (2000), a banking and financial system based on Islamic principles exists mainly to provide religiously acceptable banking services to the Muslim community. Islamic banks are also intended to be financial institutions to assist Muslims in keeping away from *riba*, *gharar* and *maysir* which are present in conventional banking institutions (El-Gamal 2000: iv-v).

Therefore, these days, there is no reason why Muslims should not be able to access the services offered by banks in a Shari'a compliant way. For instance, in Malaysia, in addition to full-fledged Islamic banks such as Bank Islam Malaysia Berhad (BIMB), almost all commercial banks are offering Islamic financial products to their customers (Haron and Wan Nursofiza 2009:79-81).

In addition, based on interviews with the officer of the Department of Agriculture, Malaysia and Agro Bank officers in May 2010, a lot of farmers and landowners in rural areas of Malaysia are demanding Islamic financial products to assist them in developing agricultural land. On the other hand, they are also very reluctant to make use of debt financing since this type of financial product puts them into very high risk situations in terms of repayment.

## 4.2 Long Term Profitability

The Islamic financial scheme originates from the total prohibition of the payment or receipt of any predetermined, guaranteed rate of return. This closes the door to the theory of interest and precludes the use of debt-based instruments. The system encourages risk sharing, promotes entrepreneurship, discourages speculative behavior, and emphasizes the sanctity of contracts. Islamic finance promotes entrepreneurship and risk sharing and its expansion to the poor could be an effective development tool (Alasrag 2010: 8).

In Islamic banking systems, banks are considered as organizations working with their customers' funds. In general, Islamic banks offer two kinds of banking facilities, namely: fixed profit facilities such as hire purchase, installment sale at a fixed rate of profit which is based on principles of *al-murabaha* and *al-bay bithaman ajil* and secondly, variable profit facilities, based on "Profit and Loss Sharing" rooted in *al-musharaka* and *al-mudaraba* principles.

Meanwhile, the profitability of Islamic banks has been analysed on the basis of two measures; namely rate of return on assets and rate of return on equity. From the analysis by the authors, it appears that Islamic banks' performance, in terms of profitability in general, at least meets (or even surpasses) international standards (Iqbal and Molyneux 2005: 78-80).

However, it should be noted that conventional banks' depositors are guaranteed their principal amounts, and hence bear less risk than Islamic banks' depositors, and so the depositors of Islamic banks would legitimately expect a higher rate of return to recompense for the extra risk. The current rates of profit on assets of the Islamic banks may not be enough to meet that expectation. Therefore, there is a need to make the rates of return paid to depositors more attractive and Islamic banks should not only rely on the loyalty of clients for religious concerns.

Furthermore, in all business, there is need for long term finance. In a conventional system, it was offered through long term bonds and equities. However, Islamic banks do not deal with interest-bearing bonds and therefore the need for equity markets is crucial in an Islamic framework (Iqbal and Molyneux 2005: 105).

From another perspective, Siddiqi (1983a) and Chapra (1992) have argued that Islamic banks will promote growth in Islamic countries by providing long-term financing to growth oriented sectors of the economy by using "Profit and Loss Sharing" (PLS) contracts or partnership financing. It was envisaged that PLS became the core characteristic of Islamic banking financing (Chapra 1992: 201 and 329-331; Siddiqi 1983a: 112-113 and 122-123).

Chapra (2002) also argues that more partnership or equity financing would enhance the stability characteristics of financial systems because, through the resultant risk-sharing contracts, financiers would have a greater incentive both to assess risks at the outset and to monitor borrowers after finance had been given (Chapra 2002: 232).

In the meantime, in general, the agricultural sector especially requires long term financing due to the long duration from sowing to harvesting. Therefore, partnership financing is feasible for funding the long term projects found in the agricultural sector.

Meanwhile, Aggarwal and Yousef (2000) have divided PLS, which is anchored in the principles of *almudaraba* and *al-musharaka*, into both long term and short term financing, while always linking them to the principles of *bay al-salam* and *al-ijara*.

Additionally, Hoshmand (1995) proposed that Islamic banking principles such as PLS may offer a solution to the problems of credit availability as well as reduce the risk of debt financing in the agricultural sector. Two reasons can be given in support of this statement. First, banks would not risk their funds for highly speculative purposes. Second, banks would have the incentive necessary to promote the projects' profitability because they would be acting as shareholders in the projects they financed (Hoshmand 1995: 75).

However, research done by Yousef (1997), Hasan (2002b) Dusuki (2007) and Nagaoka (2010a) discovered that the majority of Islamic banks in recent times both in the Middle East and Malaysia do not essentially use PLS products as core financial instruments in their dealings and rely much more greatly on markup financing than on PLS financing. In addition, the constraints on the progress of "Profit and Loss Sharing" methods are believed to be caused not only by the asymmetric information, but also the nature of banks as short-term finance institutions.

From the research done by Ahmed (2006), it was found that the Islamic banks were reluctant and unable or unwilling to participate in long-term projects. They much preferred short term and medium term investments

Nevertheless, this phenomenon is opposed to what happened at Agricultural Bank of Iran (ABI) as Kazem and Zamir Iqbal (2002) have shown in their research. They have presented empirical evidence by using the 15 years of data from ABI which depicts that a reduction in information asymmetry and increased direct participation by the financier led to a preference for equity participation or partnership contracts based on *al-musharaka* principle. They also suggested that close monitoring and supervision should not be considered as an extra cost but as an investment to build a knowledge base of superior quality entrepreneurs and projects.

# 4.3 Social Needs

It is undoubtedly true that the agricultural sector makes a vital contribution to society, mostly through the supply of food and economic growth. In developing countries in particular, this sector is still the backbone of the country's production and an important component in the growth of the economy.

Dorward *et al.* (2004) also mentioned that agriculture is a vital part of the livelihoods of many poor people. Thus, it is always argued that agricultural growth is a fundamental pre-requisite for widespread poverty reduction.

Moreover, it is an undeniable fact that the agricultural sector plays a significant part in many crucial social issues such as the incidence of poverty, food security and rural development. Indeed, the idle land problem is frequently connected to the high incidence of poverty in rural areas in Malaysia (Vincent and Rozali 2005: 157-158).

Furthermore, as mentioned by Haron (1998), the philosophy of the establishment of Islamic banking and finance institutions should not only be for profit making but should also be alert to the needs of the

society in order to attain the social goals of socio-economic development and eradicate poverty in parallel.

According to Khan (1994), one of the problems of the rural economy is that small farmers do not have access to improved farm inputs such as seeds, fertilisers, and pesticides (Khan 1994: 19). Meanwhile, commercial banks have traditionally operated in urban areas and provided short-term finance to firms and industries, but they have very little experience of operating in the rural environment. For Islamic banks to enter this field, it would need a lot of preparatory work by way of risk assessment, financial planning, operating procedures and monitoring arrangements. It would also require strong legal support (Khan 1994: 12).

This is very important for Islamic banks in order for them to play significant roles in contributing to the development of rural areas and to meeting social needs. Therefore, in this crucial area, there are three vital considerations as to why Islamic finance should be involved in financing agricultural land particularly in Malaysia's case.

## **4.3.1 Food Security**

Though Malaysia is blessed with fertile soil, adequate rainfall distribution throughout the year and a beautiful tropical climate, the country is still a net food importer and has never achieved a surplus in its food trade balance. For instance, according to statistics from the Ministry of Agriculture and Agro-Based Industry Malaysia in 2008, Malaysians consume about 2.2 million tons of rice in a year, but Malaysia is only able to produce 1.6 million tons. Therefore, the government has to import around 600,000 tons to meet the demand for rice as the main food of Malaysia. In Malaysia, the food security issue is always linked to and mainly focused on rice which is our basic staple and 'political' crop (Mansor 2008).

# **4.3.2 Potential for Rural Development**

In Malaysia, the agricultural sector is usually common to rural areas which have the most arable lands. Theoretically, agricultural activities can be carried out to accomplish personal or family desires or even for profitable purposes. Thus, individuals' desires will promote the agricultural sector and impact to the rural economics.

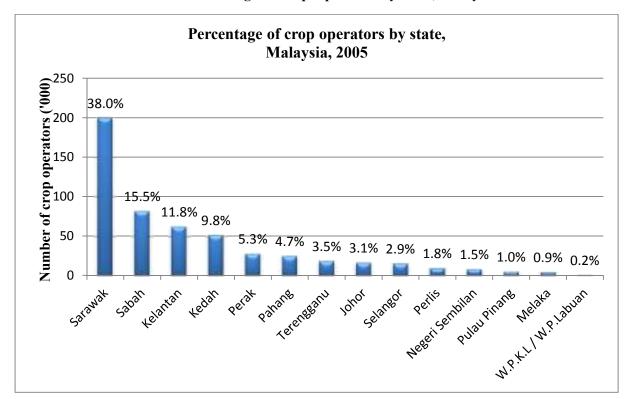


Chart 1.1: Percentage of Crop Operators by State, Malaysia 2005

Source: Agriculture Census 2005, the Department of Statistics, Malaysia.

The agriculture Census 2005 identified a total number of 526, 265 crop operators. Sabah and Sarawak together accounted for more than half (53.5%) of the crop operators in 2005. This was followed by the east coast states of Kelantan, Terengganu and Pahang, contributing 20%. Meanwhile the Northern states of Kedah, Perak, Perlis and Pulau Pinang together accounted 17.9%. Kuala Lumpur and Labuan cumulatively only accounted for 0.2% of the total crop operators.

From Chart 1.1, it was found that most of the crop operators in Malaysia are located in the rural areas because most of states with a high number of farmers such as Sarawak, Sabah, Kelantan, and Kedah are less developed compared to Kuala Lumpur, Melaka and Pulau Pinang.

## 4.3.3 Poverty Reduction

Islam does not like inaction of the society against poverty because it degrades the societal status of the vicegerents of God, gives birth to many social problems and puts the poor nations at a disadvantaged position in the world society.

In addition, the incidence of poverty in the smallholder sector, especially in rural areas, has remained higher than in urban areas over the last decade or so. Therefore, while the agricultural activities commonly practiced in rural areas have created employment for the people; Islamic finance should be more and more involved in these activities because, implicitly, it can reduce the numbers of poor people in these rural areas.

Table 1.1: Incidence of Poverty (%) in Malaysia, 1970-2000

	1970	1980	1990	2000	_
Peninsular Malaysia	49.3	37.4	17.1	8.3	
Rural	58.7	45.8	21.8	8.0	
Urban	21.3	17.5	7.5	3.0	

Source: The Economic Planning Unit, Malaysia.

Table 1.1 shows that the poverty incidence was reduced from 49.3% in 1970 to 8.3% in 2000. Furthermore, the incidence of poverty amongst rural and urban households also declined respectively. However, there is still a much greater incidence of poverty in the rural areas than the urban areas of Malaysia.

# 5. THEORETICAL PROPOSAL OF "AGRICULTURAL PRODUCT AND LOSS SHARING" (aPLS) AS AN ISLAMIC MICROFINANCE FOR AGRICULTURE

#### 5.1 Microfinance and Islamic Microfinance

Based on this fieldwork which has revealed the real scenarios of farmers' lives, there are some alternative solutions from an Islamic perspective and in particular related to Islamic microfinance that can be proposed here.

Theoretically, special element in microfinance lies in "joint liability" concept which lender does not take a secured interest like common credit disbursal mechanism. (Braschler, 2006). It is different from conventional loan especially in terms of participants. Microfinance is usually in small size loan, easy and flexible terms and conditions, short term financing, weekly repayment basis, fast and easy procedures of loan disbursement, (A.Rahim, 2007) and uncollateralized (Amit & Bhagwan, 2010).

Microfinance main features consist of groups of individuals who are interested, several groups from the center, have weekly meetings between representative from the center and the participants, and an official meeting from the microfinance institution (MFI) for the transaction matters. There are also forced in saving and insurance programs besides several social development programs.

Many elements of microfinance are consistent with the broader goals of Islamic finance. Both advocate entrepreneurship and risk sharing to help the poor, the financial inclusion, focus on developmental and social goals, and involve the participation by the poor. (Obaidullah, 2008) Hence, there is no doubt about benefits to joint them together while modifying the products and services to produce it as Islamic microfinance. Instead of just retain the best practices of microfinance, Islamic microfinance would consider to religious and cultural sensitivities of the Muslim clients.

However, there are few important aspects in microfinance need to be modified to make it *shariah compliant*. Prohibition of *riba*' is the main fundamental of Islamic finance existence. Regardless what the intentions are *riba*' is prohibited. At least two main types of *riba*' can be classified which is namely as credit *riba*' (*riba*' *al-nasi*' *ah*) and surplus *riba*' (*riba*' *al-fadl* (al-Zuhayli, 2006). *Riba*' *al-nasi*' *ah* can be

defined as postponement interest where happen in the delay of settlement of a due debt whether in term of loan or goods sold. While surplus *riba'*(*riba'al-fadl*) can be described as an unlawful excess in the exchange of two counter-values in the six canonically-forbidden categories of goods; gold, silver, wheat, barly, salt and dry dates. *Riba'* also exists if there is either inequality or delay in delivery of the goods offered

As an alternative to *riba*', profit and loss sharing arrangement are held as an ideal mode of financing in Islamic finance (A.Rahim, 2007). Fairness of sharing the profits and losses can be seen in two dimensions: the supplier of capital possesses a right to reward, but this reward should be commensurate with the risk and effort involved and thus be governed by the return on the individual project for which funds are supplied. What makes profit-sharing permissible in Islam while interest not is the profit-sharing ratio, not the rate of return itself that is predetermined.

In early literature on IBF studies, it was envisaged that a partnership contract or PLS rooted in the principles of *al-mudaraba* and *al-musharaka* was to be the core characteristic of Islamic banking financing operations. This was proved through the proposal to apply the PLS scheme from (Qureshi, 1945), (Uzair, 1955) and (Siddiqi M., 1983a) in order to eliminate *riba* in banking transactions (Saeed, 1999).

Additionally, the Islamic principles of *al-mushraka* and *al-mudaraba* can be adopted for all types of business. Capital can be invested alike in commercial, industrial and agricultural business on the principle of *al-mudaraba* and each enterprise can be carried on by a few capitalists jointly in partnership. There, the discussion of banking without interest should make this stand as a cornerstone or the basis for the system of banking without interest (Siddiqi M., 1985, pp. 104-105).

# 5.2 The Concept of Muzara'a and Musaga as forms of Partnership in Agriculture

Muzara'a is derived from the word "zara'a", viz crop (Ibrahim Madzkur, 1983: 401). Majalla al-Ahkam al-'Adliyya in section 1431 defined muzara'a as a contract made between two people, one a landowner and the other a farmer, whereby the landlord gives his land to the farmer to cultivate against a specified joint share of the crops (Tyse, 2001: 237). Technically, it also means a contract for the cultivation of land in return for part of the produce in accordance with conditions stipulated by law, when a farmer agrees with the landowner on a specific percentage to be obtained in exchange for work on his land. Farming expenses are shared by the worker and the landowner, proportionally.

Meanwhile, the word *musaqa* is derived from *saqa*, to water, or irrigate the land (Rohi, 1995: 636). *Majallah al-Ahkam al-'Adliyya* defines it as a contract between the owner of some trees and the farmer who treats, services, irrigates and cares for the said trees, and stipulates that the fruit produced is to be shared between them. In other words, the contract of *musaqa* means that a person agrees with someone that for a specified time, the fruit-bearing trees owned by him, or those which are under his discretion, will be assigned to that person so that he cares, tends and waters them. In return, that person will have the right to take an agreed quantity of the fruits harvested (Bosworth, 1993: 658).

However, some arguments have arisen among leading Islamic jurists as to their concept as a leasing or partnership contract. In the earlier concept of *muzara'a*, Imam Abu Hanifah suggested that this principle is invalid and only acknowledged the concept of *ijara* (leasing). Nevertheless, later schools such as Abu Yusuf, Shaybani, Ahmad ibn Hanbal, Ibn Hazm and contemporary scholars like Sadr and Taleqani proposed that this principle was similar to the partnership contract and permissible.

In structuring an Islamic microfinance for agricultural sector specifically, Islam provides another contract which similar to *al-mudarabah* and *al-musharakah* but exclusive for agriculture; namely *al-muzara'a* and *al-musaqa*.

In general, *al-muzara'a* and *al-musaqa* contracts can be defined as an agreement between the owner of a piece of land and the farmer. They would share the produce in proportions which are agreed and depend on the contribution that each has made. (Hailani & Sanep, 2009). In practice, one of the partners is working on the agricultural project and other is providing capital (land). The relationship between the partners is based on trust, with the landlord having relied heavily on the farmer's ability to manage and his honesty when it comes to harvest.

In particular, *al-muzara'a* is closely related to the cultivation of general agricultural products and *al-musaqa* is for orchard preservation. The approach crosses over into a form of partnership or product and loss sharing in agriculture. These principles have transformed the use of land and labour into commodities which both give them a value and expose them to loss and damage. Hence, it can be said that land together with labour can be considered as a form of capital and therefore has a resemblance to the contracts of *al-mudarabah* and *al-musharakah*.

Many researchers consider *al-muzara'a* and *al-musaqa* to be a partnership in profit just like *al-mudarabah*. In nature, capital of *al-mudarabah* will create profit as it cause the term profit and loss sharing (PLS) known by many Islamic economists. Nevertheless, *al-muzara'a* and *al-musaqa* have their own origins in classical custom. It was participation in output like sharecropping or output sharing. This is because the land as capital will produce the product or agricultural output. In the meantime, (Sarker, 1999) stated that output sharing contracts are mainly categorized into two types of principles which are *al-muzara'a* and *al-musaqa*. This is supported by (Khan, 1995) which agreed the difference between these contracts with *al-mudarabah* is the output shared and not the profit earned.

# 6. THE PROPOSED SCHEME OF ISLAMIC "AGRICULTURAL PRODUCT AND LOSS SHARING" (aPLS) FOR THE ISLAMIC MICROFINANCE FOR AGRICULTURE

In order to compete with the global financial system, the Islamic financial system needs innovative and hybrid financial products to meet the requirements of its customers. Therefore, Sharia scholars these days have been innovating Islamic financial instruments by combining and renovating traditional Islamic contracts.

The "joint liability" concept in microfinance is actually similar to *mudarabah and musyarakah* contracts where have widely applied in Islamic finance. In terminology, *al-mudarabah* was define as a contract between two contracting parties whereby one party (*rabb al-mal*) provides capital (money) to the second party (*mudarib*) to employ that money in trade while the profit will be divided based on initial agreement (Hailani & Sanep, 2009). The point behind this kind of partnership is collaboration of parties who have money but not skilled with the parties who have good skills and experience but do not have money.

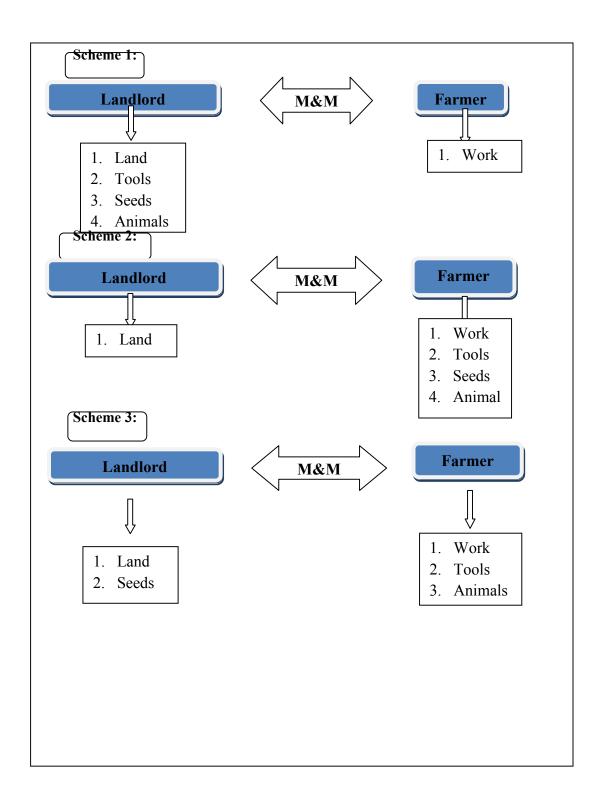
Meanwhile, *al-musharakah* was define as joint enterprise in which all the partners share the profit or loss in the joint venture in the context of business and trade. It comes from the word *shirkat ul-amwal* which refers to partnership between two or more persons with contribution some of their capital. (Usmani, 1999) . Hence, *al-mudarabah* can simply define as a profit sharing agreement and *al-musharakah* is about joint venture, which involve a profit and loss sharing agreement.

Alternatively, *al-muzara'a* and *al-musaqa* contract of financing which can be named as 'agricultural product and loss sharing' (aPLS) contract, can be initiated subject to joint partnership in the mobilization of land, other physical inputs and labour. As a basis, a contract based on this principles can specify that land and other physical factors of production for the partnership could come from one party while labour could be supplied by the other party.

On the other hand, only land can originate from one party while other factors, including labour, could come from the other party. Yet, another alternative of *al-muzara'a* is that land and labour could come from one of the contracting parties, while other factors of production may be provided by the other party in the contract. In contemporary agriculture, there is also a three-party *al-muzara'a* partnership, where the first party provides land, the second provides the physical inputs, and the third provides labour.

# 6.1 The Traditional Schemes of *al-Muzara'a* and *al-Musaqa* (M&M) between Landlord and Farmers.

Figure 1.0: The Traditional Schemes of *al-Muzara'a* and *al-Musaqa* (M&M) between Landlord and Farmer



The figure above shows the traditional schemes of *al-Muzara'a* and *al-Musaqa* (M&M) between landlord and farmer. Land, seeds, work, tools, and animals are the elements needed to be counted as contribution between both parties. Based on traditional schemes, landlord must provide land, while farmer must give contribution in term of work. The rest of the elements can be contributed by any parties as long as both of them agree.

#### 6.2 Combination of aPLS scheme and al-Salam, al-murabaha, al-ijara, and al-ujra

#### 6.2.1 aPLS and al-Salam

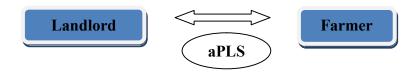
Figure 2.0: An Example of al-Salam Structure



# Procedures:

- 1. The farmer sells the crop to the bank on a forward basis. The bank pays the farmer \$X.
- 2. After the crop is harvested (let's say in 6 months), it is delivered to the bank.
- 3. The bank then sells the crop to the buyer in the market for \$Y. The difference between \$X and \$Y is the bank's profit.

Figure 3.0: A Proposed Scheme of aPLS between Farmer and Landlord

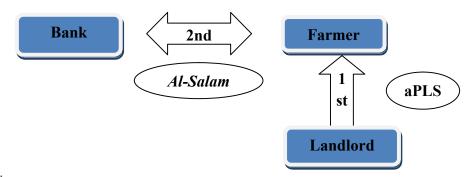


# Procedures:

- 1. The contract based on this principle can stipulate that land and other physical factors of production such as tools, seeds and animals could come from landlord while labour could be supplied by the farmer.
- 2. Alternatively, only land can initiate from the landlord while other factors, including labour, could come from the farmer.

Another alternative to aPLS is that land and seeds could come from landlord, while all other factors of production such as tools and animals may be provided by the farmer.

Figure 4.0: A Combination of aPLS and al-Salam Contracts in Developing Agricultural Land



- 1. In the first contract, the farmer and landlord create their relationship based on "Agricultural Product and Loss Sharing" (aPLS). This contract should be created as mentioned in the three schemes suggested in Figure 1.0.
- 2. Meanwhile, the second contract would be between the farmer and a bank based on *al-salam* principle. In this contract, the bank acts as a buyer and the farmer as a seller for which payment of the transaction amount occurs today for a crop to be delivered in the future.
- 3. The bank, after entering into *al-salam* contract, can enter into a parallel contract or a promise with any third party (agent) to sell the same commodity with the same specifications and date of delivery. The two contracts would be enforceable separately and independently.

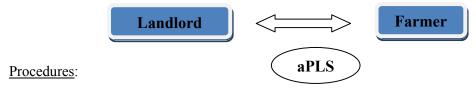
#### 6.2.2 aPLS and al-Murabaha

Figure 5.0: An Example of al-Murabaha Structure



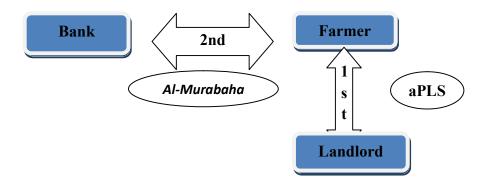
- 1. The farmer identifies a machine or agricultural tool that he desires.
- 2. The farmer approaches the bank to obtain financing based on an *al-murabaha* contract.
- 3. The bank buys the asset from the third party (manufacturer) and pays in full.
- 4. The bank sells the asset to the farmer at a mark-up selling price which can be formulated as purchase price + profit margin = selling price.
- 5. The farmer makes monthly installment payments to the bank for the specified duration time as agreed by both parties.

Figure 6.0: A Proposed Scheme of aPLS between Farmer and Landlord



- 1. The contract based on this principle can stipulate that land and other physical factors of production such as tools, seeds and animals could come from the landlord while labour could be supplied by the farmer.
- 2. Otherwise, only land can initiate from the landlord while other factors, including labour, could come from the farmer.
- 3. Another alternative to aPLS is that land and seeds could come from the landlord, while all other factors of production such as tools and animals may be provided by the farmer in the contract.

Figure 7.0: A Combination of aPLS and al-Murabaha in Developing Agricultural Land



- 1. In the first contract, the farmer and landlord have a transaction in developing agricultural land based on the aPLS principle as suggested earlier.
- 2. In the meantime, the farmer and the bank create a contract based on the *al-murabaha* principle. In the *al-murabaha* contract (deferred payment sale), the farmer identifies the assets such as tractors and agricultural machines and all its specifications and requests the bank to purchase them.
- 3. The bank afterward sells the assets on to the farmer on a deferred payment basis. The assets, the original purchase price, the mark up for deferred payment and the payment date are all agreed in the contract.

# 6.2.3 aPLS and *al-Ijara* (leasing of machinery)

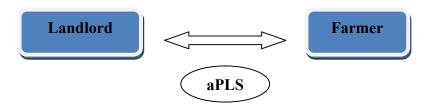
Figure 8.0 : An Example of *al-Ijara* Structure



## **Procedures**:

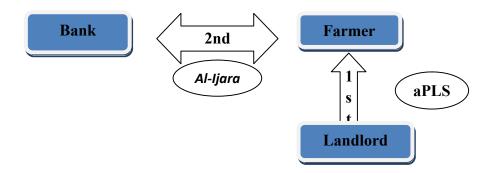
- 1. The farmer identifies a machine or agricultural tool that he desires.
- 2. The farmer approaches the bank to obtain financing based on an *ijara* contract.
- 3. The bank provides the asset and leases it to the farmer.
- 4. The farmer makes periodic rental payments to the bank for the specified duration time as agreed by both parties.
- 5. At the end of the contract, the farmer will return the asset to the bank.

Figure 9.0: A Proposed Scheme of aPLS between Farmer and Landlord



- 1. The contract based on this principle can stipulate that land and other physical factors of production such as tools, seeds and animals could come from landlord while labour could be supplied by the farmer.
- 2. On the other hand, only land can initiate from the landlord while other factors, including labour, could come from the farmer.
- 3. Another alternative to aPLS is that land and seeds could come from landlord, while all other factors of production such as tools and animals may be provided by farmer.

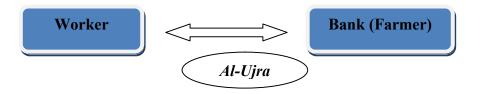
Figure 10.0: A Combination of aPLS and al-Ijara in Developing Agricultural Land



- 1. In the first contract, the farmer and landlord create their relationship based on "Agricultural Product and Loss Sharing" (aPLS). This contract should be constructed as mentioned in the three schemes suggested in Figure 1.0.
- 2. In the second contract, the farmer can use an *al-ijara* contract with the bank as a mode of financing with the purpose of enabling farmers to use durable goods and equipments such as heavy machinery like tractors and plants in productive enterprises without having to buy them.
- 3. In *al-ijara* financing, the bank purchases the asset and allows the farmer to use it for a fixed charge. The ownership of the asset remains with the bank and the farmer pays the rental.

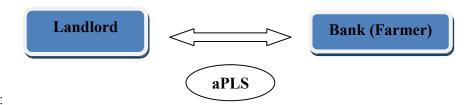
# 6.2.4 aPLS and al-Ujra (fee or commission) Labour

Figure 11.0: An Example of al-Ujra Structure



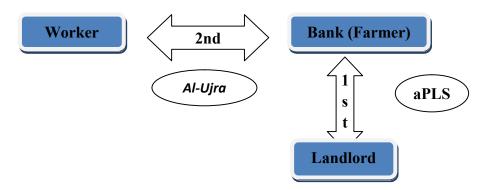
- 1. The bank acts as a farmer in this transaction and hires agricultural workers based on an *al-ujra* contract.
- 2. Al-ujra can be defined as wages or service fees against work done for others.
- 3. The workers will supply their labour skills and be paid by the bank as agreed in the contract.

Figure 12.0: A Proposed Scheme of aPLS between Farmer and Landlord



- 1. The contract based on this principle can stipulate that land and other physical factors of production such as tools, seeds and animals could come from landlord while labour could be supplied by the farmer.
- 2. Instead, only land can initiate from the landlord while other factors, including labour, could come from the farmer.
- 3. Another alternative of aPLS is that land and seeds could come from landlord, while all other factors of production such as tools and animals may be provided by the farmer.

Figure 13.0: A Combination of aPLS and al-Ujra for Developing Agricultural Land



- 1. In the first contract, the bank acts as a farmer and has a transaction with the landlord in developing agricultural land based on the aPLS principle as suggested earlier. It should be clear that it is not possible for the bank to be a farmer in real terms.
- 2. Therefore, in the second transaction, the bank will hire an agricultural worker for managing and harvesting the agricultural land based on the *al-ujra* contract. The bank will pay wages to the workers for their labour.
- 3. In this scheme, if the farmer doesn't have the capability to harvest the land by himself, he can create another relationship with other workers which are based on the *al-ujra* contract.

#### 7. CONCLUSION

As a conclusion, it can be understood that the scheme aPLS that proposed cannot stand alone in the traditional *fiqh* to be implemented now. Therefore, the combinations of aPLS contract with *ujrah* principle are really needed. This is important to ensure the flexibility of the contract that can be offer a fully comprehensive scheme of Islamic agricultural finance.

Furthermore, these principles have changed the use of land and labour into commodities which both give them a value and expose them to loss and damage. Hence, it can be said that land together with labour can be considered as a form of capital and therefore has a similarity to the contracts of *mudaraba* and *musharaka*. Hence, it can be said that these principles are "agricultural production and loss sharing (aPLS)" because land will naturally produce an output or a product. *Muzara'a* and *musaqa* therefore can be said to be contracts which are based on sharing output rather than sharing profit.

Based on the issues discussed above, the nature of farmers does not actually need a big amount of money to sustain in their cultivation. But, they also need support in term of financial, and motivation to secure their life. This support can be earned when they do partnership in agriculture based on aPLS microfinance scheme. In reality, the Islamic banks should distribute a pragmatic part of their funds to social priority sectors like agriculture and create a sound Islamic agricultural financing system to facilitate agricultural land development. Islamic banks can use "production and loss sharing" rooted in *muzara'a* and *musaqa* contracts to finance the fixed and working capital needs of small and medium farmers who cannot provide sufficient collateral to qualify for financing through conventional institutions. Moreover,

agricultural partnerships' financing, when supervised and guided, could give much higher returns on investment than most of the other methods of finance.

In brief, it should be noted that any Islamic financial products approved, should not only prioritize profit maximization as their main motivation. They must have soul in considering their social responsibility specifically for the farmer's development and generally for the worldwide food security.

To sum up, it is necessary to make more empirical studies to further clarify the above mentioned issues, defining particular steps by bringing together input from many parties, and eventually building a framework for a partnership between the landlord and the farmer from the perspective of Islamic economics.

Therefore, it is relevant to use the principles of *muzara'a* and *musaqa* or aPLS with proper adjustments from financial experts to make them practical transactions in Islamic banking and financial institutions as a form of Islamic microfinance for agriculture.

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# THE EFFECTIVENESS OF ISLAMIC MICROFINANCE IN BRUNEI DARUSSALAM: A CASE STUDY

Nurhasanah Morsid<sup>1</sup> Rose Abdullah<sup>2</sup>

#### **ABSTRACT**

This research aims to analyze the effectiveness of Islamic Microfinance in helping the poor in Brunei Darussalam. Based on a qualitative method, this study selected one Islamic Microfinance Institution, which is the Department of Community Development (JAPEM) as its case study. Two types of respondents were interviewed; one JAPEM officer and 15 microfinance participants of JAPEM's Perkasa Programme. An in-depth interview was conducted to find out whether or not the programme could help lessen the poverty among the participants. The level of effectiveness of Perkasa Programme is measured in terms of the clients' income, repayment rate and business growth. The finding shows that the institution is not effective in terms of increasing the clients' income, repayment rate and growth of the clients' business. The factors that contribute to the clients' business performance beside the internal factors such as commitment include the size of the loan amount provided and support from the institution. JAPEM lacks in its outreach and sustainability aspects as they only target the economically active poor in one out of four districts, i.e. Brunei-Muara and only managed to get one fully-repaid loan out of 15 clients. This research recommends hands-on-training to the client as well as training for the staff in order to improve the effectiveness of the programme. Group lending is also suggested as a new approach in order to boost up the motivation of the client.

**Keywords:** Islamic microfinance, poverty alleviation, Brunei Darussalam

#### 1. INTRODUCTION

Brunei Darussalam, an oil abundant Islamic State was ranked 30<sup>th</sup> out of 187 countries in the Human Development 2013 Report, with a Human Development Index (HDI) of 0.855<sup>3</sup>, positioning Brunei in the 'very high' human development category and also above the regional average. This shows that Bruneians live longer and healthier, are better educated and have a higher standard of living compared to billions of people living in 157 other countries. With benefits such as free education and health care, heavily subsidised social housing and domestic infrastructure, Brunei continues to enjoy one of the highest standards of living in the world in terms of GDP per capita.

The long-term national development plan called Wawasan Brunei or Vision 2035 includes welfare assistance for certain groups of the community including the unprivileged, old age and disabled persons. The assistalaiance were provided by government institutions such as the Community Development Department (JAPEM) of Ministry of Culture, Youth and Sports (MCYS) as well as non-governmental institutions such as Sultan Haji Hassanal Bolkiah Foundation (YSHHB), Pengiran Muda Mahkota Al-

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<sup>&</sup>lt;sup>3</sup> United Nations Development Programme (UNDP). *Summary Human Development Report 2013. The Rise of the South: Human Progress in a Diverse World.* Retrieved May 18<sup>th</sup>, 2013 from: <a href="http://hdr.undp.org/en/reports/global/hdr2013/">http://hdr.undp.org/en/reports/global/hdr2013/</a>.

Muhtadee Billah Fund for Orphans (DANA), Brunei Islamic Religious Council (MUIB), voluntary organisations, banking institutions and others<sup>4</sup>. This study will be discussing about JAPEM, an institution that gives special attention to the segments of the population in Brunei Darussalam such as children, problematic teenagers, family, the poor and needy, unemployed single mothers and those with special needs as well as the elderly<sup>5</sup>. However, the emphasis of this study will be placed on the poor and needy. JAPEM's role in providing financial assistance to the poor and needy include providing start-up entrepreneurial funds for the needy, help in searching for employment, as well as awareness programmes on family cohesion, parenting skills, communication skills, and the provision of support and services such as counselling<sup>6</sup>.

Based on Brunei Darussalam's Household Expenditure Survey 2005<sup>7</sup>, there is no extreme poverty in Brunei Darussalam<sup>8</sup>. In 2005, the average daily expenditure per capita was PPP USD4.60 per capita, which is more than the international norm of PPP USD1.25 per day for absolute income deprivation (UNDP, 2010). Poverty in Brunei Darussalam is therefore, at a relative level. In addition, another indicator of poverty in Brunei is the number of recipients who receive *zakat* and welfare benefits and assistances<sup>9</sup>. Based on MUIB's statistics, the number of *Asnaf fakir* and *miskin* increased in the last decade, from 13,298 people in 2004 to about 16,638 people in 2012<sup>10</sup>. As disclosed in the Seventh Legislative Council meeting in 2012, there are 5,472 families (27,360 people) who are living in poverty in Brunei Darussalam<sup>11</sup>.

In 2008, the Sultan has observed in his *titah* that residents' income per capita has been increasing in the past few decades, thereby contributing to the citizens' welfare and standard of living<sup>12</sup>. This growth, he said, should imply that the rate of poverty is decreasing however, what we have witnessed is otherwise. Due to recent reports on few agencies and institutions, the number of people receiving financial benefits and assistance seems to be increasing every year. The government of Brunei has raised its concern by introducing more poverty alleviation programmes in the country. However, thus far it is still unknown that if the current poverty alleviation programmes are effective enough to tackle poverty in Brunei Darussalam.

Microfinance is known as one of the most effective global poverty alleviation tools. Its success and positive impacts in most developing countries had been proven, mentioned and retold plenty of times in the media as well as literature. Despite its growing success, it also has its issues and limitations. Not being able to cater to Muslim countries, particularly in terms of having *riba* (interest) is one of its main limitations. Since most of the poor people living in developing countries are Muslims and practicing, many shunned away from using the conventional microfinance system. Furthermore, most Muslims need financial schemes that are *Shar'iah*-compliant. Therefore, this research will be focusing on Islamic Microfinance which can help the poor and needy to improve their standard of living.

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<sup>&</sup>lt;sup>4</sup> Brunei Darussalam Long-Term Development Plan, Wawasan Brunei 2035, Outline of Strategies and Policies for Development 2007-2017, National Development Plan (RKN) 2007-2012.

<sup>&</sup>lt;sup>5</sup> JAPEM. January 6<sup>th</sup>, 2012. "Services." *JAPEM*. http://www.japem.gov.bn/perkhidmatan/perkhidmatan.htm.

<sup>&</sup>lt;sup>6</sup> Anon. November 3<sup>rd</sup>, 2012. "Brunei Darussalam Country Report (2011)." *Paper presented at 9<sup>th</sup> ASEAN and Japan High Level Officials Meeting on Caring Societies.* <a href="http://www.mhlw.go.jp/bunya/kokusaigyomu/asean/2011/dl/Brunei\_CountryReport.pdf">http://www.mhlw.go.jp/bunya/kokusaigyomu/asean/2011/dl/Brunei\_CountryReport.pdf</a>.

<sup>&</sup>lt;sup>7</sup> The Household Expenditure Survey (HES) 2005 was the fourth nationwide survey carried out since the 1977 survey.

<sup>&</sup>lt;sup>8</sup> UNDP. (2010) Brunei Darussalam Millennium Development Goals and Beyond – Revisited. Brunei Darussalam: JPKE.

<sup>9</sup> Ibid

<sup>&</sup>lt;sup>10</sup> Abdul Ishraq bin Haji Ismail, Religious Assistant Officer, MUIB, November 17<sup>th</sup>, 2012.

<sup>&</sup>lt;sup>11</sup> Rachel Thien. (2012, November 17<sup>th</sup>). Half of 27,360 poor people consist of youth. *The Brunei Times*. Retrieved March 15<sup>th</sup>, 2011 from: <a href="http://www.bt.com.bn/news-national/2011/03/15/half-27-360-poor-people-consist-youth">http://www.bt.com.bn/news-national/2011/03/15/half-27-360-poor-people-consist-youth</a>

<sup>&</sup>lt;sup>12</sup> Shareen Han. (2011, October 3rd). Agricultural growth can help raise living standard: HM. *The Brunei Times*. Retrieved March 5<sup>th</sup>, 2008 from: http://www.bt.com.bn/home\_news/2008/03/05/agricultural\_growth\_can\_help\_raise\_living\_standard\_hm

Islamic microfinance has recently become a rapidly growing market, offering millions of disadvantaged people in Muslim countries and beyond access to financial services that are premised on providing for the welfare of the population. Islamic microfinance is also becoming an ever more important instrument in fighting rural poverty in Muslim countries, and effectively diversifying strategies in improving access to finance in other parts of the world. While conventional microfinance has successfully reached large numbers of the poor in Muslim countries (mainly in Bangladesh and Indonesia), there is evidence to suggest that there are many potential clients of microfinance that categorically reject products that do not comply with Islamic principles<sup>13</sup>. The increasing rate in unemployment, poverty as well as the low levels of financial access in Muslim countries continues to create high demand for microfinance. International Finance Corporation (IFC)-commissioned market studies show that in Algeria and Jordan, about 20% of the poor cite religious reasons for not seeking conventional microfinance, while in Yemen and Syria, there is about 40% of them. In the CGAP survey in 2008, local practitioners and key informants suggested similar trends in Indonesia, Afghanistan, Pakistan, the Palestinian territories as well as Muslim majority areas of India, Sri Lanka, Cambodia, the Philippines and including Brunei Darussalam. Overall, it is estimated about two-thirds of the microfinance market in the Muslim world either insists on, or prefer Islamic financing (Khaled, 2011).

The objectives of this research are to evaluate the effectiveness of Islamic Microfinance Institution in terms of the clients' income, repayment rate and business growth and to review the institution's performance in terms of its outreach and sustainability. The remaining of this paper will discuss the overview of Islamic Microfinance in section 2. This will be followed by discussion on a case study of Islamic Microfinance in Brunei Darussalam in section 3. The results and analysis of this survey will be presented in section 4 and ended with conclusion and recommendation in section 5.

#### 2. OVERVIEW ON ISLAMIC MICROFINANCE

Several researchers such as Dogarawa (2009), Harran (2008) and Nazirwan (2009) defined Islamic Microfinance as the provision of financial services and products to those whose low economic standing excludes them from *Shari'ah* compliant financial institutions or programmes and is basically an extension of the Islamic banking and finance concept, which is free of *riba*<sup>14</sup> (non-interest based) financing arrangements. Instead of charging interest, the transaction is in a form of profit and loss sharing contract and mutual partnership, where its practices should be tied to tangible goods and real economic activities, prohibit speculative transactions, illicit business, cheating and deception as well as unjust practices<sup>15</sup>. In other words, it should be free from any involvement of activities prohibited by Islam and from elements like usury (*riba*), gambling (*maisir*), harmful substance (*darar*), and excessive ambiguity (*gharar*)<sup>16</sup>.

Karlan and Golberg (2011) and Obaidullah (2008) agreed that conventional and Islamic microfinance should have characteristics that instil economic empowerment as well as cooperation and solidarity for the poor. In other words, microfinance in general aims to: provide loans for entrepreneurial activity,

Regulations/Banking%20for%20the%20Poor,%20the%20role%20of%20Islamic%20Banking%20in%20Microfi.pdf.

<sup>&</sup>lt;sup>13</sup> Khaled, M. (2011). Building a Successful Model for Islamic Microfinance. Paper presented at 2011 Global Microcredit Summit. Valladolid, Spain. November 14-17, 2011. Retrieved January 8<sup>th</sup>, 2013 from: <a href="http://www.globalmicrocreditsummit2011.org/userfiles/file/Workshop%20Papers/M\_Khaled%20-%20Building%20a%20Successful%20Business%20Model%20for%20Islamic%20Microfinance.pdf">http://www.globalmicrocreditsummit2011.org/userfiles/file/Workshop%20Papers/M\_Khaled%20-%20Building%20a%20Successful%20Business%20Model%20for%20Islamic%20Microfinance.pdf</a>.

<sup>&</sup>lt;sup>14</sup> *Lit:* An excess or increase. *Tech:* An increase which in a loan transaction accrues to the lender over time without giving an equivalent counter-value or recompense (I'wad) in return to the borrower.

<sup>&</sup>lt;sup>15</sup> Nazirwan, M. (2009). Embracing the Islamic Community-Based Microfinance for Poverty Alleviation. Retrieved December 31<sup>st</sup>, 2010 from: <a href="http://www.mikrobanker.com/file\_article/1291215156Islamic%20Community%20Based%20Microfinance.pdf">http://www.mikrobanker.com/file\_article/1291215156Islamic%20Community%20Based%20Microfinance.pdf</a>. <sup>16</sup> Dusuki, A. W. (2008). Banking for the poor: the role of Islamic banking in microfinance initiatives. Humanomics, Vol. 24. No. 1. 2008. Pp. 49-66. Retrieved October 16<sup>th</sup>, 2012 from: <a href="http://imfn.org/images/Reports-">http://imfn.org/images/Reports-</a>

promote group lending and focus on poor clients. In addition, Obaidullah (2008) identified four other characteristics that made IMF distinct from conventional microfinance, which are:

**Charity-based** - The broad term for charity in Islam is *sadaqah*<sup>17</sup>. When *sadaqah* continues to accrue over generations and results in flow of benefits that are expected to be stable and permanent such as through endowment of physical property, it is called *sadaqah jariah or waqf*. When obligatory mandated on an eligible Muslim, *sadaqah* is called *zakah*. *Zakah*, the third among five pillars of Islam, is a tax that is levied on all persons having wealth above an exemption limit (*nisab*) at a rate fixed by the *Shari'ah* to purify wealth and souls from impure love<sup>18</sup>.

**Debt Avoidance** - Debt is permitted in Islam however it recommends only as a last resort and not as a means to finance one's growing lifestyle needs. Some of the warnings for Muslims in the *Qur'an* and *Ahadith* include warnings against extravagance<sup>19</sup>, against the dangers of incurring heavy debt<sup>20</sup>, exhorted to repay their debt in time and avoid deliberate delays. The Prophet (pbuh) is reported to have said: "The best among you are those who are best in paying off debt<sup>21</sup>" and "Procrastination in repaying debts by a wealthy person is injustice<sup>22</sup>." IMFIs should refrain from seeking to entrap a client in ever-increasing levels of debt as may be the case with many conventional MFIs.

**Family Cohesiveness** - Family is being regarded as the utmost important role in Islam as it shapes the future of mankind. Furthermore, Islam sees a balanced role for men and women in ensuring the economic and the social well-being of the family. It was stated in the Qur'an that all human beings are created in pair, "And everything have We created in pairs that you may reflect." (51:49). The "womenonly" approach in most conventional microfinance is alien to Islamic religion and culture. Instead of only focusing on women, the Qur'an promotes the concept of "family empowerment" by exhorting men and women to play their respective roles in seeking economic and social well-being of all members of the family. One verse from the Qur'an highlighted this part, "And covet not that whereby Allah has made some of you excel others. Men shall have a share of that which they have earned, and women a share of that which they have earned. And ask Allah of his bounty. Surely Allah has the perfect knowledge of all things." (4:32)

**Shari'ah-Compliance of Contracts** - Islamic microfinance products and services are essentially in the nature of the contracts, that is, all contracts in *Shari'ah* must be free from certain forbidden elements such as *riba*, *gharar*<sup>23</sup> and *jahl*<sup>24</sup>. The Qur'an declares trade to be lawful means of livelihood as opposed to *riba*, which is forbidden for being oppressive and exploitative. *Riba* is a loan or debt contract that exists when it stipulates an excess in repayment by the borrower. The presence of *riba* in most

<sup>20</sup> Sahih Bukhari, Book 41, Vol. 3, No. 582; Sahih Muslim, Book 4, Chapter 68, No. 1218

<sup>&</sup>lt;sup>17</sup> *Lit:* Charity. *Tech:* In its widest sense it means an attitude of mutual appreciation, affection, mutual assistance, an act of loyalty to God and one's fellow beings, a sense of true human hood. At material level, it consists of two kinds: *al-sadaqah al-tatawwu'* given at free will of the donor and *zakah*, the obligatory tax imposed by the *Qur'an* on the Muslims having wealth beyond a certain limit.

<sup>&</sup>lt;sup>18</sup> Khan, M. A. (2010) "Islamic Economics and Finance: A Glossary". London and New York: Routledge.

<sup>&</sup>lt;sup>19</sup> Al A'raf (7: 31) and Al-Isra' (17: 26-27)

<sup>&</sup>lt;sup>21</sup> Sahih Muslim, Book 10, Chapter 3, No. 3898.

<sup>&</sup>lt;sup>22</sup> Sahih Bukhari, Book 37, Volume 3, No. 486.

<sup>&</sup>lt;sup>23</sup> *Lit*: Hazard, chance or risk. *Tech*: Sale of a thing that is not present at hand; or the sale of a thing whose consequence or outcome is not known; or a sale involving risk or hazard in which one does not know whether it will come to be or not, such as a fish in the water or a bird in the air.

Jahalah (single: jahl). *Lit:* Ignorance, folly, foolishness. *Tech:* Doing something without sure knowledge. For example, buying something without knowing its specifications. There is a fine difference between jahalah and gharar. In a sales transaction, if a person is unsure whether he would be able to get the subject of sale or not, it would be a transaction involving gharar. For example, buying a fish still in water, not being sure if it would be possible to catch it or not. But if a person buys something lying in the closed cabinet of the seller, it would be transaction involving jahalah as the buyer is sure to get the subject of sale but is not sure about its specifications.

conventional financial contracts makes it unlawful and unacceptable in Islamic microfinance. The concept of *gharar* has been discussed by Islamic scholars and defined in two ways, first, *gharar* implies uncertainty and second, it implies deceit. The Qur'an has clearly forbidden all business transactions that cause injustice in any form to any of the parties. This may be in the form of hazard or peril leading to uncertainty in any business, or deceit or fraud or undue advantage. It is also worth noting that the prevalence of *gharar* poses a great challenge to an Islamic legal expert in the context of the informal setting of rural and micro economies with their non-standardized contracts of various types. The need for *Shari'ah* compliance has led to considerable research into product development. While the conventional system provides for simple interest-based deposits, donations and loans, the Islamic financial system comprises an array of instruments for mobilization of funds, financing and for risk management.

#### **Islamic Microfinance Products**

According to CGAP (2013), the supply of Islamic financing products for the poor is largely limited to *Murabaha* and *Qard Hassan* loans, whereas the minority includes *Salam, Musharakah/Mudarabah*, and other. *Murabaha* is a "cost plus mark-up" sale contract often used as working capital to finance goods needed<sup>25</sup>. The client typically requests a specific commodity for purchase which the financier procures directly from the market and subsequently resells to the client after adding a fixed "mark-up" for the service provided. Ownership of the commodity (and the risk inherent thereto) strictly lies with the financier until the client has fully paid the financier. The mark-up is distinct from interest because it remains fixed at the initial amount, even if the client repays past the due date. This product is used heavily in trade/inventory financing.

**Qard Hasan** is a virtuous or benevolent loan. It is an interest-free loan, typically given to needy students, small producers, farmers, entrepreneurs and economically weaker members of the society, who are not in a position to obtain loan or any financial assistance from any other institutional sources<sup>26</sup>. **Qard Hasan** loans are often dispersed as a form of charity rather than a self-sustaining business, funded by donations such as **zakat** or **sadaqa**. **Salam**, is an advance payment against future delivery<sup>27</sup>. According to the general law, no sale can be affected unless the goods are in existence at the time of the bargain, but this sort of sale forms an exception to the general rule provided the goods are defined, price is paid in advance and the date of delivery is fixed. It is usually applied in the agricultural sector where the bank advances money for various inputs to receive a share in the crop (that the bank sells in the market)<sup>28</sup>.

The profit and loss sharing schemes of *Musharakah* and *Mudarabah* are not widely offered by Islamic Microfinance providers though both are most encouraged by *Shari'ah* scholars as they are the Islamic financial contracts that are best reflecting *Shari'ah* principles. *Musharakah* is partnership financing in which the parties share the profits or losses according to a predetermined ratio. It can be used for assets or for working capital. *Mudarabah* is capital or trustee financing, in which one party acts as financier by providing the funds, while the other party provides the managerial expertise in executing the project (or provides some other form of nonfinancial contribution). In *Mudarabah*, profits are shared according to a predetermined ratio but any financial losses are borne entirely by the financier while the manager loses time and effort (or other nonfinancial contribution). Both *Musharakah* and *Mudarabah* require vigilant reporting and a high level of transparency for profits and losses to be distribute fairly. Though promoted strongly by *Shari'ah*, they often result in substantial operating costs, particularly for micro and small enterprises that are not accustomed to formal accounting (CGAP, 2013).

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<sup>&</sup>lt;sup>25</sup> Consultative Group to Assist the Poor (CGAP). *Trends in Sharia-Compliant Financial Inclusion*. Retrieved May 16<sup>th</sup>, 2013 from: http://www.cgap.org/sites/default/files/Focus-Note-Trends-in-Sharia-Compliant-Financial-Inclusion-Mar-2013.PDF.

<sup>&</sup>lt;sup>26</sup> Haque, M. S., Yamao, M. (2011) Prospects and Challenges of Islamic Microfinance Programmes: A Case Study in Bangladesh. *International Journal of Economic Policy in Emerging Economies*. 4(1). 2011. Retrieved August 20<sup>th</sup>, 2012 from: <a href="http://inderscience.metapress.com/content/cp4368nq65816227/fulltext.pdf">http://inderscience.metapress.com/content/cp4368nq65816227/fulltext.pdf</a>.

<sup>&</sup>lt;sup>27</sup> CGAP (2013) Trends in Sharia-Compliant Financial Inclusion.

<sup>&</sup>lt;sup>28</sup> Khan, M. A. (2010) "Islamic Economics and Finance: A Glossary". London and New York: Routledge.

Another Islamic microfinance product that is oft-mentioned in most literature such as by El Tigani Ali (2011), Haque and Yamao (2011), Abdul Rahim Abdul Rahman (2010), IRTI (2008) is called *Ijarah*, which is a leasing contract typically used for financing equipment such as small machinery<sup>29</sup>. For the transaction to be considered as Islamic (and not a sale with camouflaged interest), the *ijarah* contract must specify that ownership of the asset and responsibility for its maintenance remain with the financier<sup>30</sup>. *Ijarah Muntahia Bitamleek (IMB)* is an elaborate concept of *ijarah* where the transfer of ownership will take place at the end of the contract and pre-agreed between the lessor and the lessee<sup>31</sup>. The title of the asset will be transferred to the lessee either by way of gift, token price, pre-determined price at the beginning of contract or through gradual transfer of ownership<sup>32</sup>. IMB is more suitable for microfinance scheme especially for microentrepreneurs who are in need of equipments.

# **Limitations and Challenges of Islamic Microfinance Institutions**

A study conducted in Bangladesh by Haqq and Yamao (2011) found that Islamic Microfinance Providers (IMPs) have failed to reach the poorest of the poor because of its fund limitations. Their findings also revealed that almost all of the Muslim respondents were compelled to borrow from conventional interest-based NGO-MFIs in the absence of Islamic financing sources. However, almost all of them had a strong desire to join Islamic NGO-MFIs, switching from their membership in conventional NGO-MFIs, provided that the right conditions are created. The main challenges for the growth and development of IMPs in Bangladesh include lack of funding and support from the government and national and international donor and development agencies, allegations of involvement in patronising militant activities and lack of entrepreneurial and managerial skills. According to UNDP (2012), several challenges of Islamic Microfinance in many Muslim majority countries include having lack of resources particularly funding and Islamic finance related knowledge, lack of capacity building, lack in operational efficiency and risk management and finally, unfavourable rules and regulations.

# 3. A CASE STUDY ON ISLAMIC MICROFINANCE IN BRUNEI DARUSSALAM

The Community Development Department or JAPEM is selected to be a case study for this research as it has fulfilled most of the key characteristics of a traditional microfinance institution. Referring to the common characteristics of microfinance agreed between Karlan and Goldberg (2011) and Obaidullah (2008) in section 2, JAPEM has two out of three characteristics of microfinance, namely: it provides loans for entrepreneurial activity and it gives a focus on poor clients. This study is based on qualitative method, which is in the form of structured interviews. In-depth interviews were conducted with 15 respondents at their residences or on their business premises. Secondary data was also collected from news media, published materials such as academic books, reports and conference proceedings, online materials such as JAPEM's website, reports, conference proceedings (both national and international).

In 2005 JAPEM introduced a microcredit scheme called Self-Reliance Scheme. This scheme has been operated for 5 years from the year 2005 until the year 2009. In total, there were about 96 people who participated in this scheme and only 4 of them, i.e. those who were living in destitute conditions were given grants. The repayment rate in 2012 for this scheme was 28.6% and was considered 'good' by a local bank<sup>33</sup>. However, several problems arose from this scheme such as the sustainability of the fund, misuse of the money, the ineffectiveness of the entrepreneur and lack of business courses offered, resulting in the lack of knowledge of basic financial and marketing skills and lack of motivation. As the

<sup>&</sup>lt;sup>29</sup> Haque and Yamao (2011) *Prospects and Challenges of Islamic Microfinance Programmes: A Case Study in Bangladesh.*<sup>30</sup> Thid

<sup>&</sup>lt;sup>31</sup> Abdul Rahim Abdul Rahman. (2010). *Islamic Microfinance: an ethical alternative to poverty alleviation*.

<sup>32</sup> Ibid.

<sup>&</sup>lt;sup>33</sup> Rose Abdullah (2012) Microfinance Services in Brunei Darussalam.

fund was obtained from the National Welfare Fund, it is not sustainable and will keep on depleting unless there is a constant contribution from donors<sup>34</sup>. JAPEM then terminated the scheme and tried to improvise it by adding mandatory training courses to potential clients for its new programme. Its new programme called Perkasa was introduced in 2011 and to date it only has one batch of 17 clients.

The main aim of Perkasa programme is to help the target group to change their attitude and mindset from relying wholly from the welfare assistance in order to avoid problems of not meeting their daily expenses needs. Loans will be given according to their business plan that is presented and is based on *Qard alhasan*, thus the loan will be given out without interest, guarantor or collateral. The programme runs on financial resources from the Ministry of Finance. This programme has four main elements, which are entrepreneurship training, business skills, personal development, and loans for business. These four elements are closely related to achieve several detailed objectives, namely: reducing dependency on welfare assistance, providing a higher level of exposure regarding entrepreneurship and business field, promoting attitudes to be more self-sustainable, always progressive and resilient among target groups, and helping to reduce the rate of poverty in Brunei Darussalam.

JAPEM initially reached its applicants by informing any of its welfare recipients about the programme. They asked the recipients if they have business background and if they are interested to participate in the microfinance programme. If the recipients are interested, they will be given an application form to be filled in. Each Perkasa participant is required to be a citizen of Brunei Darussalam including a permanent resident, has no permanent job, has no income or below BND150 (according to the guideline by JAPEM's monthly welfare assistance), has a business location, has government-approved business registration licenses, is prepared to attend mandatory courses, any interviews or meetings, briefings, counselling, training or others that are organized by JAPEM, has experience in managing any entrepreneurial activities, is healthy, is willing to pay back the loans and agrees to comply with the conditions set by JAPEM from time to time.

The following steps include: the applicant receives their application form through letter, reference or walk in; the applicant fills in their application form with the assistance from social worker; the applicant lets their house or business premise to be visited and inspected by social worker who will then write a report about it; the applicant waits for the preliminary assessment by Perkasa Task Force Committee (PTFC) that will send a letter notifying the success or failure of their application; if the applicant is successful, they will be interviewed by Interview Committee and their qualification will further be assessed by PTFC; those who failed the assessment will be sent a rejection letter and those who are successful will be asked to present their business plan and quotation; PTFC will then assess the applicant's proposed loan/financial assistance and will conduct a preliminary meeting (screening) with Head of Division; the applicant will then sign an agreement with JAPEM and will be given Letter of Permission for loan/financial assistance; a supplier will be appointed to supply permanent/raw materials to applicant in which the supplier needs to present claims to JAPEM so that JAPEM will give payment to them; and finally the applicant will make monthly loan repayments to JAPEM.

The PTFC has a mandate to approve the business financing whether in the form of loan or financial assistance according to the application and also the applicant's ability. The maximum loan amount that can be approved is BND3,000 for each applicant, while the maximum assistance that can be approved is BND2,000. However, the amount of assistance or loan approved would depend on the evaluation of the PTFC and does not necessarily follow the amount that has been applied by the applicants. The recommended minimum loan repayment rate is BND50 per month and the applicant is encouraged to repay at a higher rate according to each other's agreement. The repayment begins three months after the supply of permanent/raw materials and the repayment period depends on the monthly loan repayment rate

<sup>&</sup>lt;sup>34</sup> Ibid.

until it finishes. For example, if the approved loan amount is BND3,000 and the applicant agrees to repay at the rate of BND50 per month, then the loan repayment period is 60 months or 5 years starting from the fourth month after the supply of permanent/raw materials.

The type of Entrepreneurship that will be managed by participants depends on the willingness and ability of applicants. The Perkasa Programme Committee will evaluate and give advice pertaining to the compatibility of the maximum capital amount that has been prepared by JAPEM. To fulfil the conditions in order to approve the loan or financial assistance, the participants should attend mandatory courses at the venue and during the period that has been set by JAPEM. Some of the components of the mandatory courses are as follows: i) basic entrepreneurial course, ii) business management course, iii) finance and cash flow courses, iv) business skills course, v) business plan course, vi) personal development course.

Within the period of the course, participants will be given training allowance of BND200 each, while for a couple, whether husband and wife, siblings, or parent and child who are participating together for each enterprise, training allowance approved is BND300 for each enterprise or BND150 for each partner. Training allowance will be paid according to the attendance of participant in every training session. Monitoring of applicant's business activity will be conducted every week of the first three months from when the applicant was given his/her loan or financial assistance and twice per month starting from the fourth month onwards. This is to ensure that the recipients will continuously be given support and guidance in order to help them to do their business successfully. Series of monitoring visits will be done by the officer and social workers of entrepreneurship unit. Among the things that will be emphasized in the monitoring sessions is the journey of the entrepreneur such as finance, the cleanliness of the premise and to monitor any difficulties faced by the applicant. According to the Programme officer, the Ministry of Finance has given JAPEM an estimated loan of BND200,000 for a three-year period. Of this amount, JAPEM has spent about BND61,000 for one batch of participants alone.

Table 1: Cost incurred during the first session of Perkasa Programme

Particulars	Amount (BND)
Mandatory training courses	\$61,000
Training allowance for training instructors and training expenses	\$10,000
Training allowance for participants	\$4,000
Food	\$3,000
Transportation (bus)	\$1,500
Loans for participants	\$20,000
Extra courses and talks for participants – by Brunei Economic Development Board (BEDB) and Youth Development Centre (PPB)	\$22,500

Source: JAPEM, 2013

**Current Status -** As of April 2013, Perkasa has only one batch of clients comprising of 17 individuals since its commencement in 2011. JAPEM is currently still waiting for more funds from the Ministry of Finance to finance for the second batch of Perkasa Programme. JAPEM expects the number of people applying would be increasing, thus the need to wait for the loan.

**Outreach** - Regarding the outreach of Perkasa's potential clients, JAPEM only takes clients who are living in the Brunei Muara district as this programme is still new. However it plans to reach clients in other districts if the programme is proven to be successful and sustainable.

**Sustainability of fund** – JAPEM is currently trying to look for some sound solutions as to how they would be paying back the loan to the Ministry of Finance for the mandatory training courses expenses.

**Current Problems** - They are having difficulties in financing the programme as well as lacking of staffs. To date, they only have 4 social workers. To attend the mandatory training courses, each client who already has a business would find it difficult as they would have problems such as not having anyone to replace him or her to care for their business while attending courses, or not having anyone to take care of their family members such as their old parent or toddlers. JAPEM is currently trying to look for ways on how to solve this issue as they plan to extend the mandatory training courses period for future participants.

**Perkasa's Future Plans** - For the next batch of Perkasa participants, they have discussed some plans such as: i) to extend the period of mandatory training courses from 1 month to 2-3 months, ii) to add more subjects, i.e. Cake & Pastry and Beauty & Make-up from Youth Development Centre (PPB), iii) give financial grants of about BND2,000 to each participant who is considered as destitute and is worse off than the economically active poor.

**Sample** – In total, only 17 people participated in the Perkasa Programme in 2011. The researcher initially planned to interview all participants but found it difficult to reach two of them via phone calls as well as meeting in person because they were reluctant to be interviewed. Therefore, the researcher only managed to interview 15 of them. Respondents are all from the Brunei Muara district (the most populated district amongst the four districts in Brunei Darussalam).

Questionnaires – The purpose of this survey questionnaire is to examine and analyse the effectiveness of Perkasa Programme in JAPEM. Each set of the interview questionnaire comprises of 60 questions, which includes both close-ended and open-ended questions. Close-ended questions were used for clarification, verifying information regarding JAPEM and their micro-business projects, thus making it easy for data analysis. Open-ended questions were used to gather more information regarding the respondents' profiles, the status of their business projects and their loan repayment performance. These questions were also used to collect narrative responses so as to reveal rich information that could help in creating or suggesting sound solutions for their problems.

**Determinants of the Level of MFI Effectiveness** - In order to find out the effectiveness of Islamic Microfinance in helping the poor in Brunei Darussalam, this study attempts to determine Perkasa Programme's level of effectiveness in terms of the clients' income, repayment rate and business growth (number of business assets and number of workers). Based on these variables, this study categorizes it into 5 level of effectiveness, namely: very low, low, medium, high, and very high (See Table 2).

Table 2: Level of Effectiveness of Perkasa

	Low	Very Low	Medium	High	Very High
Loan Consumption for Business Purpose	Less than or equal to 19% of clients used loans for business purpose	Only 20%-39% of clients used loans for business purpose	40%-59% of clients used loans for business purpose	60%-79% of clients used loans for business purpose	More than or equal to 80% of clients used loans for business purpose
Increase in Income	Less than or equal to 19% of clients have increase in their income	Only 20%-39% of clients have increase in their income	40%-59% of clients have increase in their income	60%-79% of clients have increase in their income	More than or equal to 80% of clients have increase in their income
Increase in Repayment Rate	Less than or equal to 19% of clients have increase in their repayment rate	Only 20%-39% of clients have increase in their repayment rate	40%-59% of clients have increase in their repayment rate	60%-79% of clients have increase in their repayment rate	More than or equal to 80% of clients have increase in their repayment rate
Increase in Number of Business Assets	Less than or equal to 19% of clients have increase in their number of assets	Only 20%-39% of clients have increase in their number of assets	40%-59% of clients have increase in their number of assets	60%-79% of clients have increase in their number of assets	More than or equal to 80% of clients have increase in their number of assets
Increase in Number of Workers	Less than or equal to 19% of clients have increase in their number of workers	Only 20%-39% of clients have increase in their number of workers	40%-59% of clients have increase in their number of workers	60%-79% of clients have increase in their number of workers	More than or equal to 80% of clients have increase in their number of workers
Total (Average)	0-19%	20%-39%	40%-59%	60%-79%	80%-100%

Source: Author's own design based on findings

This table will then be used to determine the level of effectiveness of the Perkasa microfinance programme in the following section.

#### 4. FINDINGS

This section presents the findings of the interviews:

# i) Analysis on the Effectiveness of JAPEM as an Islamic Microfinance Institution

This section analyses the effectiveness of JAPEM in terms of the client's loan consumption, increase in income, increase in repayment rate, increase in the number of workers, and increase in the number of business assets. In terms of the respondents' loan consumption, all of the respondents were using the loans for business purposes. This is due to the close and strict monitoring made by JAPEM social workers to ensure that these loans were all bought for business purposes (see Table 3).

**Table 3: Respondents' Loan Usage** 

Client	Loan Amount	Loan usage/consumption
1	\$1,000	\$600: Freezer, \$400: Goods
2	\$1,000	\$600: Freezer, \$400: Goods
3	\$1,000	\$1,000: Freezer, Ice box, Blenders, Food processor, Oven
4	\$1,000	\$420: 3 types of Gas, \$580: Welding set, tools, etc
5	\$2,000	\$1,900: 2 sewing machines, \$100: sewing materials
6	\$500	\$500: Raw food materials such as chicken, meat, etc
7	\$1,000	\$500: Velvet rolls, \$500: Threads
8	\$1,950	\$1,950: Freezer, Ice box, Mixer, Oven, Rice Cooker
9	\$1,000	\$1,000: Trolley, Tent, Cool box, Food and drinks materials
10	\$1,000	\$500: Tent, \$500: Flowers
11	\$1,000	\$800: Chafing dish sets, rice cooker, wok pan, \$200: raw food materials
12	\$1,600	\$1,600: Freezer, refrigerator, blender, raw food materials
13	\$1,000	\$1,000: All fruits bought in bulk
14	\$1,950	\$1,950: 2 sewing machines
15	\$1,000	\$500: Containers, weighting scale, trays, \$500 – fishes

In terms of the respondents' income, it is found that the majority (47%) of the respondents have fluctuating income, 33% maintained their income and only 13% have an increase in their income while taking into account that one respondent was unemployed (see Table 4). This shows that the loan is only helping to very few respondents as the majority of them have unstable income.

Table 4: Respondents' Income Breakdown for the period of 3 months (before the interview)

Participant	Last 3 months	Last 2 months	Last month	Change
1	40+	70+	50+	Fluctuate
2	300+	300+	300+	No change
3	0	0	0	N/A (unemployed)
4	<1000	1000+	1000+	Increase
5	1953	Not fixed	Not fixed	Fluctuate
6	100	100	100	No change
7	1500+	1500+	1500+	No change
8	1000+	1000+	1000+	No change
9	0	0	300+	Fluctuate
10	30	50	83	Increase
11	>5000	>5000	>5000	No change
12	Not fixed	Not fixed	Not fixed	Fluctuate
13	Not fixed	Not fixed	Not fixed	Fluctuate
14	Not fixed	Not fixed	Not fixed	Fluctuate
15	Not fixed	Not fixed	Not fixed	Fluctuate

In terms of the repayment rate, more than 90% of the respondents do not repay their loan regularly while 7% of them have stopped repaying the loan due to being unemployed or inactive in their businesses. However, it is found that JAPEM has recently asked the respondents to pay every month regardless of the minimum required repayment, i.e. \$50. It was during the month of the interview that the respondents started to pay regularly as low as \$5. It can be observed that JAPEM has taken an action although subtly to discipline the respondents regardless of the amount size of the repayment.

In terms of the number of helpers or workers, this study found that most (40%) of the respondents have family members as their helpers, 33% are self-operating their businesses, 13% have foreign workers to assist them doing the business, and the rest will only hire their relatives or other people if the workload is too much. This shows that most of the respondents rely on their families as their helpers and the payment for them is sharing-based. To date, they have not added new helpers or workers, however based on the interview, about 20% of the respondents intend to increase more workers however they do not have enough capital to employ any workers. This shows their businesses are growing regardless of their limited income for extra labours. However, the majority (67%) of the respondents have increased their assets in the form of equipment used in operating their micro businesses however 13% obtained their added equipments from BEDB grant. This shows that most of their micro-businesses are growing (see Table 5).

Table 5: Respondents' Added Assets of Business

Particulars	Frequency	Percentage
Added Assets		
None	5	33
Materials for displaying products at stall	3	20
Popcorn machine, sealer, food warmer, freezer, refrigerator, chocolate fountain, waffle maker, 5 trays (BEBD loan)	2	13
Own Mini store (built it on his own)	1	7
Bought clothing materials in KL worth of \$3,000	1	7
Glass box container for drinks	1	7
Umbrella for shade (taking care of flowers) at the market	1	7
Barbecue grill	1	7

According to JAPEM's objectives in section 4. Perkasa programme aims to reduce dependency on welfare assistance, provide a higher level of exposure regarding entrepreneurship and business field, promote attitudes to be more self-sustainable, always progressive and resilient among target groups, and help reduce the rate of poverty in Brunei Darussalam. Based on the personal interviews with each client, the majority (53%) of them are still receiving assistance from the government and of those who are not receiving, 20% of them are currently waiting for their application for assistance to be approved. This shows that the clients are still in need of welfare assistance. As for providing a higher level of exposure regarding entrepreneurship and business field, all participants stated that they have learned a lot in their one-month mandatory training courses. However, because the mandatory courses were all done at the same time, i.e. every subject has to be attended by each participant regardless of their type of business, for example, a cook has to listen about the scope of work of a mechanic, 7% of respondents became confused and less interested to focus on the training courses and 13% said the period of mandatory courses should be extended as one month is too packed for them. This also means that they are interested to learn more about such fields. In terms of promoting to clients to be more self-sustainable, always progressive and resilient among themselves, only one out of 17 participants can do so, i.e. by repaying in full the loan amount of BND500.

In order to determine the effectiveness of the microfinance institution, this study has categorized the level of effectiveness into five categories, namely: very low (0-19%), low (20%-39%), medium (40%-59%), high (60%-79%), very high (80%-100%). The percentage of effectiveness level is computed by totalling up the percentage of client population (with an increase in the variable) and dividing it by 5 (see Table 6).

Table 6: Result of Level of Effectiveness of the Perkasa Programme

Particulars	Level	Level of Effectiveness (Very Low, Low, Medium, High, Very High)
Loan consumption for business purposes	100%	Very High
Increase in Income	13%	Very Low
Increase in Repayment rate	0%	Very Low
Increase in number of workers	0%	Very Low
Increase in number of assets	67%	High
Total	36%	Low

Overall, it can be seen that the level of effectiveness of the Islamic microfinance institution, JAPEM is low. JAPEM has shown a low level of effectiveness in terms of increasing its clients' income as well as its repayment rate and number of workers. However, it has shown a very high level of effectiveness in terms of utilizing the loan for business purposes and high level of effectiveness in terms of increasing the number of their clients' assets.

In terms of JAPEM's outreach, it only takes clients who are living in Brunei Muara district as this programme is still new. In terms of its sustainability, it does not seem to be doing well as only one of the respondents have made a full repayment and that they are willing to take any size of loan amount as low as \$5. However, this programme is still new and the institution has plenty of rooms for improvement. The microfinance clients still need continuous guidance and consultancy services from the institution. Productive discussions need to be made with both parties at a regular interval so as to achieve a compromise. The mandatory training courses also need to be extended and more focused in each of the client's chosen business type so as to make use of the time effectively.

# 5. CONCLUSION

Despite being a very small country, Brunei is one of the wealthiest countries in the world in terms of GDP per capita and HDI. However, over the past few years, along with the improvement of the country's economic and human development, there is evidence that poverty becomes a concern in Brunei which is especially due to the increasing number of welfare and *zakat* recipients every year. Although poverty remains a problem, it is considered as a relative poverty in the country.

Strong evidence shows that all of the clients had been consuming the loan given entirely for business, which is due to the strict monitoring by staff of JAPEM. However, the IMFI (JAPEM) has a low level of effectiveness in alleviating poverty in Brunei Darussalam. Although JAPEM is highly effective in increasing the clients' number of business assets, the institution is not effective in terms of increasing the clients' income, repayment rate and number of workers. JAPEM has not been reaching the poor people in all four districts in Brunei Darussalam however it only focuses on clients living in Brunei-Muara district. The type of poor they target is also not the poorest of the poor however they are economically active poor. JAPEM is not doing well in terms of sustainability as the repayments that they are receiving cannot cover their operational costs. Only one of JAPEM's clients managed to make a full repayment, who is also the only client that has the smallest size of loan amount. Also, based on the findings, there is evidence that the clients still need welfare assistance in order to become successful in their microbusinesses. Finally, the aim to reduce the rate of poverty in Brunei Darussalam seems farfetched at this short period of time, i.e. 2 years. Overall, JAPEM has not achieved its objectives however it is moving positively towards it although slowly. Although having a low level of effectiveness in alleviating poverty, JAPEM technically has more rooms for improvement.

#### Recommendation

Almost all Perkasa participants have not repaid in full, which is a major problem when it comes to sustaining its funds. This is perhaps due to lack of discipline and poor management in their bookkeeping. As most of them have quit school during their secondary level, they would have difficulties in receiving a crash course in such a short period of time. This study therefore recommends JAPEM to provide handson-training by their staff at the initial stages of the clients' businesses. Not only the clients could learn the bookkeeping step by step, they would also become more confident when being closely guided by the staff of JAPEM. The people in Brunei are not living close to each other like those people in Malaysia. It is because of the closeness of the clients' houses to each other that make the group lending easier for the Malaysians, e.g. in Amanah Ikhtiar Malaysia (AIM), which probably might not have the same effect in Brunei. Nevertheless, as the majority of Perkasa clients are interested in group lending, this study recommends for JAPEM to first have a pilot study in Kampong Ayer, where many poor people live very close to each other. JAPEM could provide loans to groups of five borrowers together and each member shares joint responsibility (risks) with all of the other group members.

Although JAPEM is currently using *Qard Hasan* as its Islamic microfinance product, its performance has not been as effective. To make it more sustainable, this study recommends either one or two types of debt-financing models, namely: Murabaha and Ijarah. For Murabaha, JAPEM will purchase goods upon request of a client, who makes deferred payments that cover cost and agreed-upon profit margin for JAPEM. Murabaha's mode of operation<sup>35</sup> includes: i) the institution (JAPEM) buys good from Supplier, ii) the borrower then buys the assets from JAPEM at marked-up price, which is payable on a deferred payment basis, iii) the period covering the deferred payment is effectively the period of financing, and iv) the title to the assets is transferred to the client at the time the client purchases the asset. As for *Ijarah*, JAPEM could use its elaborated concept, Ijarah Muntahia Bitamleek. JAPEM will purchase the assets required by the entrepreneurs and rent the assets to qualified entrepreneurs <sup>36</sup>. In this case, the entrepreneurs can just rent the assets over a period of time and pay the rentals at regular intervals. As a lessee, the entrepreneur will be responsible to safeguard the asset whereas the lessor (JAPEM) will monitor their usage.

Looking at the closest MFI to Brunei that is AIM, this institution emphasizes that significant support from the government is important in developing a viable and sustainable microfinance system. JAPEM therefore needs to establish official links with other government agencies such as Ministry of Industry and Primary Resources (MIPR) to assist the Perkasa clients to become suppliers of local companies in Brunei, thereby marketing their products locally as well as internationally. In order to realise the potential of Islamic Microfinance in Brunei, the country must focus on capacity building at all levels. This includes conducting a conference or seminar on Islamic Microfinance with presentations from Shari'ah scholars and academics as well as organizing a talk on managing money in an ethical and Shari'ah compliant way by relevant agencies in order to increase the public's awareness of Islamic microfinance.

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# LOAN REPAYMENT PROBLEMS IN INDIVIDUAL LENDING MICROFINANCE PROGRAMS IN MALAYSIA

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#### **ABSTRACT**

Access to financing is an important aspect in the business operation of micro enterprises. However, repayment problem is an obstacle to the financial institutions including microfinance institutions (MFIs) that offer microfinance based on individual lending approach to provide credit to micro entrepreneurs. Therefore, this paper tries to explore the loan repayment problems in microfinance programs that using individual lending approach. This study applied qualitative analysis through in-depth interviews with MFI staffs and MFI clients in Peninsular Malaysia. The result shows that the factors affecting the ability of the borrowers to repay their loans are business factors, borrower's attitude towards their loans, other debt burden, amount of loan received, business experience, business formality and family background. The study recommends the MFIs to enhance their loan monitoring through peer monitoring like in group lending approach such as through entrepreneur's club or mentor mentee program to reduce the borrower's attitude to not pay back their loans and help them to enhance their business. Besides, the study suggests differentiating the terms and conditions between applying loan for start-up the business and for working capital purpose.

**Keywords**: Repayment Problems, Individual Lending, Microfinance Programs

# 1. INTRODUCTION

Many researchers have emphasized the importance of loan repayment performance such as Stearns (1995) and Hulme and Mosley (1996). Examining repayment performance is important because if borrowers do not repay, then there may not be sufficient funds to ensure that the liquidity position of the MFI is maintained. When there is a loss in the MFI liquidity due to high levels of non-repayment, the cyclical flow of funds between the MFI and the borrowers will be interrupted. The result of this is a reduction in the efficiency of the MFI's operation (Kurien, 1985). To attain financial viability, MFI must reach operational self-sufficiency first and in order to attain operational self-sufficiency, the MFI must ensure that the operational cost can cover non-financial expenses. This can be achieved by low delinquency where the MFI must maintain a low delinquency rate to ensure operational self-sufficiency.

Repayment performance refers to the total loans paid on time as stated in the loan agreement contract. Godquin (2004) defines repayment performance in terms of binary variable; based on an arbitrary definition of what constitutes repaying "on time" (a given maximum "grace period" is allowed). Guttman (2007) measures repayment performance based on the degree of arrears. While, the term delinquency is defined as a failure to meet the repayment obligations at the date complete repayment was promised (Nannyonga, 2000) and delinquent loans are loans that have been written off by a MFI (Norell, 2001).

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Hence an account is said to be delinquent if it is overdue in payment (Collins, 1991; Sharma & Zeller, 1997).

As a lending institution, MFI is a risky business because it offers credit to the poor people without any collateral and the repayment of loans are cannot be fully guaranteed. However, the repayment rate is the most important performance indicators of MFI (Woolcock, 1999; Zeller, 1994; Yaron, 1994). Yaron (1994) finds that the failure of a large number of MFIs in many developing countries was due, among other things, to their inability to ensure good repayment rates among their borrowers. Yaron (1994) also emphasizes that a high profit earned by MFIs cannot be used as the only indicator of self-sustainability of the institutions, since a high profit could be attained only in the short period. Attaining a high loan collection rate is a necessary condition for MFI to become self-sustainable in the long run. Loan losses often have been the largest cost borne by the institutions and the principal cause of insolvency and illiquidity.

Repayment problem is an unsolved issue faced by the majority of financial institutions including MFIs. In Malaysia, repayment problem faced by many semi- formal financial institutions that offer credit to the micro enterprises and SMEs (Starbiz, 2 June 2010). For example, in 2008, the non-performing loans (NPLs) for TEKUN Nasional are 29 percent, SME Bank is 8 percent, Malaysia Cooperative Commission (CCM) is 13.8 percent and Perbadanan Nasional Berhad (PNB) is 11 percent (Utusan Malaysia, 16 December 2008). While, the NPLs for Perbadanan Usahawan Nasional Berhad (PUNB) is 30 percent for Retail PROSPER Scheme and 20 percent for Graduate PROSPER Scheme and PKS Scheme (Berita Harian, 16 February 2009). Until 2012, the NPLs for TEKUN Nasional still high which is 20 percent (TEKUN Nasional, 2012).

Therefore, this paper tries to explore the loan repayment problems in microfinance programs that using individual lending approach. This paper is divided into five sections namely introduction section followed by literature review and the methodology used. The analysis of findings is in section four and the last section is conclusion and recommendations.

#### 2. REVIEW OF LITERATURE

Majority of the literature on repayment performance of MFIs focused on group-based lending or group liability because group based lending is synonym with microfinance activities such as Ghatak and Guinnane (1999), Godquin (2004), Sharma and Zeller (1997), Zeller, (1998), Besley and Coate (1995), and Silwal (2003). Much theorising has been done to show the advantages of group loan in minimising the default rate compared to an individual loan (Ghatak, 2000; Ghatak & Guinnane, 1999; Besley & Coate, 1995; Maata, 2004). Much of the studies emphasized the role of joint liability in group lending, such as peer selection (Ghatak, 1999), peer monitoring (Stiglitz, 1990; Varian, 1990; Banerjee et al., 1994), and peer enforcement (Besley & Coate, 1995). It proved that through group lending, it could mitigate moral hazard, adverse selection and information asymmetries faced by the MFIs. Microfinance programs that used peer selection, peer monitoring, dynamic incentives, regular repayment schedules, and social collateral help maintain high repayment rates (Silwal, 2003).

However, not all MFIs offer microfinance based on group-lending because of some reasons such as group-lending is not suitable for the entrepreneurs who expand their businesses faster and required more capital where they must wait their turn to lend and cannot lend in large amounts. While those whose businesses grew more slowly found them guaranteeing big debts for other people and it is not fair. The group-lending is also not suitable for not so poor people where they need personal guaranteed and more flexible loans conditions such as no weekly meeting and no need to form group.

In terms of factors affecting loan repayment problems among borrowers in MFI that using individual lending approach is very sparse and limited especially to microfinance experience in low-income countries (Suraya Hanim, 2011; Derban et al., 2005; Silwal, 2003). Several studies such as Awoke, 2004; Hoque, 2000; Coyle, 2000; and Ozdemir and Boran, 2004 show that when a loan is not repaid, it may be a result of the borrowers' unwillingness and/or inability to repay. Stiglitz and Weiss (1981) recommend that the banks should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans. While, Greenbaum and Thakor (1995), suggest to look at a borrower's past record and economic prospects to determine whether the borrower is likely to repay or not. Besides, characters of the borrowers, total capital needed, collateral requirements, capacity or ability to repay and condition of the market should be considered before giving loans to the borrowers.

Some authors link the repayment performance with firm characteristics such as Nannyonga (2000), Arene (1992), Oke et al. (2007) and Roslan and Mohd Zaini (2009). Oke et al. (2007) and Nwaru (2004) mention that firm's profit significantly influenced loan repayment. Khandker et al.,(1995) raise the question of whether default is random, influenced by erratic behavior, or systematically influenced by area characteristics such as rural electrification, road width, primary educational infrastructure and commercial bank density that determine local productions conditions or branch-level efficiency. Meanwhile, Godquin (2004) suggests that the provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance.

In contrast, Hulme and Mosley (1996) argue that the important factors contribute to loan repayment performance are the design features of the loan. They categorise the design features into three categories namely access methods, screening methods and incentive to repay. Access methods generally ensure that poor people access the loans not the richer people and the features include maximum loan ceilings and high interest rate. While, screening methods are used to screen out bad borrowers.

# 3. METHODOLOGY

Qualitative methodology is a multimethod in focus, involving an interpretive, naturalistic approach to its subject matter where the researcher studies things in natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings people bring to them. Qualitative methodology involves the studied use and collection of a variety of empirical materials such as case study, personal experience, interview, observational, interactional, life story and visual texts. It describes the routine and problematic moments and meanings in people's lives (Denzin & Lincoln, 2005). This study used qualitative methodology which is interviews with selected respondents and selected MFI State Managers.

An interview is one type of research methods that have been used by many researchers in collecting data. It can be done through face-to-face interviews or through electronic medium such as telephone, video call and internet interviews (Bryman & Bell, 2007; Stewart & Cash, 2003). Face-to-face interviews are more personally compared to other form of research methods where the interviewer has the opportunity to probe or ask follow up questions. Interviews are generally easier for respondent, especially in the expression of views and opinions. There are two types of interviews; formal and informal (conversational) interviews (Fitzgerald & Cox, 2002) whereas some other scholars categorise interviews as structured and unstructured interviews (Creswell, 2003; Bryman & Bell, 2007; Leedy & Ormrod, 2001).

The researchers did face-to-face interviews where a total of 30 respondents were selected equally from good borrowers, delinquent borrowers and default borrowers (10 respondents from good borrowers, 10 respondents from delinquent borrowers and 10 respondents from default borrowers). In addition, a total of six MFI State Managers in Peninsular Malaysia were choosing to get in depth information about borrower's behavior towards their loan repayment performance. In qualitative research methods, sample

size is generally much smaller than those used in quantitative research methods (Ritchie, Lewis, & Gillian, 2003). This is because qualitative is concerned with meaning and not making generalised hypothesis statement and analysing a large sample can be time consuming and often simply impractical (Crouch & Mckenzie, 2006). In qualitative, the more data does not necessarily lead to more information (the diminishing return of qualitative data). Table 3.1 below shows the respondents' demographic profile.

**Table 3.1: Repondents' Demographic Profile** 

Respondents' Demographic P	rofile
Gender	
Men	12
Women	18
Loan Status	
Good Borrower	10
Delinquent	10
Default	10
Age (mean)	43.81
Business Experience (mean)	12.90

#### 4. ANALYSIS OF FINDINGS

Based on the interviews with MFI State Managers, the result found that business characteristics are the main factor to be good borrowers where if the borrowers have a good business and can make a profit, they can payback the loans on time but if their business loss or failed, it can ruin their loans repayment. The result is parallel with the result from interviews with delinquent and default borrowers where half of them agreed that they cannot pay back the loans because of having problems in their business such as competition, low product price, high raw materials, unpredictable weather and decrease of customers.

"My business was loss where the number of customers who came to my shop decreased because of too much competition and I don't know how to compete with them"

Besides, borrower's attitude towards their debt also the main reason in determining loan repayment performance. Borrowers who set their mind that every debt must be repaid have higher chances to repay on time. The result also shows that borrowers who have regular savings tend to become good borrowers. These borrowers usually manage their income well and not lavish with the profit received.

"What motivate me to pay back the loans even during in the difficult time because every debt must be paid no matter with whom we borrow the money. I never missed my payment"

"Every month, I have allocated my income to pay all my expenses and debts. I have moneybox for each of my expenses and debts. As we know that debt must be paid"

The borrowers also have a problem to pay back their loans that make them delinquent because they have to pay other debts such as car installment, supplier debt, shop rental and family expenses. Usually when their sales drop or have personal problems such as sick or family sick, it will affect their loans repayment. Unpredictable crises such as illness or death of family members may affect borrower's repayment (Norell, 2001). Besides, the amount loan received by the borrowers may also affected borrowers repayment

performance where the bigger total loan received by the borrowers, the higher probability of the borrowers to default. When the borrowers received more loans, there is a tendency that the excess loan may be diverted to other unproductive, non for business uses such as for personal use, children's school fees and pay other debt (Norell, 2001). Based on the interviews with respondents, six of them admit that they use some of the loan given for other things.

"Yes, I admit that I used some of the loans given to renovate my kitchen because my kitchen is too old and need to be repaired"

"I had used a little of the loans given to buy handphone but I already asked my friend who also made a loans with TN and he said is allowed and it is up to us to use the loans"

Based on the interviews with MFI State Managers, the borrowers who just started their business and no experience in handling the business also have a problem to manage their business that make the business loss and the borrowers faced difficulty to payback their loans. The result is in line with the previous studies such as Njoku (1997) and Arene (1992) that found borrower's business experience is important in determining loan repayment performance where the longer the experience, the higher the chances to be good borrowers. The result from interviews show that the borrowers who have less than ten years of experience more tend to become delinquent and defaulted borrowers.

In addition, doing business on full-time basis or part-time basis may influence borrower's repayment where borrowers who doing their business in full-time basis are more concentrate and focus compared to borrowers who doing their business in part-time basis are more likely to become delinquent, because they cannot concentrate and focus on their business. One of the MFI State Manager has mentioned that family factor may influence borrower's repayment performance where borrowers need to protect the good name of the family such as Village Head, an Imam and Community Leader. These borrowers usually are good borrowers because they need to protect the good name of the family in the community. Usually the village community will refer to Village Head or an Imam if they have any problems or need advices and they very respect to this people.

# 5. CONCLUSION AND RECOMMENDATIONS

Microfinance was introduced in Malaysia to provide financing facilities to the poor and microenterprises to start up business or to finance business activities such to buy tools and machines, business equipment and, raw materials. Most of the MFIs in Malaysia are subsidised institution where they received funds in the form of grants from the government and local governments and majority of them are too depending on the grants that make them not sustainable. Therefore, high repayment performance is important for them to continually providing microfinance to their clients.

This research tries to explore the loan repayment problems among MFI borrowers in Malaysia through indepth interviews with respondents and MFI officers. The result shows that the factors affecting the ability of the borrowers to repay their loans are business factors, borrower's attitude towards their loans, other debt burden, total loan received and no experience in business. The research found that business factors such as business loss and failed are the main reason why borrowers cannot pay back their loans on time. Besides, the borrower's attitude towards their loans also the reason they cannot pay back their loans on time.

Therefore, the researcher recommends the MFIs to enhance their loan monitoring through peer monitoring like in group lending approach such as through entrepreneur's club or mentor mentee program where this can reduce the borrower's attitude to not pay back their loans and help them to enhance their business. Besides, the new borrowers can learn from the successful borrowers in running their business. This can reduce the operational cost of MFIs in monitoring their clients. The study also suggests

differentiating the terms and conditions between applying loan for start-up the business and for working capital purpose because normally who apply for start-up the business are new entrepreneurs and have less experience in business. They not only need credit but more than credit such as business training like how to promote their product, prepare financial statement and the presentable of the product. Therefore, it is suggested to provide related training skills to the new entrepreneurs to enhance their business skills.

Lastly, the researcher also suggests to the government to combine all the MFIs in Malaysia and introduce one formal MFI such as Bank Rakyat Indonesia (BRI) in Indonesia under the purview of Bank Negara Malaysia. The establishment of formal MFI can strengthen the microfinance facilities in Malaysia in one roof, unlike now there are a few agencies under government that provide microfinance to the same entrepreneurs. Therefore, some of the borrowers have made loans with different agencies and the agencies do not know the repayment status of the borrowers.

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# MEASURING E-GOVERNMENT SYSTEMS SUCCESS: A VALIDATION OF THE DELONE AND MCLEAN MODEL OF ISLAMIC INFORMATION SYSTEMS SUCCESS

Ramdan S.M.A Yousif Nurdiana Binti Azizan Kamarudin Saadan

#### **ABSTRACT**

With the proliferation of the Internet and World Wide Web applications, people are increasingly interacting with government to citizen (G2C) e-government systems. It is, therefore, important to measure the success of G2C e- government systems from citizens' perspective. While information systems (IS) success models have received much attention among researchers, little research has been conducted to assess the success of egovernment systems. Whether traditional IS success models can be extended to investigating e- government systems success needs to be addressed. This study provides the first empirical test of an adaptation of DeLone and McLean's IS success model in the context of G2C e- government. The model consists of six dimensions: Information Quality, System Quality, Service Quality, Use, User Satisfaction, and Perceived Net Benefit. Structural equation modeling techniques were applied to data collected by questionnaire from 119 users of G2C e- government systems in Malaysia. Except the link from System Quality to Use, the hypothesized relationships between the six success variables were significantly or marginally supported by the data. The findings of this study provide several important implications for e- government research and practice. This paper concludes by discussing limitations that could be addressed in future studies.

**Keywords**: E-Government, E-Services, adopt G2C, DeLone and McLean's Islamic information systems, success model.

# 1. INTRODUCTION

Since the late 1990s, governments at all levels have launched electronic government (egovernment) projects aimed at providing electronic information and services to citizens and businesses [42]. Many governments have realized the importance of Information and Communication Technologies (ICT) to bring efficiency and transparency to the functioning of the governments [34]. Now several government agencies around the world have embraced the digital revolution and placed a wide range of materials on the web, from publications to databases to actual government services online for the use of citizens [46]. E-government can be broadly defined as a government's use of ICT, particularly Web-based Internet applications, to enhance the access to and delivery of government information and service to citizens, business partners, employees, other agencies, and entities. The construction and management of e-government systems is becoming an essential element of modem public administration [42]. In order to ensure e-government success, it is important to assess the success and effectiveness of e-government and take necessary actions based on this assessment [17]. However, little is known about the success and effectiveness of public Web site systems [42]. There are three general types of e-government systems, including government to government (G2G), government to citizen (G2C), and government to business (G2B) services. Though e-government has clear benefits for businesses and government themselves, citizens actually received the widest array of the benefits from egovernment [23]. Thus, the focus of this study is on G2C systems. As Larsen & Rainie [26] suggest, typical G2C services include information for research, government forms and services, public policy information, employment and business opportunities, voting information, tax filing [43], license registration or renewal, payment of fines, and submission of comments to government officials. Since the key to making G2C e-government work and successful is not technology but the citizens [1], this study focuses on the measures of G2C e-government systems success from citizens' perspective. In recent years, many citizens are demanding more and better service through the Intemet. Government organizations should make an e-government systems success/effectiveness assessment and see whether they are capable of doing the task and delivering services as expected [17]. In order for Web-based applications to be effectively used in the e-government environment, a better understanding of what factors best measure the success of e-government systems needs to be developed. This has also created an increased need for dependable ways to measure the success of an e-government system. However, e-government systems success is a complex concept, and its measurement is expected to be multi-dimensional in nature. The measurement of information systems (IS) success or effectiveness is widely investigated throughout IS research community. Theorists, however, are still grappling with the question of which constructs best measure IS success [35]. DeLone and McLean [6] comprehensively reviewed the different IS success measures and proposed a six-factor IS success model as a taxonomy and framework for measuring the complex dependent variable in IS research. The categories of the taxonomy are System Quality, Information Quality, Use, User Satisfaction, Individual Impact, and Organizational Impact. Recently, DeLone and McLean [7] discussed many of the important IS efforts that have applied, validated, challenged, and proposed enhancements to their original model, and then proposed an updated DeLone and McLean IS success model depicting the relationship between System Quality, Information Quality, Service Quality, Use, User Satisfaction, and Net Benefit. DeLone and McLean (henceforth, "D&M") do not provide empirical validation of the updated model and, in fact, suggest further development and validation is needed for their model. Actually, the G2C e-government service process fits nicely into the D&M updated IS success model and its six success dimensions. Thus, continued research is needed to investigate and test a comprehensive model of e-government systems success based on the D&M model. While IS success models have received much attention among researchers, little research has been conducted to assess the success of e-government systems. Whether traditional information systems success models can be extended to investigating e-government systems success needs to be addressed. Thus, the main purpose of this study is to develop and validate a multidimensional G2C e-government systems success model based on the DeLone and McLean's [7] IS success model. This paper is structured as follows. First, this study reviewed the development of IS success models. Second, based on prior studies, an egovernment systems success model and a comprehensive set of hypothesis were proposed. Next, the methods, measures, and results of this study were then presented. Finally, theoretical and managerial implications and directions for future research were discussed. The validated e-government systems success model can be served as a foundation for positioning and comparing e-government success research, and can provide e-government managers with a useful framework for evaluating e-government systems success.

# 2. IS SUCCESS MODELS

DeLone and McLean [6] comprehensively reviewed the different IS success measures and concluded with a model of interrelationships between six IS success variable categories: System Quality, Information Quality, IS Use, User Satisfaction, Individual Impact, and Organization Impact (see Figure 1). The model makes two important contributions to the

understanding of IS success. First, it provides a scheme for categorizing the multitude of IS success measures that have been used in the literature. Second, it suggests a model of temporal and causal interdependencies between the categories [37] [30]. Since 1992, a number of studies have undertaken empirical investigations of the multidimensional relationships among the measures of IS success [12] [15] [16] [20] [24] [27] [35] [36] [38]. Seddon & Kiew [38] tested part of the D&M's [6] model through a structural equation model. They replaced Use with Usefulness and added a new variable called User Involvement, and their results partially supported D&M's [6] model.

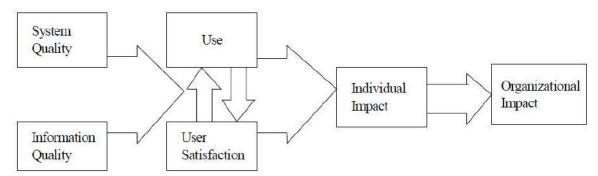


FIGURE 1: DeLone and McLean's IS Success Model [6]

Based on the DeLone and McLean's [6] model, Seddon [37] proposes an alternative model that focuses on the causal (variance) aspects of the interrelationships among the taxonomic categories, and separates the variance model of IS success from the variance model of behaviors that occur as a result of IS success. Seddon's IS success model includes three classes of variables: (1) measures of information and system quality, (2) general perceptual measures of net benefits of IS use (i.e., Perceived Usefulness and User Satisfaction), and (3) other measures of net benefits of IS use. Seddon [37] also claims that IS Use is a behavior, not a success measure, and replaces D&M's [6] IS Use with Perceived Usefulness, which serves as general perceptual measures of net benefits of IS Use, to adapt his model to both volitional and nonvolitional usage contexts. Rai et al. [35] empirically and theoretically assessed DeLone and McLean's [6] and Seddon's [37] models of IS success in a quasivoluntary IS use contexts, and found both models exhibit reasonable fit with the collected data.

DeLone and McLean [7] propose an updated D&M IS Success Model (see Figure 2) and evaluate its usefulness in light of the dramatic changes in IS practice, especially the advent and explosive growth of e-commerce. They agree with Seddon's premise that the combination of variance and process explanations of IS success in one model can be confusing, but argue that Seddon's reformulation of the D&M's [6] model into two partial variance models unduly complicates the success model and defeats the intent of the original model. Based on the prior studies, DeLone and McLean [7] propose an updated model of IS success by adding "service quality" measures as a new dimension of IS success model and grouping all the "impact" measures into a single impact or benefit category called "net benefit". Although some researchers claim that service quality is merely a subset of the model's systems quality, the changes in the role of IS over the last decade argue for a separate variable - the "service quality" dimension [7]. On the other hand, while researchers have suggested several IS impact measures, such as individual impacts [6] [41], work group impacts [32], organizational impacts [6] [29], interorganizational impacts [4], consumer impacts [3], and societal impacts [37], DeLone and McLean [7] move in the opposite direction and group all the "impact" measures into a single "net benefits" variables in order

to avoid complicating the model with more success measures. Given that system usage continues to be used as a dependent variable in a number of empirical studies [14] [15] [16] [20] [21] [35] [40] [47] and takes on new importance in Internet-based system success measurements where system use is voluntary, "system usage" and alternative "intention to use" are still considered as important measures of IS success in the updated D&M model. Within the G2C e-government context, citizens use an Internet-based application to search information and conduct transactions (e.g., tax filing and payment of fines), making the Internet-based application an IS phenomenon that lends itself to the updated D&M IS Success Model. DeLone and McLean [7] also suggest further development, challenge and validation is needed for their model. Thus, we assume that D&M's updated IS Success Model can be adapted to the measurement challenges of the G2C e-government context.

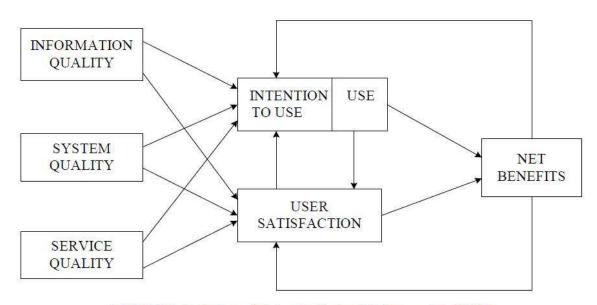


FIGURE 2: DeLone and McLean's Updated IS Success Model [7]

# 3. RESEARCH MODEL AND HYPOTHESES

According to DeLone and McLean [7], this study proposes a comprehensive, multidimensional model of e-government systems success (see Figure 3), which suggests that Information Quality, System Quality, Service Quality, Use, User Satisfaction, and Perceived Net Benefit are success variables of e-government systems. As mentioned earlier, system usage continues to be used as an IS success variable in a number of empirical studies and continues to be developed and tested by IS researchers [5] [9] [11] [14] [15] [20] [21] [28] [30] [31] [35] [40]. DeLone and McLean [7] contend that Use and Intention to Use are alternative in their model, and that Intention to Use may be worthwhile in the context of mandatory usage. However, citizens' use of G2C systems is fully voluntary and system use is an actual behavior, which has been considered as the variable closer in meaning to success than behavioral intention to use. Thus, this study adopts Use instead of Intention to Use as an e-government systems success measure.

Most researchers agree with DeLone & McLean's [7] suggestion that Service Quality, properly measured, deserves to be added to System Quality and Information Quality as components of IS success. Seddon [37] and DeLone & McLean [7] have also come to a compromise on the use of "net benefit" as IS success measures. However, "the challenge for the researcher is to define clearly and carefully the stakeholders and context in which net

benefit are to be measured" [7, p.23]. Different stakeholders may have different opinions as to what constitutes a benefit to them [39], Since the focus of this study is on measuring G2C systems success from citizens' perspective, "net benefit" in this study refers to the citizen-perceived net benefit evaluation toward using a specific G2C system. Citizens and taxpayers may feel that they are not getting benefit for their money. They would like this benefit reflected in terms of cost/time savings and better e-government systems performance. Thus, "perceived net benefit" appears to be an important success measure of G2C systems.

Islamic Information Quality

H1

Use

H8

Perceived Net Benefits

User

H9

Service Quality

H6

Satisfaction

**FIGURE 3: Research Model** 

The hypothesized relationship between Use, User Satisfaction and the three quality variables is based on the theoretical and empirical work reported by DeLone & McLean [7]. As DeLone & McLean [7] suggest. Use and User Satisfaction are closed interrelated. Positive experience with "use" will lead to greater "user satisfaction" in the D&M model. Because of usage and user satisfaction, certain net benefit will occur. DeLone & McLean [7] also assume that the positive (negative) net benefit from the perspective of the stakeholder of the system will influence and reinforce (decrease) the subsequent "use" and "user satisfaction". To avoid model complexity and reflect the cross-sectional nature of this study, the feedback links from Net Benefit to both Use and User satisfaction were excluded from the current research. As DeLone & McLean [7] note, the IS success is a multidimensional and interdependent construct and it is therefore necessary to study the interrelationships among, or to control for, those dimensions. Also, the success model certainly needs further development and validation before it could serve as a basis for the selection of appropriate IS measure. Thus, the following nine hypotheses were tested:

HI: Information Quality will positively affect Use in the G2C e-government context.

H2: System Quality will positively affect Use in the G2C e-government context.

H3: Service Quality will positively affect Use in the G2C e-government context.

H4: Information Quality will positively affect User Satisfaction in the G2C e-government context.

H5: System Quality will positively affect User Satisfaction in the G2C e-government context.

H6: Service Quality will positively affect User Satisfaction in the G2C e-government context.

H7: Use will positively affect User Satisfaction in the G2C e-government context.

H8: Use will positively affect Perceived Net Benefit in the G2C e-government context. H9: User Satisfaction will positively affect Perceived Net Benefit in the G2C e-government context.

# 4. RESEARCH DESIGN AND METHOD

## **Measures of the Constructs**

To ensure the content validity of the scales, the items selected must represent the concept about which generalizations are to be made. Therefore, items selected for the constructs were mainly adapted from prior studies to ensure content validity. Two items, selected from Doll and Torkzadeh's [8] ease of use scale and adapted to specify the G2C e-government system, were used to measure System Quality in this study. Three items for the Information Quality construct were adapted from Doll and Torkzadeh [8] to capture the two attributes of information quality of a G2C system: content and timeliness. Three items, selected from Wang and Tang's [44] EC-SERVQUAL scale, were used to measure Service Quality consfruct. Use was measured by two-item measures adapted from the previous IS use measures [19] [35]. Traditionally, User Satisfaction has been measured indirectly through Information Quality, System Quality, Service Quality, and other variables [2] [8] [10] [25] [22]. However, the concept of e-government systems success has been adapted, based on the DeLone and McLean's [7] model of IS success, to develop causal relationship between indirect measures of User Satisfaction (i.e., System Quality, Information Quality, and Service Quality) and overall level of User Satisfaction. Thus, the items to measure User Satisfaction were taken from the previous measures of overall level of user satisfaction or Web customer satisfaction [8] [33] [35] [45]. Perceived Net Benefit was assessed by twoitem measures adapted from Etezadi-Amoli & Farhoomand's [12] user performance scale. Each item was adapted to specifically reference e-government systems. Likert scales (1-7), with anchors ranging from "very strongly disagree" to "very strongly agree" were used for all questions. After the pre-testing of the measures, these items were modified to fit the egovernment context studied.

## **Data Collection Procedure**

Data used to test the research model were gathered from a sample of experienced users of various G2C e-government applications. To increase the generalizability of the results, the respondents were spread across 3 popular G2C systems in Malaysia: Malaysia admission universities (www.upu.mohe.gov.my). Scholarship (www.jpa.gov.my). Education loan (ptptn.gov.my). Respondents were first asked whether they had ever used the abovementioned e-government systems; if they replied in the affirmative, they were asked to participate in the survey. The questionnaire requested the respondents to relate to the last time they used the e-government system and to answer the remaining questions accordingly. That is, respondents were asked to write down the name of the last e-government system they used. The respondents were insfructed in the questionnaire to answer the questions by assessing that system. For each question, respondents were asked to circle the response which best described their level of agreement. A total of 119 usable responses were obtained. Approximately, 58% of the respondents are male. Detailed descriptive statistics relating to the respondents' characteristics are shown in Table 1.

**TABLE 1: Characteristics of the respondents** 

Characteristic	Number	Percentage
Gender		
Female	50	42.0
Male	69	58.0
Age		
<20	6	5.0

21-29	91	76.5
30-39	19	16.0
40-49	2	1.7
>50	1	0.8
Education		
Master Degree	4	3.4
Ph.D	57	47.9
Bachelor Degree	58	48.7
Use Internet		
>5 hours	49	41.2
2-3 hours	17	14.3
4-5 hours	31	26.1
Never	6	5.0
About 2 hours	16	13.4
G2C system used		
Malaysia admission universities	39	32.8
(www.upu.mohe.gov.my).		
Scholarship (www.jpa.gov.my).	15	12.6
Education loan (ptptn.gov.my)	27	22.7

# 5. RESULTS

# **Measurement Model**

A first-order confirmatory factor analysis using LISREL 8.3 was conducted to test the measurement model. The similarity of the original and model-reproduced covariance mafrix is referred to as the fit of the model. Seven common model-fit measures were used to assess the model's overall goodness of fit: the ratio of  $X^2$  to degrees-of-freedom {df}, goodness-of-fit index (GFI), adjusted goodness-of-fit index (AGFI), normalized fit index (NFI), comparative fit index (CFI), root mean square residual (RMSR), and root mean square error of approximation (RMSEA). As shown in Table 2, all the model-fit indices exceeded their respective common acceptance levels suggested by previous research, thus demonstrating that the measurement model exhibited a fairly good fit with the data collected ( $X^2$  =90.28 with df=62, GFI = 0.91, AGFI = 0.84, NFI = 0.92, CFI = 0.97, RMSR = 0.085, RMSEA = 0.062). Therefore, we could proceed to evaluate the psychometric properties of the measurement model in terms of reliability, convergent validity, and discriminant validity.

**TABLE 2: Fit indices for measurement and structural models** 

Fit	Recommended	Measurement	Structural
Indices	value	model	model
$X^2/df$	<3.00	1.46	1.43
GFI	>0.90	0.91	0.91
AGFI	>0.80	0.84	0.85
NFI	>0.90	0.92	0.92
CFI	>0.90	0.97	0.97
RMSR	< 0.10	0.085	0.090
RMSEA	< 0.08	0.062	0.060

Reliability and convergent validity of the factors were estimated by composite reliability and average variance extracted (see Table 3). The composite reliabilities can be calculated as follows: (square of the summation of the factor loadings)/{(square of the summation of the factor loadings)+(summation of error variables)}. The interpretation of the resultant coefficient is similar to that of Cronbach's alpha, except that it also takes into account the actual factor loadings rather than assuming that each item is equally weighted in the composite load determination. Composite reliability for all the factors in my measurement model was above 0.80. The average extracted variances were all above the recommended

0.50 level [18], which meant that more than one-half of the variances observed in the items were accounted for by their hypothesized factors. Convergent validity can also be evaluated by examining the factor loadings from the confirmatory factor analysis. Following Hair et al.'s [18] recommendation, factor loadings greater than 0.50 were considered to be very significant. All of the factor loadings of the items in the research model were greater than 0.70. Thus, all factors in the measurement model had adequate reliability and convergent validity.

To examine discriminant validity, we compared the shared variances between factors with the average variance extracted of the individual factors [13]. This analysis showed that the shared variance between factors were lower than the average variance extracted of the individual factors, confirming discriminant validity (see Table 3). In summary, the measurement model demonstrated adequate reliability, convergent validity, and discriminant validity.

TABLE 3: Reliability, average variance extracted and discriminant validity

Factor	Composite reliability	Information quality (IQ)	System quality (SQ)	Service quality (SV)	Use (U)	User satisfaction (US)	Perceived Net Benefit (NB)
IQ	0.90	0.74					
SQ	0.87	0.27	0.77				
SV	0.86	0.19	0.35	0.67			
U	0.87	0.15	0.10	0.14	0.77		
US	0.88	0.47	0.45	0.35	0.31	0.79	
NB	0.80	0.23	0.16	0.11	0.31	0.29	0.67

Diagonal elements are the average variance extracted. Off-diagonal elements are the shared variance.

# **Structural Model**

A similar set of fit indices was used to examine the structural model (see Table 2). Comparison of all fit indices with their corresponding recommended values provided evidence of a good model fit ( $X^2$ =93.11 with df=65, GFI = 0.91, AGFI = 0.85, NFI = 0.92, CFI = 0.97, RMSR = 0.090, RMSEA = 0.060). Thus, we could proceed to examine the path coefficients of the structural model.

Properties of the causal paths, including standardized path coefficients, p-values, and variance explained for each equation in the hypothesized model are presented in Figure 4. As expected. Information Quality had a significant influence on both Use and User Satisfaction. Thus, HI and H4 were supported (7 = 0.26 and 7 = 0.37, respectively). The influences of Service Quality on Use and User Satisfaction were not significant at p<0.05, but significant at p<0.1. Thus, H3 and H6 were marginally supported (7 = 0.25 and 7 = 0.15, respectively). System Quality had a significant impact on

User Satisfaction, but had no significant effect on Use. H5 was supported (7 =0.31) while H2 was rejected (7 =0.05). Consequently, Information Quality exhibited a stronger effect than System Quality and Service Quality in influencing Use and User Satisfaction respectively. In addition, Use had a significant influence on both User Satisfaction and Perceived Net Benefit. H7 and H8 were supported (/3=0.26 and /3=0.36, respectively). Finally, User Satisfaction appeared to be a significant determinant of Perceived Net Benefit. H9 was supported (/3=0.35).

Altogether, this model accounted for 40 percent of the variance in Perceived Net Benefit with Use exerting the stronger direct effect on Perceived Net Benefit than User Satisfaction. 70 percent of the variance in User Satisfaction was explained by Information Quality, System Quality, Service Quality, and Use while 21 percent of the variance in Use was explained by Information Quality, System Quality, and Service Quality. The direct and total effect of User Satisfaction on Perceived Net Benefit was 0.35. However, the direct and total effects of Use on Perceived Net Benefit were 0.36 and 0.45, respectively. Thus, Use

exhibited stronger direct and total effects on Perceived Net Benefit than those of User Satisfaction. Among the three quality-related constructs. Information Quality had the strongest total effect on Perceived Net Benefit. The direct, indirect, and total effects of Information Quality, System Quality, Service Quality, Use, and User Satisfaction on Perceived Net Benefit were summarized in Table 4.

Islamic Information Quality

0.26\*

Use

0.36\*\*

Perceived Net Benefits

O.35\*\*

User satisfaction

R2=0.21

0.36\*\*

Perceived Net Benefits

**FIGURE 4: Hypotheses Testing Results** 

"'p<0.1, \*p<0.05, \*\*p<0.01, \*\*\*p<0.001

TABLE 4: The direct, indirect, and total effect of dominants on Perceived Net Benefit

	Dir	ect effec	t	I	ndirect eff	fect		Total eff	fect
	U	US	NB	U	US	NB	U	US	NB
IQ	0.26	0.37			0.07	0.25	0.26	0.44	0.25
SQ	0.05	0.31			0.01	0.13	0.05	0.32	0.13
SV	0.25	0.15			0.06	0.16	0.25	0.21	0.16
U		0.26	0.36			0.09		0.26	0.45
US			0.35						0.35

# 6. DISCUSSIONS

This study presented and validated a model of e-government systems success based on the DeLone & McLean's [7] updated IS success model, to capture the multidimensional and interdependent nature of G2C e-government systems success. The results indicated that Information Quality, System Quality, Service Quality, Use, User Satisfaction, and Perceived Net Benefit were valid measures of e-government system success. Except the link from System Quality to Use, the hypothesized relationships between the six success variables were significantly or marginally supported.

This research provides several important implications for e-government system success research and management. According to the proposed model. Perceived Net Benefit has been considered as a closer measure of e-government systems success than the other five

success measures. Perceived Net Benefit should develop if the formation of perceived quality, system use, and user satisfaction is appropriately managed. Thus, management attention might more fruitfully focus on the development of these psychological and behavioral processes. In order to increase the citizen-perceived net benefit, e-government authorities need to develop G2C e-government systems with good information quality, system quality, and service quality, which, in tum, influence citizens' system usage behavior and satisfaction evaluation, and then perceived net benefit of the systems. System Use was found to have the strongest direct and total effects on Perceived Net Benefit in the model, indicating the importance of system use in promoting citizen-perceived net benefit. While simply saying that more use will yield more benefits, without considering the nature of this use, is insufficient [7], system use is a necessary condition of yielding benefits to the citizens.

The findings clearly supported that the total effects of Information Quality on Use, User Satisfaction and Perceived Net Benefit are substantially greater than those of System Quality and Service Quality. That is, beliefs about Information Quality, within the G2C egovernment context, are more dominant in influencing Use, User Satisfaction and Perceived Net Benefit than beliefs about System Quality and Service Quality. This means that egovernment authorities should pay much more attention to promoting the information quality of e-government systems. With the advent and development of e-government systems research, measuring multiple e-government system success variables continues to be of importance. The model provides a richer portrayal of the dynamics surrounding quality measures, satisfaction evaluation, usage, and user perceived net benefits. The results showed that citizens perceived the benefit of a G2C system because they have used it and felt satisfied with its quality of information, system and service. While system usage and user satisfaction are commonly acknowledged as useful proxy measures of system success [2] [22] [8] [9] [11], this study suggest that user-perceived net benefit can be considered as the variable closer in meaning to success than system usage and user satisfaction. This research also confirmed that Use, User Satisfaction and Perceived Net Benefit are complementary yet distinct constructs, and that Use is partially mediated through User Satisfaction in influencing Perceived Net Benefit of an e-government system.

It is worth noting that the effect of System Quality on Use was not significant. This may be because citizens have higher computer self-efficacy and Intemet experience in the Intemet age, the system quality or ease of use of an e-government system is not critical for citizens in determining whether to use the system or not. Thus, respondents showed more concem on information quality (e.g., usefulness) and service quality (e.g. transaction safety) than on system quality (e.g., ease of use). Given that the usage of G2C e-government systems is completely voluntary, and that the target user group consists of a large number of people with diversified backgrounds, the findings of this study suggest that in order to attract more people to use G2C systems and make them satisfied with the systems, it is not enough to make the system easy to interact with. It is of paramount importance to develop G2C systems that can provide high-quality information and service for people, including sufficient and up-to-date information, security and privacy protection, personalization, etc. This empirical result also emphasizes the importance of assuming a multidimensional, interdependent analytical approach. It is imperative for e-government authorities to lay stress on various system success levels. Information Quality, System Quality and Service Quality belong to the system development level while System Use, User Satisfaction and Perceived Net Benefit belong to the effectiveness-influence level. Establishing strategies to improve only one success variable is therefore an incomplete strategy if the effects of the others are not considered. The results of this study encourage e-government managers to include measures of Information Quality, System Quality, Service Quality, System Use, User Satisfaction, and Perceived Net Benefit into their present valuation techniques of egovernment system success. The current study has provided reliable and valid measures of these constructs. As the concise success measures with good psychometric properties are periodically administered to a representative set of citizens, e-government managers can enhance their understanding of the levels of the citizen-perceived net benefit and its antecedents, and take necessary corrective actions to improve them. Researchers can also use the validated model as the foundation for developing comprehensive e-government systems success measures and theories, exploring relationships between the proposed constructs, and comparing e-government success empirical studies.

# 7. CONCLUSION AND LIMITATIONS

This research was in response to the call for continuous challenge and test of IS success models in different contexts [7] [35]. Based on the DeLone & McLean's [7] updated IS success model, we proposed and validated a comprehensive, multidimensional model of egovernment systems success, which considers six success measures: Information Quality, System Quality, Service Quality, Use, User Satisfaction, and Perceived Net Benefit. Except the link from System Quality to Use, the hypothesized relationships between the six success variables were significantly or marginally supported by the data. The findings of this study provided several important implications for e-government research and practice.

Even though the rigorous procedure allowed us to develop and validate a model of egovernment system success, this empirical study has several limitations that could be addressed in the future research. First, investigation of e-government systems success model is relatively new to e-government researchers. The discussed findings and their implications were obtained from one single study that examined some particular e-government systems and targeted a specific citizen group in Malaysia. Thus, caution needs to be taken when generalizing my findings and discussion to other e-government categories or user groups. It is imperative to validate the proposed model with different user populations in different egovernment contexts, especially in G2B and G2G contexts. In addition, the sample size used in this study is another limitation. A cross-cultural validation using a large sample gathered elsewhere is required for greater generalization of the proposed model. Second, this study did not incorporate all Net Benefit measures, raises some concems. This study merely measured the Net Benefit construct from a citizen-perceived perspective. Thus, developing and testing of the Net Benefit measures on the governmental or societal level (e.g., retum on investment) is a useful direction to further examine the validity of this model. However, future researchers still need to define clearly and carefully the stakeholders and context in which Net Benefits are to be measured [7]. Finally, since this study was conducted with a snapshot research approach, the feedback links from Net Benefit to Use and User satisfaction were excluded from this study. Additional research efforts are needed to evaluate the validity of the investigated model. Longitudinal evidence might enhance our understanding of the causality and interrelationships between variables of e-government systems success.

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# ORGANIZATIONAL CAPABILITIES FOR KNOWLEDGE SHARING IN ISLAMIC BANKING MALAYSIA

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#### **ABSTRACT**

Recent concerns about the issue of knowledge management (KM) within an organization have accentuated the need for more efficient and effective knowledge sharing (KS) that is (KS) plays an increasingly significant role in determining the outcomes of KM. Today, banks are beginning to understand the relevance and importance of knowledge management systems (KMS) and of KS. Similarly, banks are beginning to appreciate knowledge as the most significant and valued asset that leads to effective organizational performance. This research aims to investigate the role of certain factors in organizational culture for the success of KS. Factors such as interpersonal trust and communication among staff, information systems, rewards, and organizational structure play an important role in defining the relationships among staff, creating possibilities for breaking the obstacles to KS in the Islamic banking sector in Malaysia.

Key words: Knowledge sharing, conventional bank, Islamic banks

### 1. INTRODUCTION

The well-known knowledge era has radically changed the values in organizations (Carlisle, 2001). Since the emergence of this era, the long-term viability and prosperity of organizations has been viewed as being increasingly dependent on the ability of organizations to leverage the concealed worth of this crucial, acquired, intangible knowledge. In previous years, the commodities of the capital and labor-intensive firms were gradually replaced owing to continuous change in market expectations and increased demand for new products introduced by knowledge-intensive firms (Ali& Ahmad, 2006). Knowledge sharing (KS) is undoubtedly an important component in all organizations, especially in banking institutions that pursue knowledge as an intangible and highly sought asset. KS is important in distinguishing the competitive and rapidly changing environment, as it enables not only intellectual reuse but also the renewal of knowledge possessed by bank employees. Therefore, Barachini, (2009), emphasized that these organizations must continuously motivate their employees to share valuable information to leverage their intellectual capital. This study aims to examine the KS strategies that help increase the tendencies of employees in Islamic banks in Malaysia to engage in KS practices.

# 1.1 Background of Study

The importance of research comes from that of the research variables in contemporary organizations and societies. This importance is likewise revealed through the ways by which organizations could be provided with information and communication technology to expand the possibilities of KS, which could not have been achieved previously, as well as to provide real opportunities for KS to contribute to their strategic development. This study provides significant influence and impact in determining the success of

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the sharing of warranted knowledge among employees of Islamic banks to achieve organizational competitiveness. The research findings provide useful information and deepen the understanding of Islamic banks in motivating their employees to engage in KS practices.

## 1.2 Scope of Study

This paper aims to assess the level of KS among the staff and managers of a number of Islamic banks in Malaysia. Through questionnaires and interviews, we evaluate the exchange of experiences and knowledge based on documents and all elements of knowledge, to identify the factors hindering KS in Islamic banks. The results of our survey are analyzed using SPSS software.

## 1.3 Problem Statement

Malaysia has differentiated itself from other Islamic countries, as its government has implemented a parallel system wherein Islamic and conventional banks function alongside each another, as opposed to full Islamisation (UKM. April 2004). Insufficient personnel training is one of the issues in this study (Kahf, 1999). Many Islamic banks recruit their employees from conventional banks, and these employees sometimes experience difficulties in understanding Shari'ah rulings. Conventional banks that implement a parallel system (Islamic banks) allow institutions to offer Islamic banking products and services using their existing infrastructure, including staff and branches (Khurrum, 2006). The issue is whether to hire non-Muslim staff or staffs who possess no information or knowledge on Shari'ah.

As a result of the lack of independence of conventional Islamic banks, independent Islamic banks have become industry leaders, particularly because their employees are ready to share Islamic information. This result therefore reflects the problem on the growth and development of Islamic banking in Islamic banks as well as on the correct non-application of religious texts. The problem of the ineffective dissemination of existing knowledge throughout the organization was addressed.

## 1.3 Objective

The objective is to compare KS Islamic activities through ICT between Islamic banks and conventional banks that use a parallel system wherein the Islamic and conventional systems function alongside each other.

## 2. LITERATURE REVIEW

Islamic banking

"Islamic banking has become a substantial and fastest growing industry during the last four decades. It has followed the Islamic transactions rules and principles (Shari'ah) to carry out their business" (Henry & Wilson, 2004), (Iqbal & Mirakhor, 2007), (Dusuki & Abdullah, 2007). According to Shari'ah principles, any payment or receipt of interest is strictly prohibited, although the Islamic bank offers products and services that are more or less similar to those offered by a conventional bank.

Conventional banks which added service Islamic banking to its system banking

Malaysia differs from other Islamic countries in that its government has implemented a parallel system wherein Islamic and conventional banking can function alongside each another, rather than adopting full Islamisation. This implementation is the first step of the country towards the development of a dual system where Islamic banking and the conventional system function parallel to each other (Khurrum, 2006).

### Islamic banks

Malaysia, as one of the first countries to introduce Islamic banking, is deeply committed to developing a complete Islamic financial system. The Malaysian government established the first Islamic bank in the beginning of the 1980s, and followed by the Bank Muamalat. These Islamic banks have been independent since their inception, (Haron & Wan Azmi, 2005).

# 3. THEORETICAL FRAMEWORK OF THIS STUDY

Organizational knowledge capability

The core capabilities of a knowledge organization are important in providing information and knowledge-based services. (Yang & Chen, 2007). Wiig (1994) claims that KM initiatives would fail if the investments of organizational resources and capabilities are inappropriate. In other words, effective KM should contribute to organizational performance through the development of organizational knowledge capability (Malhotra& Segars 2001). Empirical studies (Yang & Chen, 2007), reveal that the organizational capability to learn or acquire the required knowledge from other organizations is a key resource for successful KS. Thus, the enhancement of knowledge capabilities as the foundation of organizational development is beneficial for organizational effectiveness. Normally, organizations invest on process improvement, work effectiveness, learning, and supporting technology that facilitate knowledge (Lee's 2001).

Cultural

Structur

Structural

Knowledge

People

Human

Technol

Figure 1: A framework linking organizational knowledge capabilities to knowledge sharing

Source: (Yang & Chen, 2007).

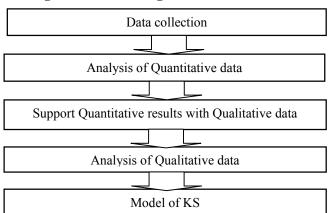
## 4. RESEARCH METHODOLOGY

Connect the data

In connecting the two data types, the researchers realized the need for further data collection to support results after analyzing the first set of data. Therefore, following the results of the initial phase, the second phase of data collection is marginal and supportive, intended to explain the initial results, (Cresswell & Plano Clark, 2007).

Design of research process

Figure 2: Connecting the data mixed method



# 4.1 Research Questions

The research question for this paper is:

How can one understand the source of any observed differences in the KS Islamic activities using ICT among Islamic banks and Islamic banks adopting a parallel system?

### 4.2 Contribution

Islamic banking is a growing sector in Malaysia and many other countries. KS among staff is important in improving the performance and ensuring the sustainable growth of Islamic banks. The potential for KS in developing countries is reportedly higher than that in other parts of the world (Voelpel & Han, 2005). Banking institutions that intend to fully leverage their knowledge potential must first appreciate and look forward to the enablers that affect KS as a whole. Therefore, this study eventually expects to facilitate and assist the banking sector in improving its recognition and understanding of factors that further induce KS in Islamic banks and in conventional banks with Islamic banking services. Moreover, the study aims to determine the status of Islamic information sharing among staff and the success of KS in Islamic banks. The issue is whether to hire non-Muslim staff or staff with no information or knowledge about Shari'ah, as such employees could create problems for customers of Islamic banking services and on the correct application of religious texts. Islamic banks should overcome such issues and gain a deeper understanding of its staff needs and demands to support KS among them. New staff should be trained in KS, creating a better understanding of the correct application of religious texts and provision of Islamic banking services.

### 4.3 Result

Data collection

The methodological instruments employed in this research include collection data during questionnaires from staff in Conventional banks that added the service Islamic banking to their system banking (CB)and Islamic banks (IB) after that during result of questionnaires that support this result. Collection data during make interview with some of staff that support for first phase and explain for it.

# Pilot Study

A pilot study of the survey instrument was carried out to ensure that the questionnaire is acceptable and answerable by a wide range of respondents. This pilot survey tested perceptual items and the reliability of

the scales before conducting the main survey; it sought to reduce the number of items to a reasonable number for inclusion in the main survey. A sample size of 50 was used in this exploratory research exercise to establish the general viability of the survey questionnaire. Several questionsneed to be modified to serve the purpose of this survey. Furthermore, deleting the item "It is prestige" from a question regarding the level of HKC and KS would increase the Cronbach's Alpha to more than 70%.

**Table 1: Reliability Analysis** 

Variables	No. of items	Alpha Coefficient
Cultural knowledge capabilities (CKC)	15	.756
Structural knowledge capabilities (SKC)	10	.756
Human knowledge capabilities (HKC)	6	.711
Technical knowledge capabilities (TKC)	10	.893
Knowledge sharing (KS)	3	764

# Data Processing and Analysis

The data collected were verified for accuracy. Data cleaning was performed using descriptive statistics, coding, and data entry to ensure correct frequencies in data. Inconsistencies and errors were eliminated, and the data were adjusted for missing values and outliers. The cleaned data were then verified using a reliability test.

# Factor Analysis

Factor analysis primarily aims to describe the covariance relationships existing among numerous variables in terms of factors. The factor model assumes the possibility of grouping variables based on their correlation coefficients. A strong correlation exists when all the variables in a certain group are associated with one another and are related to other variables outside this group. By contrast, a weak correlation exists when each factor is represented by a different set of variables. Varimax analysis can aid in achieving the goal of this study, which is to present independent rankings of the factors and to define the psychological factors, as factor interpretation should be based on psychological logic. Through the analysis, five factors were identified as necessary to such psychological explanation and these factors were shown to have identical interpretation (Table 2).

**Table 2: Factor Analysis** 

Latent Constructs	Items	Loadings
Cultural knowledge capabilities	5	.804
(CKC)		.643
		.863
		.606
		.641
Structural knowledge capabilities	4	.715
(SKC)		.535
		.637
		.744
Human knowledge capabilities	5	.535
(HKC)		.465
		.585
		.598
		.745
Technical knowledge capabilities	9	.653

(TKC)		.767
` ,		.739
		.766
		.768
		.532
		.567
		.690
		.811
<b>Knowledge sharing (KS)</b>	3	.583
		.921
		.689

# Regression

Regression analysis was adopted in the study, and the adjusted coefficient of determination (R average) was -.043, which served as basis for assessing the moral relationship between the dependent and independent variables. In other words, the contribution of the independent variables in explaining the change in the dependent variable can be derived using array deviations. The standard error was 0.714, as shown in Table 3.

**Table 3: ANOVA** 

Sig.	F	Mean Square	df	Sum of	Model
				Squares	
001.	.498	.356	4	1.422	Regression
		.714	45	32.124	Residual
			49	33.547	Total

Based on Table 4, the percentage of the link between the KS and the independent factors was 608. Squaring this value in terms of the effect of the combined factors yields an impact value of 369. The proportion link square adopted in disseminating the sample to the entire community was 394, implying that the independent factors affect the dependent variable.

**Table 4: Model summary** 

Adjusted R Square	R Square	R	Model
043-	.042	.206	1

Moreover, based on their coefficients, a significant relationship was found between the dependent variable (i.e., KS) and all the independent variables, except for CKC, which obtained significance and beta values of 968 and .007, respectively. The remaining values were statistically significant at p = 0.05 (Table 5). Therefore, SKC, HKC, and TKC have significant effects on KS.

**Table 5: Coefficient** 

No	Model	Unstandardi	zed	Standardized	t	Sig.
		Coefficients	}	Coefficients		
		В	Std. Error	Beta		
	KS	2.659	1.133		2.347	.023
1	CKC	.010	.241	.007	.040	.968
2	SKC	.285	.258	.200	1.108	.274
3	НКС	200-	.277	124-	722-	.474
4	TKC	177-	.245	141-	721-	.474

### 5. CONCLUSION

This study examines the KS problem and its effects on the KS process, in the context of Islamic banks in Malaysia. Islamic banking institutions must first appreciate and look forward to the enablers and barriers that affect KS as a whole to fully leverage their knowledge potential. Therefore, this study is expected to facilitate and assist the Islamic banking sector in improving its recognition and understanding of KS among staff in Islamic banks in Malaysia.

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# IMPLEMENTING MANAGEMENT INFORMATION SYSTEM IN LIBYAN ISLAMIC FINANCIAL INSTITUTIONS

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### **ABSTRACT**

Management Information System (MIS) is a management system that is used by many banks in developed countries nowadays to improve the banking service and support decision-making process. The Islamic banking is considered as one of the fast growing industry in the financial and banking sector. In Libya the Islamic banks are still new and many traditional banks have opened Islamic banking departments or separate branches to provide banking services according to Islamic law and Sharia. The study will explore the impact of Management Information System on improving the banking service and information quality North Africa Bank, and identify the main obstacles those hinders the implementation of MIS in Islamic banking. The methodology of MIS is qualitative research that aims to gather an indepth understanding to the role of Management Information System in Libya banks and evaluate the impact of MIS on Islamic banking. The finding of this paper shows that Libyan financial institutes need proper research to implement MIS.

**Keywords:** Management Information systems (MIS), Islamic Banking, Investment, Banking Activities, Information Quality, Decision-Making Process

### 1. INTRODUCTION

Islam is a comprehensive way of life, which strikes the balance between the spiritual and the material need of human being. One of the important aspects in human life is the need for a comprehensive system in order to govern their life and to ensure all the needs are catered adequately including the material needs such as the financial management. This aspect of life is closely related to the fast growing industry in the world nowadays, which is the Islamic financial services industry.

Islamic banks are banks that practicing banking activities according to the principles of Sharia law in all financial transactions and utilizes the banking functions to develop the economy using the Islamic way. Sharia prohibits imposing fixed payment of specific interest or fees due to profit from specific loan, this type of financial loan is known as usury (Riba). Islamic banking has the same purpose and functions as conventional banking with the exception of lending money at interest and avoiding any kind of suspect in financial transactions that may include usury (Riba).

Management Information System (MIS) is a system used by most of modern banks nowadays to provide information at high quality and precision needed to manage the bank effectively. Management Information System (MIS) provides the necessary reports and summarizes the bank's basic operations to the senior managers in the bank and support decision-making process. Other advantages of MIS are transparency and efficiency of information provided for bank's clients. Investors need for efficient

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information before they decide to invest in Islamic banks and they need quality in information, which can only be provided using Management Information Systems.

Banks in Libya were trying to follow the latest development around the world in all ways in order to achieve the desired goal but all these attempts still not yet accompanied with complete awareness on the importance of Management Information Systems (MIS), and by considering MIS a vital and strategic source for success in Islamic banking.

The Islamic financial services are considered as one of the fast growing industry in banking sector. In Libya the Islamic banks are still new and many Islamic banks that will be established in the coming few year. However, applying Management Information Systems in Islamic Banks is quite important to develop the economy of Libya through effective banking system that attract investors from inside and outside Libya who wish in invest using the Islamic way and invest their money in efficient Islamic banking systems with full satisfaction.

#### 2. BACKGROUND OF THE STUDY

The banking system plays a vital role in improving the national economy and represents the backbone of any national economy, therefore this research attempt to find the best approach to implement the management information systems in Islamic banks and the remove the obstacles that prevent the implementation of Management of Information Systems (MIS) in Libyan banks that include Islamic banking. The study selected North Africa Bank in Libya as the focus of this study.

North Africa Bank provide different types of Islamic banking such as (Islamic funding for small projects, finance commercial projects inside and outside Libya, granting loans for hire purchase contracts, financing real-estates projects) and other financial banking that comply with Islamic regulations and Sharia law.

The current information services in North Africa Bank are not satisfactory to the management of the bank and to the clients as well. The senior management in this bank received many complaints from Libyan investors and beneficiaries in which they describe their inability to deal with bank and benefit effectively from the Islamic banking services offered by North Africa Bank, and they showed weak interest to invest due to poor quality of financial information and poor banking service.

# a. MIS in Banks

The measurement of success of any bank is by providing banking services with high quality based on the capacity of the bank to meet the requirements of the client to financial information and satisfy these requirements better than other competitors. The huge developments in information systems are strategic weapons in dealing with current conditions that are characterized by rapid changes and strong competition among financial institutions. Competition in the financial sector matters for a number of reasons. The degree of competition in the financial sector emphasizes on the efficiency of production of financial services, the quality of financial products and the degree of innovation (Manolis, & Winsor, 2000).

Management Information Systems (MIS) are not new to the banking sector. Since the early 80s, banks have been using this terminology to refer to the process of generating various reports and analyses at the Corporate/Head offices for their decision making for own use as well as for conveyance to authorities in charge of regulation.

MIS in the present context of high availability of voluminous data on electronic media at diverse locations and on diverse platforms, has become more pertinent to banks' decision-making process, thanks to the availability of new tools of technology such as data warehousing, data mining.

There are several definitions of the concept of MIS and may vary in expressions, but correlate in the connection and implications, actually there is no explicit agreement among most researchers and experts in the field of management science on one comprehensive definition for MIS.

A management information system (MIS) provides information that organizations need to manage themselves efficiently and effectively (Brien, 1999). Management information systems are typically computer systems used for managing five primary components: hardware, software, data (information for decision making), procedures (design, development and documentation), and people (individuals, groups, or organizations). Management information systems are distinct from other information systems, in that they are used to analyze and facilitate strategic and operational activities (Lucey, 2005) Academically, the term is commonly used to refer to the study of how individuals, groups, and organizations evaluate, design, implement, manage, and utilize systems to generate information to improve efficiency and effectiveness of decision making, including systems termed decision support systems, expert systems, and executive information systems. Management information systems (MIS), produce fixed, regularly scheduled reports based on data extracted and summarized from the firm's underlying transaction processing systems to middle and operational level managers to identify and inform structured and semi-structured decision problems (Laudon, 2010).

Most management information systems specialize in particular commercial and industrial sectors, aspects of the enterprise, or management substructure.

# 2.2 The importance of MIS in banks

Management Information Systems MIS is very significant and fundamental for efficient banking service. In many modern banks, there is a great role of Management Information system in providing accurate information related to customer requirement and data gathering and processing. MIS helps in many ways the Bank for the better result and customer satisfaction.

Most banks consider information technology (IT) as a route for service quality improvement, while others perceive it as a cost-effective expansion strategy (Kim and Davidson, 2004). There is a general consensus regarding the importance of understanding the patterns of IT adopted by bank customers (Pikkarainen et al, 2004), and several studies (Applegate, McFarlan and McKenney, 1999; Kim and Davidson, 2004) emphasize that financial institutions such as banks are distinguished from other businesses in their reliance on IT. As early as the 1980s, Porter and Millar (1985) found that banking was one of the most information intensive sectors. Banks tend to use IT to improve the quality of their services, increase efficiency and customer satisfaction, and offer wider choices with lower costs to the customer. In other words, banks are using IT for competitive advantage.

The following are some of the benefits to financial institute that can be attained for different types of management information systems (Pant, 2007):

- Financial institutes are able to highlight their strengths and weaknesses due to the presence of revenue reports, employees' performance record etc. The identification of these aspects can help financial institutes to improve their business processes and operations.
- Giving an overall picture of the financial institute and acting as a communication and planning tool between the departments of the bank.

• The availability of the customer data and feedback can help the financial institute to align their business processes according to the needs of the clients. The effective management of customer data can also help the financial institute to perform direct marketing and promotion activities.

# 2.3 MIS in Libyan banks

Libya's centrally planned economy depends primarily upon revenues from the petroleum sector, which contributes practically all export earnings and over half of GDP. These oil revenues and a small population give Libya one of the highest per capita GDPs in Africa. Since 2000, Libya has recorded favorable growth rates with an estimated 8.1% growth of GDP in 2006. The Government is in the process of preparing a financial sector reform program. Recent legislation setting corporate governance standards for financial institutions makes progress towards better management and greater operational independence of public banks. Over the past two decades, the banking industry in Libya has experienced very significant development, which was the direct result of various factors, one of the most important being the implementation of new accounting information systems (AIS) and associated technologies.

However, Libyan public banks still lack management structures supported by skills in critical areas like credit, investment, risk management and information services quality and control systems. Moreover, the majority of banks and financial institute in Libya did not apply the modern management information systems and are still depending on old management systems and long routine using paper works to organize the workflow the bank. The result was negative on clients' perception and satisfaction about Libyan banks.

## 3. THE RESEARCH PROBLEM

The importance of Management Information Systems that provide reliable information for bank's clients has much increased in recent years. Investors nowadays are much interested to use the new technologies to support their investment decisions. Since Islamic banking is very much similar in its banking activities to other non-Islamic banking service, however, these banks needs to develop their internal functions to follow the latest development in technologies specially applied for banks in order to provide effective banking service and high transparency for investors and clients.

Providing high quality of information is important to rationalize the decisions of investors. MIS can help the management in Libyan banks to make good and strategic decisions, but this target can't be achieved without implementing an efficient Management Information System. The information technology is vital to the success of any banking institution including Islamic banks.

The main problem that will be discussed in this research is the obstacles that hinder the implementation of Management Information Systems by North Africa Bank in Libya. Some of these obstacles are managerial, while the lake of technological capacity and qualified personnel needed to operate Management Information Systems is another obstacle that prevent swift development to new information system. Most of the banks in Libya including these banks that include branches of Islamic banking are using traditional and old way in doing daily banking activities and also most of their systems and computers are old and without advanced software and new computer applications, therefore this situation produce real difficulties and obstacles to implement modern information systems which is part of the Management Information System.

Another problem that will be discussed in this study is the low level of knowledge about the management information system by employees of the Islamic banks and how to raise the level of awareness and understanding to use Management Information Systems in doing the daily banking activities by specialist employees in North Africa Bank, who are qualified and capable to run and operate these systems.

### 4. THE RESEARCH OBJECTIVE

- 1) To identify the main role of management information system MIS in banks and financial institutions.
- 2) To explore the factors those affect the quality of information produced by the Management Information System MIS.
- 3) To identify the major obstacles those hinder the implementation of Management Information System (MIS) in Islamic banks in general and North Africa Bank in particular.

# 5. THE RESEARCH QUESTIONS

- 1) How management information system MIS operates in banks and financial institutions?
- 2) What are the factors those affect the quality of information produced by the Management Information System MIS.
- 3) What are the major obstacles those hinder the implementation of Management Information System (MIS) in Islamic banks in general and North Africa Bank in particular.

## 6. RESEARCH METHODOLOGY

We applied a quantitative research that aims to gather an in-depth understanding to Management Information System in Libya with accordance to the current information services provided by Libyan banks in general and North Africa Bank in particular. The qualitative methodology used in this research will investigates why these Libyan banks can't adopt Management Information Systems swiftly, and how Libyan banks can improve quality of information and Islamic banking through adoption of Management Information Systems.

# 7. THE SIGNIFICANCE OF THE RESEARCH

This study is the first study to cover this subject in Islamic banks in Libya, the importance of this study due to the immediate requirement to replace the traditional and old way in doing banking activities by proving the right plan to implement management information system in Islamic Banks help the supervisors and managers in these banks to remove the obstacles that prevent the implementation of MIS.

This study attempt to improve the service quality of banking sector in Libya starting from the Islamic banks, and because most of Libyan clients prefer to put their money in Islamic banks due to religious factors, the banking sector is very important to the national economy in Libya, this study will contribute to the development efforts to the economy of Libya in the coming few years. Without efficient banking systems, the banks in Libya in general and Islamic banks in particular will remain weak and attract few investors to invest in these banks. A reliable and efficient Management Information System will help the Islamic banks to achieve its goals

The main contribution in this study is evaluating the relationship between the reality of management information system in Libyan banks and its role in activation the financial market of Libya by evaluating the current information sources provided by Libyan banks. The result of this study will enable the officials in Libyan banks in general and other financial institutes like Libyan stock market to identify the eeffectiveness of deploying information system and test its ability to follow up the new development in banking industry, moreover this study will make high effect on the scientific research in this field.

In addition to that the study will attempt to help North Africa Bank to develop the information service through improving the information quality using Management Information Systems; therefore the bank will be able to face the increasing challenges and competition with international banks.

### 8. THE SCOPE OF THE RESEARCH

This study will conduct analysis in North Africa Bank in Libya and will focus on a group of employees and managers who are responsible to provide and manage Islamic banking activities in North Africa Bank. The researcher believes that the only way to get precise answers to all the questions arise from this study from the managers and specialist employees working in the IT departments in the bank.

In addition to that the study will investigate the current level of information quality provided by North Africa Bank in Libya because it is the first bank in Libya, who provided Islamic banking service, and conclude the best implementation plan that suite the financial environment in Libya according to market demands and the rapid development in the global economy and the high competitions imposed by foreign non-Islamic banks.

## 9. CONCLUSION

Management information system ensure high level of service quality and effective information sharing between all the departments in the bank and provide accurate information to the senior management inside the banks that help to make precise strategic decisions.

This study concluded that the past experience and awareness of managers and employees was weak about the function of MIS as well as the benefits of MIS on the overall performance of the bank and the service quality provided to the clients. It is clear that training on using the functions of MIS will improve their experience and ability to deal with these functions and good practicing on using these functions. In addition to that the perception and willingness of managers in the bank is very important to ensure swift implementation of MIS. Moreover the perception and willingness of managers to use and adopt MIS in North Africa bank was not encouraging and weak, according to this study perception of managers is one of the main obstacles that hinder swift implementation to MIS in North Africa Bank.

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# RELATIONSHIP BETWEEN ACADEMIC PROFILE AND COMPUTER USAGES WITH LEVEL OF COMPUTER SKILL AMONG NEW MUAMALAT STUDENTS

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## **ABSTRACT**

Many higher learning institutions decided to eliminate computer literacy courses due to the facts that many students who registered at higher education level were exposed to computers since in a pre-school. Thus they assumed an incoming student at a tertiary level, has possessed adequate computer skills and will bring with them the basic IT skills needed for their studies. However, some studies revealed that students at higher learning institutions still lacking of even basic IT skills and manifesting fear of the technology. This study were carried out with the aim to determine a relationship between previous computer usages with the level of computing skills among new enrolment students at the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia. A set of questionnaires were distributed to 25 first year students registered for academic session 2010/2011. The data collected data were analysed using descriptive statistics. By determine the level of IT skills exposure, this research findings are expected to provide input to the local higher learning institutions in preparing suitable computer courses outlines in the future.

**Keywords**: computer, skill, office-based application, exposure, perception.

# 1. INTRODUCTION

In line with the advance of information technology (IT) tools in businesses, the skills need by workers to perform the task related to IT also change. The Secretary's Commission On Achieving Necessary Skills Of US Department Of Labor (SCANS, 1991), have identified eight basic skills which they call as workplace know-how, that are needed for career development in any workplace including resources skills, interpersonal skills, information skills, systems skills, technology skills, basic skills, thinking skills and personal qualities. This supported by Moody et al (2002), where they found that computer literacy was a second most desired skill for potential employees after communication skills.

As most of entrance in the job market are supplied by a higher learning institutions, thus people trusted the institutions has provided an academic courses which incorporate these skills to ensure the employability of their graduates. In contrast, many higher learning institutions decided to eliminate computer literacy courses due to the facts that many students who registered at higher education level were exposed to computers since in a pre-school. In addition through a Smart School program, one of the seven flagships of Multimedia Super Corridor (MSC), Malaysian government has allocated various hardware and software infrastructure support, educational courseware, info structure as well as training over the last five years to many schools. Thus higher education provider assumed incoming college

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students, has possessed an adequate computer skills and will bring with them the basic IT skills needed for their studies.

Basically, the above fact is reasonable. But to what extent these students have gained computing skill? Is their skills possess before entering university are enough for them to survive in university or work? These questions aroused since some foregoing studies revealed that students at higher learning institutions still lack even basic IT skills and manifesting in a fear of the technology. While industry commented that undergraduate

In designing curriculum, it is important for the university's management to determine their student computer literacy skills and also what should be taught in IT courses. By that the course content level is not too low or too high and the topics covered really necessary to the students to move in the industry.

This study was carriedout with the aim to determine a relationship between previous computer usages with the level of computing skills among new enrolment students at Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia. By determine the level of IT skills exposure, this research findings are expected to provide input to the locall higher learning institutions in preparing suitable computer course outlines in the future.

## 2. LITERATURE REVIEW

The penetration of information technology has great influences in all facets of human's life including daily life, business and education. In the business context, IT not only facilitates the business process, but now also changes the business process itself. The related IT skills needed for manpower in the firms changed in step with the revolution of IT usage in the business. There are some researchers from job advertisements suggested that technical skills are predominantly required for IT positions (Litecky, et al, 2004) where a computer literacy as second most desired skill for potential employees after communication skills Moody et al (2002).

For this reason, universities as main suppliers to a job market, are heavily been forced to redesign their curriculum to fit the business demands. The universities should first identify the IT skill level possess by students before entering the university to ensure that, valuable resources are not wasted by providing the more computer literate students with skills and knowledge which they already possess, while on the other, they could also devote more resources to developing programs for entrants who lack basic computer competence skills (Ballantine, 2007). Stoner (1999) stressed the IT software skills which students get from secondary school have important implications for what additional IT skills are taught in the higher education.

Wallace & Clariana, (2005) via their studied discovered many students enrolled in college today were experienced used computer for the first time since in a kindergarten yet. While in Malaysia, the establishment of the Smart School as one of the seven flagships of Multimedia Super Corridor (MSC) has benefits many schools in the countries by providing various hardware and software infrastructure support, educational courseware, info structure as well as training over the last five years under these efforts. It also has managed to increase the students' and teachers' information communication technology (ICT) literacy from zero to 100 per cent over a period of four years (Manecksha, 2002). Thus, many believe that youth of today are IT literate as they are widely exposed to computers whether at home or in schools.

As a consequence, many higher learning institutions decided to eliminate computer literacy courses It is generally accepted that incoming college student, particularly business students, has possess adequate

computer skills. Therefore it will be reasonable to assume that students entering university will bring with them the basic IT skills needed for their studies. (Wallace & Clariana, 2005).

However, this perception is distinct compared to the factual. Gazely & Pybus (1997) and Stoner (1999) had found that some students who are entering tertiary studies are still lacking basic IT skills and displaying computer phobias to varying degrees.

This finding is being strengthened by McDonald (2004) and Wallace & Clariana (2005) though online computer proficiency tests to determine computer literacy skills among new enrolment students. The result showed students actually do not possess the necessary function in an undergraduate school of business. As a result of McDonalds study, the students at the Robinson College are now required to complete a freshmen level course which includes both a lecture and lab component. While Wallace & Clariana (2005), recommending all incoming new students at their college to take a full semester course in IT, combining computer concepts and computer software. Supported by Turner (2001), based on her study in Australia, students perceive their skills as being better after assignment on IT-related subject during the first year of study.

Besides identifies the necessity of offering IT skills courses, another issues should be catered by higher learning institutions is determination of what should be taught in IT courses. This is important in order to provide students with IT skills which up to date and highly requested by industry. There are many different types of IT skill for business applications. However, the most important are those concerned with 'office' skills using typical office-based applications, such as word processing, spreadsheets, and presentation graphics, databases and web development. This idea has been agreed by Naqwi (2002), who proposed the IT course for students from business-related programs should include the basic concepts of IT business application, followed by the introduction business software such as word processing, spreadsheet/graphics and databases.

The most common office application software used in universities as well as in industries is the Microsoft Office. This office suite includes Microsoft Word (word processing), Microsoft Excel (spreadsheet), Microsoft Access (database management), Microsoft Powerpoint (presentation) and Microsoft Frontpage (web development).

Microsoft Office Word is a computer application used for the production (including composition, editing, formatting, and possibly printing) of any sort of printable material. Businesses tend to have their own format and style for any of these. Thus, versatile word processors with layout editing and similar capabilities find widespread use in most businesses. Generally, students use this application to prepare essays and other assignments.

Microsoft Office Word is a computer application that simulates a paper, especially for preparing accounting worksheet. It displays multiple cells usually in a two-dimensional matrix or grid consisting of rows and columns. Each cell contains alphanumeric text, numeric values or formulas. Normally Excel is used for to present financial data, prepare budget and various calculation and analysis. Proficiency with spreadsheet software such as Microsoft Excel is a requirement for success in most management positions.

Microsoft Access is a software intended to organize, store and retrieve large amounts of data easily. It consists of an organized collection of data for one or more uses, typically in digital form. In business, this software is really needs for organizing data systematically, analysis, maintaining customer relationship and decision making.

Microsoft Powerpoint is used to display information, normally in the form of a slide show. As its name, this software is normally used for business for a dynamic and attractive presentation. Students also use this software for class presentation.

Microsoft Frontpage is a broad term for the work involved in developing a web site for the Internet or an intranet, include web design, web content development, client-side/server-side scripting, web server and network security configuration and e-commerce development. It can range from developing the simplest static single page of plain text to the most complex web-based internet applications, electronic businesses, or social network services. As business move from brick and mortar to visible form, it is vital for students to have some skills related to basic web administration tools.

## 3. RESEARCH METHODOLOGY

To achieve the objectives of the study, data were collected by the researcher within a month using questionnaires. The questionnaires were adapted from Stoner (1999) and Turner (2001) with some modifications to suit the intention of this study. The questionnaire was divided into three following sections; demographic, computing experience and perceptions on IT skills. The 'one to five' Likert Scale was used with 'excellent to nothing' in the level of IT skills.

The questionnaires were distributed to all first year students registered at FEM for Semester 1, 2010/2011 academic session. From 295 questionaires, 225 of them were participated in this study, representing 76.27 percent of response rate.

The statistical analysis was carried out using Statistical Package for the Social Sciences (SSPS). A Crosstabulation was used to analyse he relationship between demographic profile and perception on IT skill.

# 4. RESULTS AND DISCUSSION

# **Demographic Profile of Respondents**

From this sample, most of respondents were female which comprising 73.8 percent of the total, while only 26.2 percent of them are male. Majority of the respondents (83.6 percent) are between 18-19 years old. The demographic data related to age is constant with the data on education given that the main admission education level in public higher education in Malaysia are matriculation level, followed by Sijil Tinggi Agama Malaysia (STAM), diploma and others.

Table 1: Respondents' demographic profile

	respondents den	Frequency	
Demographic	Demographic feature		Percentage
Gender			
	Male	59	26.2%
	Female	166	73.8%
Age			
·	18-19 years	188	83.6%
	20-21 years	34	15.1%
	22-23 years	3	1.3%
Hometown	•		
	Urban	50	22.8%
	Small town	65	29.7%
	Village	104	47.5%
Education	C		
	Matriculation	106	47.1%
	STAM	79	35.1%
	Diploma	12	5.3%
	Others	28	12.4%

## **Computing experience**

216 respondents represent 96.4 percent are having experience using computer before entrance into USIM. Only eight respondents (3.6 percent) did not have experience of using computer. Findings in table 2 is consistent with Wallace and Clariana (2005) who suggested that students were already exposed to IT skills before entering the university.

For the reasons of using computer, the main reason for using computing were for searching information (84.0 percent), followed with study (56.5 percent) and communication (36.5 percent). While 7.8 % spent their time for buying and selling transactions and online booking. This finding seem reasonable since as a student, they needs to search information online and prepare their assignment using computer. Furthermore, respondents were rarely involve with buying and selling transactions and booking, due some reasons such as financial position and payment available for them.

Most respondent used computer between 3-5 times a week with average time spent for each usage between 1-3 hours. Thus the frequency of using computer and average length of time per usage were moderate. In addition, authors assumed that majority respondent having their own computer since 64.8 percent of respondents confess used computer at home. Besides, the most frequent website visited was a social networking system (sns) which are Facebook/Flixter (56.9 percent) and Yahoo (35.8 percent) as well. While less than 1 percent visited Lelong/Mudah.com. This finding is agree with reasons for using computer, highly for communication and information searching and lower for business online.

**Table 2: Respondents' computing experience** 

Item		Frequency	Percentage	
Experience using	Yes	216	96.4	
computer	No	8	3.6	
Reasons for using	Study	126	57.5	
computer	Communication	80	36.5	
	Buying and selling transactions	9	4.1	
	Search for information	184	84.0	
	Booking	8	3.7	
Frequency of using	More than 7 times	38	17.5	
computer in a week	6-7 times	37	17.1	
	3-5 times	94	43.3	
	0-2 times	48	22.1	
Average length of time	0-1 hour	27	12.4	
per usage	1-3 hour	146	67.3	
	3-5 hour	32	14.7	
	More than 5 hours	12	5.5	
Location of use	Home	142	64.8	
	Cyber Cafe	65	29.7	
	School	6	2.7	
	Others	6	2.7	
The most frequent	Yahoo	78	35.8	
website visited	Facebook/Flixter	124	56.9	
	Lelong/Mudah.Com	2	0.9	
	Others	14	6.4	

## **Perception on Available Microsoft Office Skills**

Table 3 below demonstrates perception of the respondents on their IT skills in five types of Microsoft Office applications — Microsoft Word, Microsoft Excel, Microsoft Access, Microsoft Power Point and Microsoft Front Page. In general, most of the respondent perceived their skills are moderate towards all skills, leads by Microsoft Word application specifically the usage of mail merge and database skills with 48.8 percent. Findings also shows, the level of respondents which do not possess any skills in Microsoft Words, especially others word application and document preparation with 2.3 percent and 2.8 percent respectively, are low compare to the other four Microsoft Office based. In addition skill of the usage of mail merge and database, 6.5 percent is also still low compare to the others Microsoft applications. The trends of responses towards skills level quit similar between Microsoft Words and Microsoft Power Point, where their skills level form excellent to weak are event (except for Usage of mail merge and database) and less than 10 percent respondent have nil skill for this two categories.

While for Microsoft Excel skills, it is nearly balance finding between having excellent and nothing skill all relevant aspect including financial statements preparation without formula, financial statements preparation with formula and data analysis. There are only between 3.2 percent till to 3.7 percent of respondents admitted excellent in Excel and around 6.8 percent to 8.7 percent of them have zero skill.

Finding on skill related to Microsoft Access revealed a percentage of respondent ranked for every skills asked as excellent also low, with 1.8 percent only for each skills including skills related to database preparation, relate table and search data. It also shows skill possess as excellent under this types of Microsoft applications can be said the lowest followed by skill of publish website in the internet (1.9 percent) under Microsoft FrontPage. Another interesting finding is the level of skill for Microsoft Front Page also shows a same trend, where only 1.9 percent excellent in published website in the internet and 3.3 percent each for develop web page and; form and database preparation. Also should be noted that, among all skills listed for 5 types of Microsoft Office applications, most of the respondents declared have no skills at all for the skills listed under Microsoft front page, specifically published website in the internet (20.9 percent).

Overall, respondents were largely familiar with Microsoft Word followed by Microsoft Power Point. In particular, the highest skill possess between moderate to excellent is document preparation skill (Microsoft Word) with 83 percent and closely followed by presentation preparation (Microsoft Power Point), 82.5 percent. Respondents skills for the remaining three Microsoft Office application are satisfied since all skills score between moderate to excellent are 52.1 percent and above. This finding is acceptable since students used Microsoft Word to type their assignment and used Microsoft Power Point for class presentation as requested by educators Still, we should pay attention to the all skills related to Microsoft Office Front Page and Microsoft Access since a number of respondents leveled their skill as weak and have no skills still high, above 40 percent in summary.

The finding is aligns with Gazely & Pybus (1997) and Stoner (1999), who discover that some students entering university are still lack of basic computing skills. This result proposes that students were not exposed to other complex software yet, and this should be covered in the higher education level.

Table 3: Respondents' perception on their skill in Microsoft programs

Type of skills						
		Excellent (%)	Good (%)	Moderate (%)	Weak (%)	Nothing (%)
Microsoft Word	Document preparation	11.0	30.3	41.7	14.2	2.8
	Usage of mail merge and database	2.3	18.0	48.8	24.4	6.5
	Other applications	21.1	36.7	29.4	10.6	2.3
Microsoft Excel	Financial statements preparation without	3.7	19.6	38.8	31.1	6.8
	formula					
	Financial statements preparation with formula	3.7	15.5	43.4	28.8	8.7
	Data analysis	3.2	14.6	38.8	34.7	8.7
	Data search	3.7	11.9	42.5	34.2	7.8
Microsoft Access	Database preparation	1.8	11.1	39.6	30.9	16.6
	Relate tables	1.8	18.0	38.2	26.7	15.2
	Insert data and presentation preparation	2.3	14.7	40.6	26.3	16.1
	Search data	1.8	11.5	41.5	29.5	15.7
	Report preparation	2.8	12.5	40.3	28.7	15.7
Microsoft Power	Presentation preparation	22.8	37.7	22.3	9.3	7.9
Point	Insert animation in the presentation	19.5	27.0	29.8	14.4	9.3
	Export slide presentation with other file or	19.2	26.2	29.9	15.9	8.9
	document					
Microsoft Front	Develop web page	3.3	20.1	31.8	27.1	17.8
Page	Form and database preparation	3.3	11.7	38.3	28.5	18.2
	Publish website in the internet	1.9	15.0	35.2	27.7	20.2

# Relationship between Education and Previous Computer Usages with Microsoft Office Skills

In the way to link the result with the education and previous computer usage such as experience using computer, reasons for using computer, frequency and average length of using computer in a week, location used, the most frequent website visited and skills on Microsoft Office applications; the cross tabulation in frequency is used as part of analysis.

The result in Table 4 shows that academic background, matriculation has relationship with Microsoft skill. Where 95 respondents perceived their skills from excellent to moderate towards these softwares. This finding support the study by Turner (2001) where students perceived their skills as being better after assignment on IT-related subject during the first year of study. Here, respondents from the matriculation background are expected to improve their IT skills by doing series of assignment using computers more compared to those in high schools.

Secondly, the respondents' previous experience with computer usage is having positive link with the IT skills. Only 97 respondents perceived they are excellent with Microsoft office, means that the rest still perceived week and lack in these skills. Thus, this study is align with research finding by Gazely & Pybus (1997) and Stoner (1999), that some students who are entering tertiary studies are still lacking basic IT.

Next, study as a reason for computer usage is seem has influenced on Microsoft Office skills. 90 percent from total frequency admit their skills from excellent to moderate. Respondents were assume used these software to type the assignment, notes and slide presentation. These finding against support study by Turner (2010). However, the frequency computer usage and average time length per usage is reviewed as not contribute to much to skills. Even though the respondents which spent more than seven times per week and more than five hours per week, most of them perceived only as good towards this skills.

In terms of location, respondents' view their skills as excellent to moderate. Respondents are assumed has own computer or notebook and did not share with others and with no time limit of usage, are believed can improve their IT skills. It is disappointed when the computer usage at school doesn't much improve respondent's skill despite of free computer facilities, internet and teachers there.

Table 4: Relationship between Respondents' Education and Previous Computer Usages with Microsoft Office Skills

	Microsoft Office Skins						
Item		Excellent	Good	Moderate	Weak	Nothing	Total frequency
	Matriculation	9	49	37	4	0	99
	STAM	0	9	34	26	2	71
	Diploma	1	6	4	1	0	12
Previous academic qualification	Others	6	17	5	0	0	28
•	yes	97	81	78	28	0	284
Experience using computer	no	2	0	2	3	2	9
	Study	13	53	42	12	0	120
	Communication	6	31	31	9	0	77
	Buying and selling						
	transactions	1	6	2	0	0	9
Reasons for using computer	Search for information	11	70	63	27	0	171
	Booking	1	4	3	0	0	8
	More than 7 times	6	19	10	2	0	37
	6-7 times	3	20	11	0	0	34
Frequency of using computer in a	3-5 times	7	34	37	10	0	88
week	0-2 times	0	8	18	18	0	44
	0-1 hour	1	6	9	11	0	27
	1-3 hour	9	59	52	16	0	136
	3-5 hour	2	11	14	2	0	29
Average length of time per usage	More than 5 hours	4	5	2	0	0	11
	Home	13	63	44	12	0	132
	Cyber Cafe	3	15	26	17	0	61
	School	0	1	4	1	0	6
Location of use	Others	0	2	4	0	0	6
	Yahoo	7	28	30	10	0	75
	Facebook/Flixter	9	44	42	18	0	113
The most frequent website visited	Lelong/Mudah.Com	0	0	2	0	0	2
	Others	0	9	3	2	0	14

## 5. CONCLUSION

This study focused the relationship between academic qualification to enter USIM, previous computer usage and basic office application. Throughout cross tabulations analysis, it can be concluded that students who experienced used has basic IT skills, even though at weak skill level. This result consistent with previous study where new intake of students were brought in some basic IT skills with them but still lacking in mentioned skills. This might be they experienced with Microsooft Office application at beginning level, and not yet at intermediate or advance level.

One of important finding should be given careful attentions by USIM is on the students from STAM since majority of respondents perceived their skills as moderate to weak, and regretfully there are 2 respondent admitted have nothing skill at all IT skills.

Studies in this area should be expanded and it is suggested that the future study must be conducted to examine perception of the industries on IT skills that graduate has gained during their studies and identify the current IT skill actually required by industries. Besides, it is suggested to the lectures to conduct a proficient test to the new students in determine the actual skills IT level. These aspects are important to be investigated since these two parties may recognize the most updated IT skills and the level of computing skills that should be included in the course content that benefits students in the future.

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## ISSUES ON THE IMPLEMENTATION OF TAX REBATE ON BUSINESS ZAKAT: THE CASE OF MALAYSIA

Mohamad Noor Sahidi bin Johari<sup>1</sup>

## **ABSTRACT**

Malaysian government has provided at least 2 incentives in their effort to promote zakat payment. Firstly, the tax authority under the federal government granted an income tax rebate for individual Muslim who had paid Zakat to state Islamic Religious Council (SIRC). Secondly, for companies, in 2005 Malaysian Government budget, it had been announced that any Zakat which is paid by company to SIRCs will be granted as an allowable deduction in the computation of the corporate tax. However, the amount of deduction is limited to 2.5% of the aggregate income which is very minimal. SIRCs and others zakat expertise try so hard to make the companies eligible to get claim rebate from their tax liability similar to rebate for individual Muslim. If government allows companies that pay zakat to claim rebate from their tax liability, this will consequently ease their financial burden. Furthermore, the tax rebate will serve as an incentive for Muslim majority owned companies which have not paid in the past to pay Zakat on business. Therefore, the main objective of this paper is to explain the several issues and challenges faced by SIRCs towards application for implementation of tax rebate on business zakat. Furthermore, this paper also will give suggestion that can benefit both of the federal government and companies towards the implementation of full tax rebate on business zakat.

**Keywords:** Zakat on business, allowable deduction, tax rebate, tax rebate, claim rebate from tax liability and several issues.

#### 1. INTRODUCTION

Zakat is one of the five pillars of Islam. Its importance can be judged by the fact that at different places in the Quran, the injunction to perform prayers is followed by the commandments regarding zakat. Zakat is mentioned in 30 places in the Quran and 27 of them are mentioned together in verses calling for solat (prayers).<sup>2</sup> This clearly shows the importance of zakat and solat. They are two pillars of Islam that can never be placed apart. Furthermore, zakat constitutes a special status in the pillars of Islam. A Muslim will not be a true believer in his faith if he has not performed any of these two pillars.

Basically, there are many types of zakat on wealth and one of them is zakat on business. Through Islamic economy and finance system, the implementation of justice in economic distribution can be done. Business can also be considered as ibadah. Profit from business can be share or distributed for those in need. This is why Islam encourages doing business. This is in line with surah Al-Taubah (verse 103) and Al-Baqarah (verse 267).

<sup>&</sup>lt;sup>1</sup> Pusat Pungutan Zakat-Majlis Agama Islam Wilayah Perseskutuan (PPZ-MAIWP)

<sup>&</sup>lt;sup>2</sup> Al-Oardawi, yusuf. 1996. Hukum Zakat. P.39

Take, (O, Muhammad), from their wealth a charity (zakat) by which you purify them and cause them increase, and invoke (Allah's blessing) upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing.

(Al-Taubah: 103)

O you who have believed! Spend from the good things which you have earned and from that which We have produced for you from the earth. And do not aim toward the defective there from; spending (from that) while you would not take it (yourself) except with closed eyes. And know that Allah is Free of need and Praiseworthy.

(Al-Bagarah: 267)

يَنَأَيُّهَا ٱلَّذِينَ ءَامَنُوٓ أَنْفِقُواْ مِن طَيِّبَتِ مَا كَسَبْتُمْ وَمِمَّاۤ أَخْرَجْنَا لَكُمْ مِّنَ ٱلْأَرْضِ ۗ وَلَاتَيَمَّمُواْ الْخَبِيثَ مِنْهُ تُنفِقُونَ وَلَسْتُم إِنَّا خِزِيهِ إِلَّا أَن تُغْمِضُواْ فِيةٍ وَأَعْلَمُوٓاْ أَنَّ ٱللَّهَ غَنِيُّ حَكِمِيدُ السَّ

Table 1: Zakat Collection: Zakat on Wealth and Zakat Al-Fitr in Malaysia from 2009-2011<sup>3</sup>

		2009		2010		2011	
STATES MALAYSIA	IN	RM (Million)	%	RM (Million)	%	RM (Million)	%
Selangor		283.65	23.70%	336.93	24.71%	394.10	24.01%
W. Persekutuan		248.80	20.79%	282.68	20.73%	348.88	21.26%
Johor		109.23	9.13%	122.34	8.97%	137.47	8.38%
Pahang		71.87	6.00%	80.87	5.93%	88.59	5.40%
Kedah		67.58	5.65%	76.95	5.64%	106.08	6.46%
Terengganu		73.52	6.14%	76.45	5.61%	88.27	5.38%
Kelantan	•	66.52	5.56%	70.37	5.16%	94.08	5.73%

<sup>&</sup>lt;sup>3</sup> Data is from Pusat Pungutan Zakat-Majlis Agama Islam Wilayah Persekutuan (PPZ-MAIWP)

Perak	67.19	5.61%	69.64	5.11%	86.11	5.25%
Pulau Pinang	47.95	4.01%	53.24	3.90%	62.28	3.80%
Negeri Sembilan	42.28	3.53%	50.2	3.68%	57.92	3.53%
Sarawak	36.92	3.08%	39.14	2.87%	44.13	2.69%
Perlis	25.25	2.11%	38.09	2.79%	61.36	3.74%
Melaka	30.72	2.57%	34.01	2.49%	37.93	2.31%
Sabah	25.39	2.12%	32.86	2.41%	33.89	2.07%
TOTAL	1,196.87	100%	1,363.77	100%	1,641.09	100%

Collection zakat in Malaysia was increased every year. From year 2009 until 2011 (refer table 1), the collection was increasing tremendously. For the year 2009, the collection is RM 1.196.87 billion. State of Selangor was the highest collection with the amount is RM 283.65 million or 23.70% from the entire collection. Follow by Wilayah Persekutuan. For the year 2010, the collection is RM 1,363.77 billion or 13.94% increase from 2009. For the year 2011 the collection is RM 1,641.09 billion or 20.33% increase from 2010 and 37.12% from the year 2009. It shows that zakat collection in Malaysia increase every year. In the current situation, issue regarding zakat on business often debated and discussed among zakat expertise in Malaysia (Ram, 2010) especially related on how to increase the total payer of zakat on business and at the same time to attract more Muslim business community to pay zakat on business. This is because zakat institutions in Malaysia still facing some resistance to raise collection for business zakat. Businesses in Malaysia are mostly dominated by non-Muslim traders. But the increase in Muslim traders has also been encouraging. Zakat collection on business also increasing (Table 2).

Table 2: Zakat Collection: Business zakat in Malaysia from 2009-2011<sup>4</sup>

STATES IN		2009		2010		2011	
MALAYSIA	111	RM (Million)	%	RM (Million)	%	RM (Million)	%
Selangor		51.85	18.69%	60.5	20.05%	79.93	20.50%
W. Persekutuan		29.11	10.49%	33.62	11.14%	54.88	14.07%
Johor		34.01	12.26%	37.14	12.31%	40.42	10.37%
Pahang		34.36	12.38%	36.36	12.05%	37.27	9.56%
Kedah		14.18	5.11%	16.43	5.44%	33.19	8.51%
Terengganu		21.63	7.79%	20.7	6.86%	24.55	6.30%
Kelantan		16.86	6.08%	14.51	4.81%	21.72	5.57%
Perak		27.76	10.00%	26.83	8.89%	36.89	9.46%
Pulau Pinang		9.56	3.45%	8.34	2.76%	12.89	3.31%
Negeri Sembilan		8.95	3.23%	11.32	3.75%	12.27	3.15%
Sarawak		8.74	3.15%	8.84	2.93%	8.55	2.19%
Perlis		3.16	1.14%	4.18	1.39%	7.61	1.95%
Melaka		7.73	2.79%	8.05	2.67%	8.63	2.21%
Sabah		9.59	3.46%	14.96	4.96%	11.12	2.85%
TOTAL		277.49	100%	301.78	100%	389.92	100%

<sup>&</sup>lt;sup>4</sup> Data is from Pusat Pungutan Zakat-Majlis Agama Islam Wilayah Persekutuan (PPZ-MAIWP)

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In 2009, collection on business zakat is amounted RM 277.49 million throughout Malaysia where the highest collection was in the state of Selangor which is RM 51.85 million or 18.69% of the entire collection. Zakat collection on business in Perlis is amounted RM 3.16 million which is lowest collection throughout Malaysia or 1.14% from entire collection. For the year 2010, collection on business zakat is amounted RM 301.78 million or 8.75% increasing from 2009. Throughout Malaysia where the highest collection still under state of Selangor which is RM 60.5 million or 20.05% of the entire collection. The lowest collection for the year 2010 is still under the state of Perlis amounting RM 4.18 million or 1.39% of the entire collection. For the year 2011, collection on business zakat is RM 389.92 million or 29.21% increasing from 2010 and 40.52% increasing from 2009. Selangor still lead the highest collection which the amount is RM 79.93 million or 20.50% of the entire collection. Perlis still the lowest state in zakat business collection amounting RM 7.61 million or 1.95% from entire collection.

The small number of zakat on business payer can be proved based on research paper, *Potensi Pembayar dan Kutipan Zakat di Malaysia*<sup>5</sup>. Based on this research, for the year 2010, has 59,470 potential Muslim entrepreneurs in Malaysia which the amount is (forecast) RM1082,048,462.00 collection in business zakat. This is huge amount for business zakat that can benefit to the asnaf. This data based on past statistic which is the ratio for each 20 income zakat payers (individual) are equal to 1 business zakat payer. (1:20). This data show that if the potential of income zakat payers for the year 2010 in Malaysia is 1,189,391 payers, it means the potential business zakat payer is 59,470 (1:20). In the year 2010, collection for business zakat in Malaysia is RM 301.78 million only which is 27.87% from potential business zakat payers which is RM 1,082,048,462.

The main issue regarding on this situation is why most of Muslim business community disregard pay zakat on business? Although a variety of efforts by zakat authority and government have been implemented but this scenario is still happened. Previous study by Rahman (2005) shows the reasons why this situation happened could be possibly due to burden of tax. This can be referred to research done by Abdul Rahman (2005, p.7):

"If government allows companies that pay zakat on business wealth to claim rebate from their tax liability, this will consequently ease their financial burden. Furthermore, the tax rebate will serve as an incentive for Muslim majority owned companies which have not paid in the past to pay zakat on business wealth"

The rebate on income tax equivalent to the zakat payment is a major issues that can only be resolved by the government. At present, according to income Tax Act of 1967, only individuals can claim for rebate from income tax on their zakat payments. This ruling is not applicable to companies or corporate bodies. Hence all companies, including Islamic banking and takaful institutions must not only pay zakat on business, which cannot be claimed for an income tax rebate, but they must pay income tax as well. This creates a double bind for companies that want to adhere to Islamic principles. At the moment, the only option for companies that want to pay zakat, while at the same time being liable to pay income tax, is that the amount paid as zakat are treated as tax rebate, subject to a maximum of 2.5% of aggregate income which is very minimal and not suitable with the zakat calculation which is based on balance sheet, not on aggregate income.

This paper is organized in several sections. The next section of this paper will look into the literature review. Section 3 looks into research findings which are issues on the implementation of

<sup>&</sup>lt;sup>5</sup> Abdul Hakim Amir Bin Osman, Pengurus Operasi, PPZ-MAIWP.

tax rebate on business zakat. Section 4 discuss on research recommendation and the last section concluding remarks.

#### 2. LITERATURE REVIEW

In Muslim countries especially Malaysia, it shows that an Islamic state has the right to charge other levies, besides zakat on its citizens. However, as reflected in Malaysia fiscal systems, they seem to regard taxation as more important compared to zakat. Taxation systems become an integral part of the fiscal system, whereas zakat become just a voluntary institution. This prevailing practice in Malaysia could be contributed by the colonialist influence in the past. Many contemporary Islamic scholars raise the above issues and try to promote a true Islamic institution such as zakat to play its prominent role as a divine practice in true Muslim societies. Al-Qardawi, in his monumental work, Fiqh al-Zakah (Law of Zakah), argued that taxes do not make up for zakat, since zakat, as pillar of Islam, must not be forgotten in the actual practice. Sincere Muslims must pay zakat in addition to taxes which they are obliged to pay by law.

In Malaysia, the companies have conflict between tax and business zakat. They are confused either to choose Allah s.w.t or Inland Revenue Board of Malaysia (IRB). According to En. Abdul Aziz Abu Bakar, President of Malaysiaan Association of Tax Accountants (M.A.T.A), zakat is recognized in tax system when tax rebate on individual for their zakat on income imposed for current assessment in 1978. Ironically, zakat be given the place after 30 years of tax system exists in Malaysia while zakat exists in Islam is more than 1387 years ago whereby since 2<sup>nd</sup> year of Hijrah. Companies facing difficulties to their obligation to pay zakat because of tax pressure which result most companies will choose to pay tax rather than zakat due to legal pressure. Business tax with zakat on business will burden the Muslim Traders compared to non-Muslim traders. Even though the government give 2.5% tax rebate on aggregate income, the collection on business zakat is still lowest. Tax rebate from aggregate income is actually not suitable with method used in calculation business zakat because the calculation is based on current assets not on aggregate income.

Government only recognized "Corporate Social Responsibility" (CSR) or donation compared to zakat which is mention in Al-Quran. This can be prove by IRB give 10% tax rebate on CSR or donation compared to business zakat which is 2.5% from aggregate income.

Table 3: Example Case: Business Zakat vs. Tax

TAX ONLY		TAX REBATE ON	ZAKAT*	TAX REBATE ON CSR**		
Aggregate Income	100,000	Aggregate Income	100,000	Aggregate Income	100,000	
Tax (25%)	25,000	(-) Zakat ( <b>Paid RM10,000</b> )	2,500	(-) Donation (10%)	10,000	
Income After Tax	75,000	Tax on Income	97,500	Tax on Income	90,000	
		Tax (25%)	24,375	Tax (25%)	22,500	

<sup>\*</sup>Business zakat amounted **RM10,000** but only RM2,500 was allowable to get rebate base on 2.5% from aggregate income.

<sup>\*\*</sup>CSR or donation was given maximum to 10% tax rebate.

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*** Tax Only - Tax rebate on Zakat : RM25,000.00-RM24,375.00 = RM 625.00  
**** Tax Only - Tax rebate on CSR: RM25,000.00-RM22,500.00 = RM2,500.00
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By refer to table 3, the example case income of the business is RM 100,000.00 for the current year. Let say that the companies choose to make zakat payment with the amount is RM 10,000.00 for their zakat on business, but the real calculation base on 2.5% aggregate income is allowed only RM 2,500.00. Then the taxes (25%) that need to be paid are RM 24,375.00 compared to RM 25,000.00 if the companies not choose to give a business zakat. Otherwise, if the companies choose tax rebate on CSR, maximum allowable from aggregate income is 10% which is 7.5% more than tax rebate on zakat with 25% income tax on business. If the company paid zakat with the amount of RM 10,000.00, the company can enjoy only RM 625.00\*\*\* from tax benefit compared if the company paid to CSR which the tax benefit is RM 2,500.00\*\*\*\*. This will make the company choose CSR rather than to paid zakat on business. If the companies still want to pay zakat with the amount of RM 10,000.00, the company actually will need to pay RM 34,375.00 (Zakat + Tax: RM 10,000.00 + RM 24.375.00).

#### 2.1 Income Tax Rebate for Business Zakat

Zakat is wealth purification and zakat paid to the state zakat authorities is treated favorably by the IRB of Malaysia. Foremost to understand is that zakat is the obligatory spending on charity for Muslims. It is the 3rd pillar of Islam. It is utmost importance for the Muslims to fulfill their duties of zakat before spending on other types of recommended charity. Therefor Muslims need to adhere to the rules of zakat and should not pay their zakat obligations randomly. Zakat paid to the state zakat authorities are treated favorably by IRB. The net effect is that, the total tax payable is reduced when there is zakat paid during the year assessment. When zakat is paid by individuals and sole proprietors, the amount paid is treated as tax rebate. When paid by companies, the amount paid as zakat is treated as tax rebate, subject to a maximum of 2.5% of aggregate income. Zakat paid by company is treated as follow:

If zakat paid is more than 2.5% of aggregate income then only the maximum is allowed. If zakat paid is less than 2.5% of aggregate income then fully deductible in arriving at the chargeable income

# 2.1.1 Chronology Income Tax Rebate for Zakat, Fitr or any other Islamic Religious Dues

- Y/A 1978 onward: Full rebate in respect of zakat, fitr or any other Islamic religious dues paid by tax resident individuals and evidenced by a receipt.
- Y/A 2004 onward: Tax rebate granted to a Labuan offshore company for any zakat paid subject to the maximum of tax changed (i.e. 3% of net profits, or RM20,000 upon election)
- Y/A 2005 onward: Tax rebate granted to companies (excluding labuan companies) for the
  payment of zakat perniagaan paid in the basis period for that relevant year to an appropriate
  religious authority established under any written law or any person authorised by such
  religious authority. The rebate is limited to 2.5% of the company's aggregate income in the
  relevant year.
- Y/A 2007 onward: Tax rebate granted to cooperatives and trust bodies for payment of zakat perniagaan to Islamic religious authorities is allowed subject to a maximum 2.5% of the aggregate income.

## 2.2 Business Zakat Calculation

Actually, data used for business zakat calculation method and business tax rebate is different. Business zakat calculation uses data from the balance sheet, while business tax rebate gains information from the income statement 6. In other word, those methods demonstrate none relationship between business zakat calculation method and tax on business income due to the different sources of information usage. The arising question here is, if the business zakat calculation depends on those methods, do companies get benefits from the tax rebate allowable to them? Principally, zakat is payable on the business irrespective of whether business operation running at loss or profit, if the business has positive working capital. The companies would not utilize their benefits in two situations. The first situation is when their business suffers a loss but still has a positive working capital. The second situation is when tax rebate is smaller than the amount of business zakat paid. In this case, what modification or adjustment should be done? It actually requires the harmonization between figh and law that was currently practiced in Malaysia. According to the Mufti of the Selangor State Government, Islamic scholars should be opened to new interpretations and changes of the edicts made which were formulated by earlier scholars especially in matters related to zakat. In fact, any changes to the section 44(11A) of the Income Tax Act 1967 requires a lot of deliberations.

## 2.3 Methods of Calculating Zakat

Accounts are prepared based on Generally Accepted Accounting Standards. Current standards have their own purposes and do not specifically address the issue of Zakat. Nonetheless, with proper disclosures and further inquiries from management, and with the appropriate adjustments made to existing accounts, the assessment of Business Zakat can still be done. The Department of Islamic Development Malaysia (JAKIM) has published a book in the year 2001 entitled "Panduan Zakat di Malaysia". According to this book, there are two highly recommended methods of business zakat calculation to be applied.

Method 1: Working Capital (Syari'yyah)

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(Current Asset – Current Liabilities)
X % Muslim's Equity + / - Adjustments X 2.5%
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This method is called the working capital model. It considers current assets and deducts current liabilities and makes the necessary adjustments. Adjustments are made by adding or deducting clarified items.

## Method 2: Growth Capital (Urfiyyah)

(Owner's Equity + Long Term Liabilities – Fixed Assets – Non Current Assets) X Muslim's Equity + / - Adjustments X 2.5%

This method is suitable for Islamic Banking and financial institutions, Takaful and private limited companies where current Assets and Current liabilities are not classified accordingly. Differences in both methods. It is based on the accounting equation below:

Equity + Long Term Liabilities - Fixed Assets - Non Current Assets =

-

<sup>&</sup>lt;sup>6</sup> http://zahrihamat.blogspot.com/2009/07/zakat-accounting-taxation-and-malaysian.html

## Current Assets – Current Liabilities

Both methods are derived from the same Balance Sheet with the resulting answer being the same. The Urfiyyah model looks from the all sources available, less the normal (*uruf*) exemptions. The Syar'iyyah model looks at the balance of resources available in the business, less the current liabilities. Both models will need adjustments of the same nature.

## 2.3.1 Worksheet for Business Zakat Calculation: Working Capital

WORKING	WORKING CAPITAL METHOD						
_	BUSINESS ZAKAT COMPUTATION FOR						
	ABC BHD						
BASED ON	BALANCE SHEET AS AT XXX						
	ESSMENT FORMULA: ASSETS - CURRENT LIABILITIES +/- AI	HICTMENTS					
CORRENT	ASSETS - CURRENT LIABILITIES #/- AL	JUSTNIENTS					
CURRENT A	ASSETS	RM	RM				
Total Current			XXX				
	NT LIABILITIES						
Total Current		XXX					
Α.	NET CURRENT ASSETS BEFORE ADJUSTMENTS		XXX				
Adjustments							
	Current		XXX				
	Assets (-)						
В.	Total Adjustments for Current Assets		XXX				
	Current Liabilities (+)		XXX				
C.	Total Adjustments for Current Liabilities		XXX				
D.	D. TOTAL CURRENT ASSETS AFTER ADJUSTMENTS (A-B+C)						
	Exceeding Nisab +/- RM13,113.00		XXX				
E.	MUSLIM'S EQUITY		100%				
F.	ZAKAT RATE		2.50%				
G.	AMOUNT OF ZAKAT (D x E x F)		XXXX				

## 2.3.2 Worksheet for Business Zakat Calculation: Growth Capital

ZAKAT ON BUSINESS CALCULATION BANK XXX BERHAD BASED ON BALANCE SHEET AS AT XXX					
GROWTH METHOD		WORKING C	CAPITAL ME	THOD	
OWNER'S EQUITY (+) LONG-TERM	XX	CURRENT ASSETS (-)		XX	
LIABILITIES (-) FIXED ASSETS (-) NON-CURRENT ASSETS	XX XX XX	LIABILITIES		XX	
	XXX	<u> </u>		XXX	
(A) NET ASSETS / (LIABI	LITIES) BEFORE	ADJUSTMEN	Т	XXX	
(B) LESS : ADJUSTMENT	S ON ASSETS			XXX	
TOTAL ADJUSTMENTS	ON ASSETS			XXX	
(C) ADD : ADJUS LIABILITIES	STMENTS ON			XXX	
TOTAL ADJUSTM LIABILITIES	ENTS ON			XXX	
(D) NET ASSETS AFTER (Exceeding Nisab +/- RM		(A-B+C)		XXX	
(E) MUSLIM EQUITY				XXX	
ZAKAT AMOUNT ( D x E	x 2.5%)			XXXX	

## 2.3.3 Adjustment to Current Assets

Current Assets Zakatable are: Trade Receivables (net), Stock in Trade (net), Short Term Investment Securities, Time Deposits / Mudharabah Deposits (no encumbrances), and Cash. These items are subject to zakat on the basis of full ownership on growth potential assets. Current Assets not subject to zakat are due to:

- a. Partial ownership assets (Partial Owneship)
- b. Assets to be consumned not meant to be sold (Consumption Assets)
- c. Assets not yet in a normal form to be sold (Non Trade Assets)
- d. Assets ceased to be tradable; nonperforming (Non Business Assets)
- e. Assets not meant for business (Welfare)
- f. Non Halal Assets (Non Halal)
- g. Assets for which zakat has been paid (Zakat Paid)

## Deductions To Current Assets:

- i. "Other receivables" such as:
  - Loans given to 'others' (Partial Ownership)
  - Prepaid Insurance, building assessments, and road tax on vehicles (Consumption)
  - Advances/Deposits towards purchasing fixed assets (Partial ownership)
  - Sundry deposits telephone, water, electricity, rent on building, project deposits (Partial ownership)
  - Receivables on Al-Mustaghallat fixed assets rent, dividends (Partial ownership)
- \* ii. Office supplies to be consumed (Consumption assets)
- \* iii. Raw materials (Non trade assets)
- \* iv. Work in Progress assets (Non trade assets)
- \* v. Fixed Deposits as collateral for financial facilities (Partial ownership)
- \* vi. Doubtful accounts / NPL's (Non business assets)
- \* vii. Obselete / Non moving / slow moving Stock in trade / (Non business assets. If sold later on, then it will be assessed in the respective period sold)

## Exempted from zakat:

- \* i. Welfare funds (Welfare / Not intended for business)
- \* ii. Interest revenue, dividends for non-halal sources (Non Halal sources)
- \* iii. Dividends received from sources that have paid zakat (Zakat paid / no double zakatation)
- \* iv. Credit (Financing) Scheme Receivables (due to be collected next year) and is classified as a current asset (Partial ownership in current year for next year's zakat assessment)

## Added To Current Assets:

- \* i. Donations, using internal operating funds, given in the last quarter must be zakat cleansed first.
- \* ii. Purchase of fixed assets and non current assets in the last quarter (end of hawl) using operating funds will also be subjected to zakat in the current year only.

## 2.3.4 Adjustment to Current Liabilities

Current Liabilities Allowed to be deducted: Trade payables, various accrued expense payables, Current income tax payable and other liabilities obligated unto the business related to the year under assessment. Current Liabilities not Allowed to be deducted and needs to be added back are:

- a. Items defined as sources of fund (Sources / Full ownership)
- b. Items related to next year's operations (Reclassification)
- c. Accumulated items from previous years (Source)
- d. Returns to shareholders (Net of Zakat)

## Added Back:

- i. "Other payables" such as:
  - \* Loans from other parties (Source/Full ownership)
  - \* Other various deposits received (Source/Full ownership)
  - \* Prepaid received (Full ownership)
  - \* Any arrears of liabilities (accumulated) that were deducted in the respective years of occurrence. Only the current year's provision is deductible but the accumulated value up to the beginning of the year must be added back (Source/Full ownership)
- ii. Financial Liability (For Next Year) these items are for next year; zakat assessment is for the current year (Reclassification):
  - Hire Purchase
  - Ijarah Thumma Al-Bai' / Ijarah Wal Iktina'
  - Financial/Capital lease
  - Term loans (current portion)
  - Al Bai' Bithaman Ajil
- iii. Financial Liability Overdraft, Notes Payable, Short term financial liability instruments (Sources)
- iv. Current tax liability only to be deducted but taxes in arrears from previous years must be added back.(Source)
- v. Dividends payable; Return on membership dues (cooperatives); Return on compulsory savings and Honorarium payables (Net of Zakat / Pay Zakat first)

## 2.4 Zakat Obligation and Existing Laws

Nik Hassan (1991, P. 217) in describing the position of zakat in Malaysia fiscal management, had pointed out that:

"There is no synchronization between these two functions. The only relation between zakat and the country's fiscal management is through the provision in the tax system that zakat payers can obtain tax rebate for the amount contributed as zakat. Thus, the zakat system has no significant place in the Malaysia fiscal system. It seen solely as a religious activity and the running of the economy is considered as mundane responsibility. Islam is seen as a religion in the western sense and not as a complete system that governs the whole spectrum of the country's management"

The above can be attributed to the Federal Constitution in Malaysia. With regards to laws pertaining zakat in Malaysia, it is only covered under state enactments that makes it obligatory upon Muslim individuals to pay zakat but not that of companies. According to article write by

Tun Abdul Hamid Mohamad<sup>7</sup>, in Malaysia, a law which levies zakat on anyone, human beings or companies, other than persons professing the religion of Islam is unconstitutional. A company is clearly not. To place a legal obligation on a company to pay zakat of the owners or the shareholders is to impose an ever higher religious obligation on a company than human beings. Furthermore, companies are outside the jurisdiction of State Legislative Assembly and outside the jurisdiction of the Shariah Courts. The decision of the National Fatwa Committee held on 6<sup>th</sup> December 1992 titled "zakat on Companies", National Fatwa Committee dated 10<sup>th</sup> May 2001 titled "Zakat on Companies Owned by Different Types of Owners Mixed between Muslims and Non-Muslim", National Fatwa Committee on 16<sup>th</sup> August 2001 titled "Zakat on Shariah Compliance Banks and Business Companies where the parent Companies are owned by Non Muslim" is not a fatwa committee established under any law. It has no legal standing. Its decisions are not fatwas binding on anybody. In brief, the fatwa, though gazetted, is unenforceable on companies.

Companies are covered under the companies act. A zakat study by Aishah Bidin (2004)<sup>8</sup> on business zakat has shown that several avenues are available to make zakat on companies act, income tax act and also to even suggest a new zakat act. Other findings include passing a resolution in the Annual General Meeting, Board Resolution and also management resolution. Nevertheless, there is a necessary to stress that even without some form of incentives, zakat on business is an obligation that cannot be excused and tax too is also a responsibility.

## 3. ISSUES ON THE IMPLEMENTATION OF TAX REBATE ON BUSINESS ZAKAT

There are several issues pertaining to the implementation of tax rebate on corporate zakat.

## 3.1 Government Revenue Will Decrease

The government believes that zakat give negative impact on government revenue if tax rebate will impose on the company. The company will take an advantage to disbursed all their tax to zakat institutions in order to get full tax rebate from their business zakat payment.

## 3.2 Management of Zakat Institution

Although the administration of zakat in Malaysia has been institutionalized, this does not imply that its administration in various states is systematically synchronized and coordinated. The zakat administration for each state is still independent. The result is that several models of organizational structure have been adopted by various states in Malaysia. From the eyes of government, the problem with the management and organization of zakat is lack of qualified professional human resources and infrastructure to develop a good organization management. Inadequate manpower has been a problem for too long. This problem leads to the low level of trust among Muslims with zakat agencies.

## 3.3 Tax Manipulation by Companies

The main purpose to tax rebate is to increase business zakat collection in order to help the 8 asnaf.

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Obligation of companies to pay zakat: Issues arising from effects of separate legal entity By Tun Abdul Hamid Mohamad (Former Chief Justice of Malaysia)

<sup>&</sup>lt;sup>8</sup> Aishah Bidin. Isu undang-undang Berkaitan pelaksanaan zakat terhadap Syarikat di Malaysia. Zakat Pensyariatan Perekonomian dan perundangan (UKM) 2006

But the government is worried that if tax rebate imposed, the business owner will manipulate the tax in order to pay more on zakat to get full rebate. This will decrease the revenue from tax itself. Have 4 scenarios that business zakat payer towards on zakat calculation on business made by zakat collection center:

- i. Zakat on Business calculation is made by zakat collection center and amount of business zakat paid is same like calculation made by zakat collection center.
- ii. Zakat on Business calculation is made by zakat collection center but the amount of business zakat paid by the company is **less** than actual calculation made by zakat collection center.
- iii. Zakat on Business calculation is made by zakat collection center but the amount of business zakat paid by the company is **more** than actual calculation made by zakat collection center.
- iv. Company paid zakat on Business without using calculation made by zakat collection center (self calculation).

## 4. RECOMMENDATION

This section will give recommendation and explanation why government should revise current tax rebate. The recommendation is as follow:

## 4.1 Economics and Social Impact

Zakat occupies an important place in Islamic economics. Throughout history, whenever Muslims truthfully applied the system of zakat, as ordained by Allah and Rasulullah s.a.w, the splendid objectives of zakat were fulfilled and its great efforts appeared within the lives of the individuals and the society. One excellent example is during the caliphate of Umar B. Abdul Aziz whereby the zakat system was so successful that it became difficult to find even one needy person to receive zakat collection. This shows how zakat if implemented properly could make wonders to the society. If zakat properly managed, the government may be relieved from significant social welfare expenditure.

## 4.1.1 Multiplier Effect on Zakat.

Some Muslim economists believe that a certain amount of zakat funds invested according to the overall production priorities of an economy would benefit the poor in particular and the economy, in general, through is multiplier effect on employment and incomes. In this way it would gradually eliminate poverty instead of providing recurring financial support to the same set of people. It would increase employment and income in the economy thereby raising the standard of living of the society. This multifold effect is not only exclusive to the payer but is also true from the economic perspective. The funds flow from the zakat paying entity to the zakat authorities, to the recipients to various vendors and traders, back to the zakat paying entity.

## 4.2 Tax Adjustment and Business Zakat.

2.5% tax rebate from aggregate income is given by IRB Malaysia to the companies that pay zakat on Business in Malaysia. This 2.5% tax rebate actually is very minimal and burden to the Muslim entrepreneur. There is recommendation in tax adjustment toward business zakat. IRB should give income tax rebate instead of tax rebate like tax rebate on individual income or increase tax rebate rate from 2.5% to 10% to make it same like CSR rate for tax rebate. Example: company ABC sdn bhd earned an aggregate income amounted RM 100,000.00. So the company tax is RM 25,000

(25%). If ABC sdn bhd paid zakat on business is RM 10,000.00, therefore the company tax is RM 15,000.00. (refer on table 4)

**Table 4: Recommendation for Tax** 

Tax Rebate on zakat				
Aggregate Income	100,000			
Tax Estimation (25%)	25,000			
(-) Zakat	10,000			
Tax	15,000			

This policy will attract the companies to paid zakat on business. From this perspective it shows that the government play an important role and responsible for development of Islam. Beside government can develop infrastructure like Islamic center, mosque, Islamic banking, Takaful institutions, investment banking and Tabung Haji, this policy also was the best way to help Islam be more established in Malaysia. If the government is reluctant to this policy, it shows that the government neglected the Al-Quran and Sunnah. For time being, the adjustment between zakat and tax is the right choice to help muslim entrepreneur to their obligation towards Allah s.w.t and at the same time towards Malaysia.

This policy will not reduce the tax collection in Malaysia. This is because zakat is not competitor toward on tax but vice versa. It can be complementary that can play an important role same like tax. As known before, zakat was like savings for special expenditure not like tax which is for government use. Zakat is more on to improve the social dimension like giving opportunity to the less privileged group such as poor, needy, unemployed, orphans, handicapped and so on. Its more like savings, the more zakat fund, the more government can help people especially the 8 asnaf as mentioned in Al-Quran.

## 5. CONCLUSION

This paper indicates that the government should revise the tax rebate on business zakat policy. Taxation has primarily legal and economic incentives and implications, as compared to moral and spiritual incentives, unlike in the case of zakat. The main objective of zakat is to purify and to bless Muslim's wealth and soul. Nevertheless, there is a necessity to stress that even without some form of "incentives" zakat on business is an obligation that cannot be excused and tax too is also a responsibility. There will be an outflow of cash, but that will be the natural way of showing the gratitude and thankfulness to Allah s.w.t. Studies are also greatly needed to evaluate the current fatwa and relevant laws like Companies Act 1965 in order to prevent any misunderstanding in future regarding the issues arising from effects of separate legal entity. The shariah scholars, lawyers who are well versed in companies' law, auditor, representative of the relevant authorities and the industry should sit together to discuss this issues. In Malaysia, even though the law does not require for the companies to pay zakat on business, the collection of zakat on business is increasing every year. During Prophet Muhammad s.a.w, there is no issue regarding the separate legal entity because at that time the economic situation is not complicated like nowadays and the main point is what we have now is not based on Al-Quran and Sunnah. Can we make a judgment that company act is more important rather than Al-Quran and Sunnah? Put aside the conventional law because the more important is to gain Allah s.w.t reward in hereafter. When companies paid zakat on business, the company will grow and earn more profit as mention in the Quran, Surah Al-Bagarah 2:261, Allah says (meaning):

"The example of those who spend their wealth in the way of Allah is like a seed (of grain) which grows seven spikes; in each spike is hundred grains. And Allah multiplies (His reward) for whom He wills. And Allah is all-encompassing and knowing".

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## TOWARDS DEVELOPING A DISCLOSURE INDEX FOR MALAYSIAN ZAKAT **INSTITUTIONS**

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## **ABSTRACT**

In view of understanding zakat reporting practices this paper aims to develop a Zakat Disclosure Index (ZkDI) for Zakat Institutions (ZIs) in Malaysia. This is due to the finding of previous studies that highlighted zakat payers' dissatisfaction on the insufficient information especially on zakat distribution part. The paper uses holistic accountability concept as a conceptual lens in developing the index. In developing the index; this paper starts by reviewing past literature and conducting semi-structures interview with zakat payers and recipients. Which then, it is reconciled and validated by a panel of experts to obtain the final ZkDI. Based on the discussions with the respondents, this results indicate that the institutions shall give more emphasize especially on financial and non-financial categories in their reporting as to ensure accountability is discharged effectively and consequently the religious obligation is fulfilled. A suggestion that annual report of zakat institutions shall be disclosed to the public was another interesting finding revealed in this paper. Since the paper focuses solely in Malaysia, thus applicability of the ZkDI to other Muslim countries which have different laws and regulations need further examined. For future research, there is a possibility that the index can be improved by inviting more respondents to participate and eventually a better disclosure index can be created.

**Keywords** – Disclosure index, zakat institutions, accountability, reporting practices

#### 1. INTRODUCTION

Zakat (Islamic tax) is one of the five fundamental pillars of Islam, which specifies an individual Muslim is obliged to pay zakat with certain preconditions. This religious obligation has been addressed about 82 times in holy Quran (Azizah & Abd Halim, 2009). It is also clearly affirmed that the zakat funds collected should be distributed to the specified groups of recipients by Amil (administrator) in this case; Zakat Institutions (ZIs). These specified groups of zakat recipients have been clearly stated in the holy Quran, (At-Taubah 9:60):

"Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage and in debt; in the cause of Allah, and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom"

In relation to the above, it portrays that ZI is accountable to distribute the funds to all the 8 eligible groups of recipients known as asnaf (al-mustahigqin). Nonetheless, there were many doubts have been raised in past literatures about efficiency of the ZI in discharging its accountability. For example Hairunnizam et al., (2009), pointed out one of the main reasons for dissatisfaction of zakat payers towards ZI was due to

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the issue of inefficiency of distribution methods and lack of information being publish on zakat distribution by ZI. Insufficient of information highlighted previously shows there is a possibility of accountability issue and quality of reporting exists. As stated in holy Quran the believers are required to keep records and reporting of transactions, (Al-Bagarah 2:282)

"O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing Let a scribe write down faithfully as between the parties: let not the scribe refuse to write: as Allah Has taught him, so let him write..."

From the Islamic perspective, providing accounting information is vital to the *umma* (Muslim community), as they have their own right to be acknowledged about the implication of the activities of an organization on its well-being as well as giving advices on how this has been achieved in accordance with *syariah* (*Islamic Law*) requirements (Lewis, 2006). He further clarified that accountability to ALLAH SWT by means of producing and establishing information that is freely available (Lewis, 2006). Hence, one of the methods that can be used to measure information disclosed by organizations is via

disclosure index (Saunah et al. 2012). Many past studies have developed and used index to measure the annual report and reporting practices of variety of organizations specifically non-profit type; such as Coy & Dixon (2004), Saunah et al. (2012), Hooks et al. (2012), Wei et al. (2008) and so forth. Marston & Shrives (1991), described "disclosures indices are extensive lists of selected item which may be disclosed in company report".

## 1.1 Background of the study

These days a call for greater accountability is regularly voiced especially for companies, government sector and non-profit organizations. It becomes critically prominence to the government and non-profit organization since its objectives is not for profit motives and the fund may easily misused by anyone in the organizations. The concept of accountability is a basic element of management and governance of any organizations (Cameron 2004). As described by Gray et al. (1996), stated accountability as "the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for one is held responsible"

While Robert & Scapens (1985) seen accountability as a relationship involving "giving and demanding of reasons for conduct". Generally the concept covers the relationship between accountor and accountee (Gray & Jenkins, 1993 Abdul Rahim 1998; Shahul Hameed 2000; Cameron, 2004). Although, there are a lot of discussion concerning on measuring accountability, it is essential to give consideration on accounting information which focuses on disclosure, and as stated earlier one of the methods of measuring the accountability of zakat institutions is via disclosure index. Hence, this paper uses disclosure index as a proxy to measure the reporting practices which ultimately may improve the accountability and transparency of ZIs.

Currently, research on disclosure practices not only concerning corporate sector instead it has caught attention of researchers to further investigate in Non-profit organizations (NPOs), Public Sector (PS), Non-Government agencies (NGOs) and other entities that may have similarities characteristic of non-profit making motives. Disclosure of information by Non-profit organizations (NPOs) is vital due to few factors; first the information disclosed can be used by stakeholders to assess the effectiveness and efficiency of the particular organization. Secondly, it can contribute to improve stakeholder's perception, which eventually will increase the level accountability and transparency of the organizations (Saunah et al. 2012). Despite the growth of the disclosure study on NPOs, NGOs and so forth a little attention have been given to religious non-profit organizations (RNPOs) sector or known as faith-based organization (Ruhaya et al.2012). In case of Malaysia RNPOs such as zakat institutions (ZIs), waqf, and mosque grant many rooms to be explored especially with regards to the disclosure aspects. One of the interesting

RNPOs that can be further discovered is zakat institutions (ZIs). Currently, there are a lot of past literatures have discussed on the issue of zakat management in Malaysia especially on collection and disbursement system. Diverse zakat practices and lack of appropriate system on both policies and practices of zakat system among all the states in Malaysia have brought many inconsistencies in collection and distribution to the 8 qualified recipients (asnaf).

As portrayed by (Kamil 2005) ability of ZIs in managing the fund of zakat is still doubtful and questionable. This is supported by Ahmad Shahir and Adibah (2010) discussed on the issues and challenges faced by the Lembaga Zakat Selangor (LZS), they clarified doubts of the zakat payers on the credibility of ZIs in managing the funds. They further explained that some of the zakat payers either individuals or organizations, refused to pay zakat at the institutions instead of paying directly to the eligible zakat recipients. Surprisingly, Ahmad Shahir (2007) further discovered that only 10% to 15% of the zakat payers in Selangor pay zakat through formal zakat institutions, these decisions have portrayed lack of trust by the public which eventually can jeopardize the reputation and image of ZIs.

Azman et al. (2012) addressed some of the essential issues relating to the ZIs, first on the inefficiency of distribution of zakat funds. Basically, zakat funds are distributed by the institutions to the eligible recipients based on certain criteria which are set by authority and also through a report made by a public. However, the institutions have received complaints and been criticized by the public since the funds did not reached the targeted group of recipients and lack of knowledge on the other part of community. The complaints and dissatisfaction with performance of the ZIs arose as the authority did not publicize the zakat information. Hairunnizam et al., (2009), further added on how dissatisfaction on the performance of ZIs affects' zakat payers channels in paying zakat. The result showed more than 50% of dissatisfied zakat payers did not commit for zakat payment which would may affect decrease in potential zakat collection. Interestingly, the main reasons for such disappointment were due to inefficient of distribution methods and insufficient information being publish on zakat distribution by ZIs as mentioned previously.

Marston & Shrives (1991), stated information is disclosed in many ways, the main one is the annual report, other types of information for instance interim, quarterly report, prospectus, employee reports, stock exchange's announcements and other printed material. Taylor (2006), further added the avenues of reporting covers media release, mailings to citizens groups, websites and annual reports.

The Annual Report of organizations is perceived as a vehicle of transferring the information, which be used for measurement, classification, quantification and evaluation of organization performance and position. One way of measuring the information disclosed is via disclosure index (Saunah et al. 2012). Marston & Shrives (1991), explained disclosure index has been used as research tool in number of research papers by many different researchers from 1960s till present and clarified it would not continue to exist if it shows poor results.

In view of understanding the reporting practices of ZI, the study is prepared to propose a Zakat Disclosure Index (ZKDI) for zakat institutions in Malaysia and with the intention to assist the ZIs in preparing the report as well as provides guidelines to Jabatan Zakat, Waqf Dan Haji (JAWHAR) or Department of Awqaf, Zakat and Hajj in reporting zakat information. JAWHAR's was established in 2004 "with the roles to coordinate and develop the management of awqaf and zakat as well as monitoring the management of hajj" (http://www.jawhar.gov.my)

Despite that it may also promote and suggest uniformity and harmonization between 14 ZIs in terms of disclosures of zakat information in the financial statements. As for the public, it can increase public accessibility to zakat information and encourage the awareness of eligible Muslim to pay zakat. Finally, it may improve the image of ZIs by enhancing its accountability and regain public trust and confidence in managing the zakat funds; which eventually would foster the economic growth of Muslim community.

## 2. LITERATURE REVIEW

In Islam, wealth held by individuals should be shared with others, as all property ultimately belongs to Allah as the real owner of the wealth. Sharing the wealth between the rich and poor people in Islam is expressed in a way of paying zakat or from conventional perspective is known as tax by distributing the fund to the qualified recipients. *Surah At-Taubah (9) verse 60* has disclosed 8 specific groups of qualified recipients who are entitled to receive zakat, they are the poor - Fugara', extreme poor Muslim (al-Masakin), those employed to administer and collect (the funds)- Aamillen, those whose hearts have been recently reconciled (to truth) i.e. those who have converted to Islam, to free the captives (Ar-Riqaab), those in bondage and in debt i.e. Al-Gharimeen, in the cause of Allah (Fi- Sabeelillah),and for the wayfarer: (thus it is) ordained by Allah – Ibnus –Sabeel.

Zakat legally means, 'a prescribed amount of a specific property paid for a specific category of people'. In other words, zakat is the amount of money or its equivalent taken from a specific type of wealth that must be spent on specific categories or group of people in specific ways (pay to *amil* directly), when the particular wealth reaches a specific amount at a specific time. The obligation to pay zakat among Muslims is established in the *Qu'ran*, *Sunnah and hadith*, the consensus of the companions and Muslim scholars. With the objective of distributing of wealth to the less fortunate Muslim community, zakat practices would therefore be able to eradicate poverty among members of the *ummah*.

Muhammad (1980) stated that the term of Zakat can be best explained in three different connotations; which are linguistic, theological and legal aspects. The linguistic perspective describes zakat as a process of purification and sanctification of heart from dirt and it also refers as praise, growth and increase, while theologically portrays the implication or consequences of practicing zakat where it leads to spiritual purification. Finally, from legal aspect zakat signifies transfer of ownership of specific wealth to individual or individuals under certain fulfilled conditions. In other words by fulfilling this obligation it can purify individual's wealth to get Allah's blessing.

In Malaysia, the political structure plays a great role in the administration of zakat system in Malaysia. State Islamic Religious Councils (SIRCs) is the body responsible for administering all matters pertaining to religious affairs including zakat, and it comes under the jurisdiction of the respective state government or the respective state ruler (Sultan). Most of the states have their own council of religious affairs that administers the collection and distribution of zakat, which refers to the advice and fatwa issued by the respective SIRCs. (NurBarizah, 2007). Zakat law and its administration are governed by the federal government under (JAWHAR), which is restricted to coordinating zakat matters among the states. Most importantly, the administration of zakat operations between states, where Federal government represented by JAWHAR plays limited roles in monitoring and coordinating zakat operations in all the states in Malaysia. Presently, each state in Malaysia formulates its own policies on zakat affairs which include method of collection, disbursement policy, administrative aspects, execution and also the degree of enforcement. As a result, Malaysia has a variety of zakat practices in collection and disbursement which eventually creates inconsistency which led to a difficulty in understanding on how zakat operations are being administered and monitored.

## 2.1 Previous study in Malaysia

Over the past few years academics have increased their attention on the issues of zakat management in Malaysia. Past studies (Abdul Halim et al., (2005): Ali, 1990; Azizah et al., (2005); Halidan (2006); Ismail (2006) Ismail (2000); Kamil (2005): Nurbarizah et al., (2006); Zainal Abidin (2006) have discussed about the efficiency and effectiveness of ZIs in managing the fund in their custody. While the issue on the effectiveness of zakat disbursement system to the qualified recipients have been debated and

discussed by previous studies such as (Mohd Dahan, 1998; Sanep et.al, 2006; Hairunnizam et.al, 2008; Hairunnizam et.al, 2009; Anuar, 2008).

Hairunnizam and Radiah (2010) reported that zakat disbursement system in Malaysia shows vagueness in terms of distributing the fund to the eligible recipients. They reported that every year an average of 26% or RM145millions of zakat proceeds were left undistributed to zakat recipients and they were kept in the zakat institutions. According to Muhammad Syukri (2006) such problems occurred was due on few causes. He explained the institutions failed to keep track and recognize their potential zakat recipients because of the connection gap especially in terms of information between institution and zakat recipients. Hairunnizam and Radiah (2010) shared the same views that one of the ZIs had failed to recognize those who are eligible to receive zakat money. Indeed, Mujani (1995) urged that the institution should put an initiative to distribute the surplus funds to the recipients giving the priority to the needy and destitute people.

Beside the issue of undistributed fund, Hairunnizam (2009) addressed the zakat payers were not satisfied with the performance of ZIs in terms of distribution of zakat funds. The reason was that the respective institutions were not disbursing the funds fairly to all the zakat recipients including the al-riqab, ibnSabil, al-gharimun. In term of information, another important weakness discovered is lack of data on collection and disbursement of zakat funds. Information relating to the total collection and its disbursement is considered essential to the public in evaluating the capability of ZIs in managing these funds. Nik Mustpaha (1987) highlighted that information on zakat collection and its disbursement were not all the time available. Even when some of the states revealed that information, most of them were vague and not complete. Furthermore, each state has different format in reporting the information pertaining to these and only latest figures were shown by some State Religious Councils.

Apart from that another factor that affects the process of distributing zakat funds is due to a bureaucracy problem (Azman et al., 2012). The study discussed how the student needs to make a new application every year even though they had applied for zakat funds in their first year and yet again they need to present all over again all the relevant documents as what they did earlier. Furthermore, in certain states students are initially required to apply for study loan in order to be eligible to receive zakat funds. With regards to these it will slow down the process of approval which was not practiced by Prophet Muhammad (*PBUH*). The practice and principle that should be followed is that once the zakat fund has been collected it should be disbursed as soon as possible to the eligible recipients. Hence, ZIs need to improve their disbursement process by having up-to-date register of the eligible recipients (asnafs) and a delivery system put in place and continuously monitored. Moreover, Anuar (2008) revealed generally the public and particularly the academics preferred to pay zakat directly to the beneficiaries rather than the zakat institutions. This indirectly portrays the current practices of zakat institution shows some weaknesses and factors contribute to the issue shall be further examined. This is important especially to the zakat payer who contributes money to the trusted institutions; they need a guarantee that their money has been distributed fairly to the designated group of people.

As a result many efforts and initiatives have been implemented by the ZIs to gain public confidence such as introducing management accounting practices which includes strategic planning and performance measurement. However the implementation of those initiatives is still questionable which grants a lot of spaces to be studied. (Azizah et al., 2005; Nurbarizah et al., 2006; Ahmad Shahir and Adibah, 2010). Again the accountability of the ZIs in managing those funds leaves many questions to be answered.

#### 2.2 Disclosure index

In accounting research, disclosure indices are often times used especially in studying annual reports of organizations. Marston & Shrives (1991), mentioned "disclosures indices are extensive lists of selected

item which may be disclosed in company report". Coy (2004), the roles of these indices are to present an insight i.e. a summary of indicator, sign, evidence and so forth to users whether the whole contents of the reports prepared is comparable or an interest of certain aspect of the study is covered such as voluntary and environmental disclosure. Botosan (1997) and Cheng (1992), highlighted past literature has regarded disclosure index as a practical and valid research instrument. Coy and Dixon (2004) defined an index as:

"Numbers that encapsulate in single figures, objects in the set that one wants to measure and that are capable of measurement. Each number in a valid and reliable index is reached uniformly by determine scores for each of, possibly many component items, which have been identified as relevant to the set and purpose if the index. These component item scores are then combined in a meaningful way in order to ascertain the index number for each object in the set."

In New Zealand, Coy & Dixon (2004), have developed a disclosure index *called Public Accountability Index* (PAI) for annual report of universities in New Zealand from 1985 to 2000. PAI is developed with the purpose to measure the quality of anual report produced by the public Universities since there was a little relevant information was revealed from universities authorities on educational and staff related aspects of university resource attraction and allocation. While Wei et al. (2008), have made a new effort by examining the reporting practices of museums in New Zealand (NZ) and the UK. Museum Performance Accountability Disclosure index (MPADI) had been developed by adapting MAD disclosure index, which then was modified to suit with the nature of the organization. Eventually, the index was developed uses a framework which represents on the Balance score card (BSC) system. The study revealed that, Museum in the UK shows slightly a better disclosure level than NZ in terms of the total score. On top of that many of the items listed in the MPADI are not sufficiently disclosed by them which eventually portrays that the annual reports prepared showing less information. Disclosure item such as "employee satisfaction" and "budget" information showed weakness item for both NZ and UK museum. While financial review disclosure signifies the weak item for NZ reports. Furthermore, UK reports found customer satisfaction item showed the poor result of disclosure.

In case of Malaysia, to ensure the accountability in government sector, the National Audit Department (NAD) has introduced *Accountability Index (AI)* or known as audit rating system. The index is issued for all Ministries and State treasuries starting from the year 2007. The index was developed with the objective to evaluate the quality performance aspect of all government agencies which subject to its audit. It was developed based on certain indicators and each indicator will have its own criteria. Marks will be given on each criterion and finally score rating will be awarded between score of one to four on level of accountability.

After 3 years implementation of Accountability Index (AI), Faridah et al. (2010), examined the auditees' perception on the implementation of AI in public university. They interested to do this study since there is a plan by NAD to implement the AI at public university. A group of 116 middle and top level of staff management of the university was involved in the survey and generally most of them perceive the AI as a good initiative for a basis of measuring performance and benefit the university in future. Apart from that Hooks et al. (2012), have put initiative by suggesting a best practice reporting performance for local government in Malaysia via disclosure index. As the assumption of the annual reports prepared are the main mechanism for discharging accountability as well as grants relevant and meaningful information to the stakeholders, the paper portrays that the best practice reporting performance demands more comprehensive on performance information which covers both financial and non-financial elements. Another study related to the government agencies, Nurbarizah (2011), has proposed an index for federal statutory bodies (FSB) in Malaysia and found the level of compliance on disclosure of FSB is considered fair. The result portrays Financial category of information shows the highest score while governance—related information represents the lowest which indicates least information being disclosed in the annual reports of FSB. The paper also further discusses about the determinants of the disclosure level, where

FSB size and accessibility have shown a positive relationship with the disclosure level, while board size was regarded as insignificant factor found in the study.

With regards to NPO/charity Saunah et.al (2012), introduced new approach in developing Malaysian Charity Disclosure index (ChDI) using stakeholder needs. This paper has used qualitative and quantitative methods in deriving the ChDI which focuses on literature review, interviews and online survey. In assessing validity of the proposed index the study has applied two steps; at first comments, suggestion and discussion have been made with panel experts from both local and international panels which then being revised and improved before distributing the ChDI survey through web or online survey. In this process, the target participants were institutional donors from main public listed companies in the Bursa Malaysia, and finally 117 listed companies participated in the survey. The paper revealed, two categories i.e. financial information and governance information showed the highest score which indicates these are essential information needed by stakeholders of charity organization.

Generally, academics have discussed a lot on the issue on zakat management system, the ways to overcome such weaknesses are also being highlighted but very few of them discuss the reporting practices aspect as a whole in depth. Based on the above discussion, it signifies there is a limited study done on disclosure index for religious institutions particularly for zakat institutions. Although, Saunah et al. (2012), have discussed about the disclosure levels towards improving the accountability and transparency among Religious Non-profit organizations (RNPO), but the study was concentrating on all existing religions organizations in Malaysia which are Buddhism, Islam, Christian and others (Sikhism, Daoism, Confucianism). Obviously, there is a need for disclosure index for zakat institutions which in turn will improve the image of ZIs to the public as a whole.

## 2.3 Accountability concept

There a rich literature on accountability concept can be gathered from various disciplines especially in management and psychology literatures. Accountability issues especially in corporate and government sector was widely being discussed, however to the NGOs this issue was recently brought up in 1990s (O' Dwyer 2007). Ahmad (2010), highlighted within the context of NGOs accountability literature, the debates and argument mostly focus on direction of accountability, which the well-known are; notion of upward accountability and downward accountability.

Upward accountability explains efforts to improve the management through upward directional for instance reporting to funder/donor. In other words it is about accountability to donors, the party that provides funds to the NGOs which is similar to the concept of corporate accountability i.e. accountability to shareholders (Ahmad, 2010). In relation to reporting, Ebrahim (2003a), revealed that donors frequently requires highly detailed quarterly and annual report on achievement from funded project and expenditure based on pre-specific line items. In addition to that he asserted certain NGOS that have multiple foreign donors; on which really concern the NGOs to comply with the auditing system of each donor. In satisfying donors demand, he realized at the end of that such effort may deviate the main NGOs' focus to fulfill their responsibilities towards its beneficiaries.

Apart from that, Edwards & Hulme (1995a), added there is a tendency that upward directional may distort accountability. Jepson (2005), further added that "the audit culture has failed in its goal of accountability and transparency..." He also explains, "The key to accountability regime is not an adoption of structural process such as audit trails, or the reporting of performance measurements, but in the engagement of public constituencies in informed discussion on values, issues and strategy". Based on the above argument, thus the idea of downward accountability is discussed below.

While downward accountability refers to the accountability to partners, beneficiaries, staff and supporters (Edwards & Hulme ,1996). Jordan & Tujil (2006) highlighted, public expectation on NGO accountability

is considered related to the mission and services to beneficiaries, in other words downward accountability is "a right based approach to NGO accountability could service the public expectation". Connecting right based approach with downward accountability provides a different view with regard to the roles and relationship between NGOs and beneficiaries. Sidoti and Frankovits (1995), discussed that this right based approach actually changed the perspective of all 3 parties: donors, NGOs and beneficiaries. Beneficiaries is perceived to be a right holder and not a passive group and waiting to be served anymore, while NGO is considered duty-bearer and donors are seems to be assisting supporter instead of being demanding aid giver. Due to this, combining to these 2 categories of accountabilities is called holistic accountability

A broaden concept of accountability is known as holistic accountability, which concentrates both short term functional accountability (privileged in upward accountability) and strategic accountability (downward accountability). Furthermore, the notion of holistic accountability is combining both views i.e. upward and downward accountability into one view, and at the same time employing both with balancing act is considered as a holistic approach. Ahmad (2010), explained holistic accountability basically "a form of accountability to a broader range of stakeholders".

Since there are limited studies have been done in reporting practices of ZIs and considering having similar characteristics of other entities such as NGOs, NPOs and so forth, this paper has used the notion of holistic accountability in developing the index. Thus, framing both upward and downward accountability offers a new room on which zakat institutions can improve the disclosure practices as well as enhance its accountability and transparency in disclosing zakat information.

## 3. RESEARCH METHODOLOGY

Discussions on issue of disclosure of non-profit organization and mismanagement of zakat institutions have led the study to propose a zakat disclosure index (ZKDI) for zakat institutions in Malaysia. In answering the objective discussed previously, the study uses mixed mode methods, i.e. both qualitative and quantitative methods. The journey starts with how the index is developed, methods to obtain desirable list of index, method employed for data collection and the approach used to measure the index level.

## 3.1 Developing Disclosure index

The purpose of ZKDI is to measure the level of disclosure of zakat information in their annual report. Marston & Shrives (1991) discussed a disclosure index is a list of selected items that have been developed using certain methods, used to measure the extents of disclosure of the company report. In developing disclosure index for zakat Institutions, the processes of developing ZKDI involves three stages: the process of identifying the list of disclosure items this is done by reviewing past literature and conducting semi-structured interviews with the zakat payers and recipients, next was assigning weight for each item and finally assessment of validity from panel experts to obtain the final disclosure index.

## First: Identifying the appropriate disclosure item

The list of items in the disclosure index was developed by examining past literature on NPOs area that particularly focused on developing disclosure index. As mentioned earlier to develop the disclosure index, identifying appropriate disclosure item was considered essential and due to that various sources of information from previous literatures as discussed above have been analysed and used to develop the index which may suit to the zakat institutions. The next process was combining the items to draft the ZkDI which consists of compilation of chosen items according to the theme.

## Second: Semi structures interviews with zakat payers and zakat recipients

After the draft of disclosure index has been identified i.e. through reviewing past literature and relevant documents, it has been summarized into 5 categories with a total of 74 disclosure items have been in the list. Then the list of 74 disclosure items and questionnaire on semi-structured interview were prepared for both groups; three zakat payers and recipients were participated in this study. Face to face interview with zakat payers and also recipients have been conducted, with the intention to get further information and ideas in identifying potential items to be in the index. The list of disclosure index according to its categories i.e. background of zakat Institutions, financial information, non-financial information, future information and governance information. The categories stated were similar to (Saunah et al., 2012,). The list of disclosure items has been given to the zakat payers and further interview discussion was carried out, while for zakat recipients only interview session was carried out, due to inadequate of accounting knowledge among them. Based on the face to face interview session, a revised disclosure index was then prepared according to the recommendation and suggestions given by both groups.

## Third: Assigning weights and Assessment of validity from academics

In order to be an index, a single number that represents total scores for all information need to be created, which means a weight for each disclosure item would be developed by referring to the level of importance of all information. To calculate the disclosure index, the items are measured based on a five-point scale (0: not at all important to 5: extremely important), which in line with the study done by (Hooks et al, 2012) which focuses on disclosure index for local authorities in Malaysia. Furthermore, some of the disclosure items might be identified more important than others by stakeholders (Saunah et al., 2012)

The draft of ZkDI was then submitted to the expert panels, in this case the accounting lecturers; those who have experience in teaching subjects which is considered relevant to the disclosure of accounting information such as auditing, zakat accounting and public sector accounting. The purpose of submitting the draft of ZkDI to this group was due to get confirmation and validation on the items prepared earlier, that was after considering zakat payer and recipients' feedbacks and recommendations. Despite that they were also requested to participate in giving views and suggestion on the level of importance of each item. In other words, they have to rank those items according to the degree of importance using five-point scale as stated above. Assigning weight for each item in the disclosure list would determine the total score of the index. Eventually, in future the proposed ZkDI will be used to analyse the latest annual report of all 14 zakat institutions in Malaysia.

## 4. FINDINGS

The results of this paper are organized into two parts; firstly it discusses about the process of finalising the ZkDI and then the total of score of each disclosure item according the importance of information is further explained. Originally there were 74 items identified in the first process and after conducting face to face interview with zakat payers, most of them agreed that all the proposed items should be included in the index, with four items were added to the existing ZkDI. The extra four items identified were fall under financial and non-financial information categories. For financial information two additional items are: classification of income/zakat funds of al-mal (wealth) and list & total of disbursement according to the 8 asnafs/beneficiaries. While the rest two items classified under non-financial information are: criteria and detail of zakat recipients for each category of asnaf and promotion activities. These resulted of 78 items in total of new ZkDI. The extra of these 4 items were discovered based on the following answers given by both groups:

"In my opinion, the current reporting of Zakat institutions is lacking in terms of giving detailed information to eligible recipients and Zakat payers about Zakat funds. Mostly they only give background information on the institutions and Financial information, while information concerning the non financial information is minimum. From my observations not many Zakat institutions issue annual report, for instance the state of Pahang, they just only recently started released their annual report for last year"

"I think there is a need to disclose the information pertaining to the collection and distribution of Zakat funds to the asnafs in more detail"

"The type of Zakats al-mal funds in the report were not informed. It's just shows the total amount collected in the report"

Based on the above, it depicts that both zakat payers and recipients raised on issue of lack of detailed information on zakat funds, especially information on zakat collection and disbursement. In addition information pertaining to the collection and disbursement of such funds require detail disclosure. Based on these answers additional items; classification of income/zakat funds of al-mal (wealth) was added in the disclosure list. Furthermore, the study also revealed the following:

"The existing report currently is considered fair but it need improvements especially the distribution of Zakat funds. Actually as the payers we need to know and be informed where and how the funds are spent and whether it has been channeled/reached to the eligible asnaf."

"Yes, they do inform such information according to the categories in the financial statements, nonetheless we just want to know more detail about the categories of Zakat recipients. In other words different categories have different criteria we want to know more detail whether the criteria according to the law of Shari'ah or not"

For both comments, it was clearly supported on the need of the item which is the list & total of disbursement according to the 8 asnafs/beneficiaries as well as criteria and detail of zakat recipients for each category which were added in the list.

Apart from that the last item discovered during interview session, was a result from answers given below:

"In my view LZS shall carry out more promotion so that public can understand clearly on LSZ function, definition and criteria for recipients"

"Further explanation is needed to the public especially on the 8recipients of Zakat categories, whether or not they are eligible to receive such assistance"

The last item added in the list was on promotion activities, zakat Institutions should effectively play their role in doing a lot of promotion by providing a clear view about the zakat funds especially on disbursement aspect. Having such information in the report would help both payers and recipients to have better understanding on how the funds are being distributed to the 8 beneficiaries.

The third stage was on validation and assigning weight to the item in the index. One of the panel experts has suggested that two items should not be in the list (list of names of major donors/zakat payers (individual/institutions) and number of the Board of trustees. The rationale of not including names of zakat payers in the index was due to the concept of zakat itself, because having the names either individual/institutions may result in zakat being paid for the wrong reasons and intention. Number of board of trustees was considered redundant as the other information relating to the trustees has been stated in the list. As a result the ZkDI has 76 items in total. Simple analysis has been used that is descriptive statistics to identify which of these items show relatively important as compared to the other. Overall

results portray both categories such as Financial and non-financial information has shown the items that are really essential and needed in the annual report of zakat institutions with the score of mean 4.00.

## Background of zakat Institutions

Based on the answers shared by the panel experts, the findings depict the item such as name of the organizations and main activity of the institutions were contributing to the highest score for the category. While minutes of the AGM falls under the lowest score, and according to comments by the panels; the item was considered important however it is advisable not to disclose to the public due to the nature of the institutions which involve public funds which eventually may create an issue later on.

## Financial Information Category

Financial information is vital as the information disclosed would provide idea whether the fund has been used efficiently and distributed to the zakat recipients accordingly. There were 12 items in this category that classified under "extremely important", this indicates an idea about how important this information shall be disclosed to the public. Especially information about the classification on collection and disbursement to the 8 qualified asnaf, cashflow information and statement of zakat funds. For profit sector Cashflow is an integral part of financial statements and is one of useful tools for measuring performance of an organization. Jooste (2006), discussed in measuring performance of companies, many researchers pointed the same views that cashflow information is a superior indicator as compared to traditional earnings. While all remaining disclosure items were grouped under "very important" and interestingly, none of them were weight below than 3.00 score. Hence, the study concludes that all the 23 items in the financial information category are vital information and future improvement shall be done by Zakat Institutions in order to regain public confidence.

## Non-Financial Information Category

Another important category in the ZkDI is the non-financial information, the findings for this category were mixed, three disclosure items were grouped as "extremely important", 15 items regarded as "very important" and two others were categorised as "quite important". The items that received highest scores were non-financial resources, participation in special project and criteria/details zakat recipients for each category of asnaf.

## Future Information

This category shows all 8 items in the list were considered "very important" and 3 items have gained highest score; budget information, Statement of future activities that benefit Zakat recipients and next year's coming target future zakat collection.

## Governance Information

The last category in the ZkDI is governance information, it is vital to have good governance information for accountability reason. In this category, only three disclosure items were grouped as "quite important" and the rest were categorized as "very important" by the panels.

## 5. CONCLUSIONS

The issue of accountability of zakat institutions in managing the funds has attracted a lot of attention and leaves many doubts. As the zakat institutions carrying out the religious duties it is important to them showing zakat information to the public as well as how they discharge their accountability. Claims to have a greater accountability and transparency towards improving zakat institutions performance is always spell out. Thus, in this case, efforts in measuring the accountability via disclosure index as a special designed disclosure measurement instrument has been proposed.

The study has offered new insight in developing the index, the disclosure item has been developed based on the mixed resources; reviewing paste literature, manual from JAWHAR and other sources such as brochures and pamphlet of zakat institutions, the index was further evaluated by interviewing both zakat payers and recipients which then validated by the panel experts. Eventually the study has developed the proposed index (ZkDI) by reference to both primary and secondary information in order to have more reliable results. However, the issue is whether it is applicable to all zakat institutions? since JAWHAR is the responsible body which coordinating zakat activities in Malaysia, hence the proposed ZkDI may be used as a reference by JAWHAR in harmonizing and standardizing the preparation of zakat reporting by zakat institutions.

Developing ZkDI has its own limitations; due to the number of the interviewees and panel experts involved in the study, and the use of researchers' discretion on certain disclosure items, however ultimately the panel experts' views have controls the overall results of the study. For further research, more participants such as zakat payers and recipients should be invited to participant in the research and maybe the list of the index can be send through website and to get the number of participants desired.

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## ZAKAT POTENTIAL IN SABAH: ISSUES AND CHALLENGES

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#### **ABSTRACT**

Zakat is one of economic commitments in Muslim society and one of five pillars in Islam. It combines the approaches to God through sacrifice in physical material and the willingness to pay from productive assets. In general, there is an increase of awareness among Sabahan Muslims to pay zakat (factors other than awareness can also be considered). This is due to the increase of zakat collection and number of zakat payers in Sabah every year. In zakat collection, for instance, Pusat Zakat Sabah (the centre to collect zakat in Sabah) has successfully accumulate RM33,891,152.97 of zakat in year 2011 compared to only RM32,856,749.96 in preceding year. This shows a growth of 3 percent. However, this is not an excuse to undermine the importance of awareness to pay zakat among Sabahan Muslims and Sabahan residents especially to those who are in the potential lists such as salaried people and businessmen. They can become part of zakat contributors in Sabah. Therefore, this paper will discuss on zakat potential is Sabah, by looking onto the issues and challenges in Sabah. The paper will use the preliminary study that has been done in Universiti Malaysia Sabah (UMS), where 140 of UMS staff have become respondents in this study. The study found that most of UMS employees have a high awareness regarding zakat duty. It also indicated that there is none an existence of serious problems in fulfilling the obligations to pay zakat either in term of payment facilities or the venue. Consequently, the study has shown that there is a high potential of zakat collection in UMS particularly, and in Sabah generally. Other issues and challenges will also be discussed in this paper, and the recommendations will be presented at the end of this study.

Keywords: Zakat, Economics, Islam, Sabah

#### 1. INTRODUCTION

The issues and challenges of zakat are not something new in Muslim society. Even after the deceased of the honorable prophet Muhammad (SAW) more than 1400 years ago, zakat obligation has become a struggle and battle among Muslim leadership and countries. The willingness to pay and sacrifice money and wealth eventhough in the name of God is not easy. Zakat is one of five pillars in Islam. Similar to other obligations as well, such as prayer and fasting, there are some Muslims who are reluctant to do zakat and be apart with their ringgits and other material wealth. Zakat has an ability to solve some economic problems among Muslim society, besides to cleanse spiritually the being of zakat payer. Zakat works both ways, either from the perspective of zakat payer and also from the angle of zakat receiver, physically and spiritually. Both have win-win situations, in the eyes of God, either in this world and the hereafter.

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As become one of the pillars in Islam, zakat motivates Muslims to become part of world's economics solution. Only those with enough money or productive asset and self-sufficient will fulfill all five pillars in Islam. Bona fide Muslims will ensure to observe and conform all the perfect five pillars of Islam in their life. In reality, Muslims in Malaysia nowadays are more alert towards prayer and fasting. Besides that, zakat Eidul Fitri (zakat fitrah or zakat paid during Muslim festive season) is more popular compared to zakat on wealth, though both have the same obligations. Even, for some Muslims in Malaysia, they pay income tax but not zakat or they are more afraid of not paying country's tax compared to zakat. Others are also having thought that paying income tax is equal to paying zakat. This shows that for them, the act of paying income tax will forfeit the duty of paying zakat. All of these results of several studies will be discussed more throughout this paper.

## 1.1 PROBLEMS STATEMENTS

In Malaysia, the effort to increase zakat collection and distribution become tremendous and collective actions. Every state has put a remarkable endeavor in order to ensure that collection and distribution of zakat will amplify every year. But, the problems of lack of awareness to pay zakat among Muslims do still exist. The problem of not paying zakat is due to the failure of Muslims in understanding the basic conceptual of the obligation of zakat itself (Zakariah, 2000). This phenomenon is not supposed to exist in Malaysia, as a country with more Muslims in the population, and Islam as the official religion of the country, the society has already been exposed to the religious studies, formally or informally, even from the toddler and preschooler. Even, an Islamic study has become one of the compulsory curriculums in school, either in primary or secondary education. Besides that, other sources of Islamic teaching are also available everywhere, either from printed materials, recorded data or live sermon. Mass media also plays a huge role in educating and cultivating the society, besides the shaping and reshaping by the parents, teachers and peers.

Nevertheless, lack of awareness of fulfilling zakat obligations is still happening in Malaysia. This matter must be scrutinized seriously as it can have a chain effect. Rich parents who do not pay zakat on wealth, for example, might influence his descendants to avoid paying zakat as well. Well-established peers who refuse to pay zakat might also inspire other colleague. Lack of awareness to pay zakat on wealth is also present among Muslim intellectuals and scholars. This has been found in the study by Hairunnizam et.al (2004), which shows that the awareness of professionals to pay zakat only revealed a small percentage relatively. The professionals are very expert in their area, however, when it comes to zakat obligation, factors such as piousness and knowledge on zakat itself becoming crucial to determine their action of paying zakat. Mohd. Shukri (2001) has found in his study that income tax collection has increased with higher proportion in compared to the zakat collection every year. His study has shown that there is a low of awareness among Muslim society to pay zakat, as some of them do not differentiate between income tax and zakat. Those who pay income tax in between 10 percent and 40 percent of their income, had opinion that they do not have to pay zakat.

In Sabah, eventhough zakat collection has an incredible increase in the past ten years; however the proportion has a small raise, either in compared to Sabah income tax collection or the number

of Muslim population. Albeit zakat is not compulasory to all Muslims (the poor<sup>2</sup> is exempted). and Sabah is the poorest state in Malaysia with the Incidence of Poverty of 19.7 percent (Department of Statistics, Malaysia, 2011)<sup>3</sup>, however, this is not an excuse to overlook those Muslims in Sabah who are capable but still out of the statistics of zakat payers in Sabah. Tables below are the overall performance of zakat collection (on wealth and during ramadhan), income tax collection; both for year 2005 and 2006, and also the population in Sabah (estimated in 2004). Let us create one scenario as an example. Assuming due to Sabah as the poorest state, and the ratio of Muslims and non-Muslims in Sabah are 50-50, if suppose only 5 percent of Muslims in Sabah are those who are compulsory to pay zakat on wealth (other factors held constant; including the non-Sabahan residents in Sabah, who pay zakat in Sabah), the estimated number of zakat payer in Sabah (not including zakat fitrah) for 2005 is 71,558.

**Table 1.1.1:** Overall Performance of Zakat Collection (Wealth and Fitrah) and the Number of Payers in Sabah for 2005 and 2006

Year	Zakat Fitrah	Number of	Zakat on Wealth	Number of	Total Zakat
		Payer		Payer	Collection
2005	4,253,715.00	850,743	7,060,358.92	2,345	11,314,073.92
2006	4,575,725.00	915,145	12,073,068.71	4,135	16,648,793.71

Source: Pusat Zakat Sabah

**Table 1.1.2** : Income Tax Collection for Sabah (2005 and 2006)

Item / Year	2005	2006
Tax Collection	1,611,269,028,63	1,518,939,825,09

Source: LHDN Malaysia

**Table 1.1.3:** Overall Population in Sabah (2004)

Item	Person
Overall Population	$2,862,300^4$

<sup>&</sup>lt;sup>2</sup> The approach for being exempted to pay zakat will be in accordance to the various ways of calculation of many types of zakat on wealth.

www.statisics.gov.my

<sup>&</sup>lt;sup>4</sup> Estimated in mid-year Population, by Handy Pop(ulation) Sabah, 2005

## 1.2 RESEARCH OBJECTIVES

In general, the overall research objectives of this paper are to study the zakat awareness and identify the potential of paying zakat in Sabah. Specifically, the study involves various objectives as follows:

- 1. To identify zakat awareness among the employess of Universiti Malaysia Sabah (UMS).
- 2. To identify zakat potential in Sabah.
- 3. To study issues and challenges of zakat in Sabah.
- 4. To recommend various ways to increase zakat collection and zakat payer in Sabah.

## 1.3 SIGNIFICANCE OF STUDY

This paper aims to look into the level of zakat awareness among UMS employees and the zakat potential among them specifically, and in Sabah, generally. The final output of this study is expected to present important information for various authorities in identifying the socioeconomic and willingness to pay zakat of the target group. The study is also projected to increase the level of zakat awareness among Muslims and to recognize the importance of Pusat Zakat Sabah as an authority to collect zakat in Sabah. The result is also hoped to help those various related parties in drafting and implementing several efficient approaches through a variety of programs in order to enhance the efficiency of zakat collection and distribution especially in Sabah. The study will also add to a number of literatures available on zakat in Sabah, specifically and in Malaysia, in general.

## 2. LITERATURE REVIEW

According to Hamizul (2008), zakat potential in various states in Malaysia is very relative in comparison. This is due to certain differences in demographic background in many states. The development and modernization are more enhanced in West coast of Peninsular Malaysia such as Selangor, Johor and Penang while states in East coast of peninsular Malaysia are a bit of lagging behind. Other factor such as the dynamic approach by certain states in collecting zakat has also contributed to the higher collection and enhancing the role of Pusat Zakat in that states. The study by Kasim et.al (2006) about zakat collection in Sabah found that, relatively, zakat collection in Sabah is lower in compared to Sarawak and Peninsular Malaysia. The other states, for example, Selangor has a higher zakat collection and this is in line with the number of Muslim population in that area.

Lack of zakat awareness can also caused by low level of understanding on the obligation of the zakat itself. According to Mohamad (2006), his study found that the issue of minimal zakat awareness is due to the attitude of some Muslims who choose to disobey God's order. Similar with other obligations as well, such as prayer and fasting, some Muslims observe zakat as insignificance. To continue, they are more anxious of man-made rules and regulations in comparison to Allah's command. The awareness and manifestation to pay income tax is higher compared to pay zakat. In other study by Musa (2007), he found that there are some Muslims who pay zakat, not because of the obligation itself, but due to the rebate offered by the Inland Revenue Board of Malaysia (LHDN) when paying zakat. This attitude illustrates that the main motive of paying zakat is more to wordly reason, but not because of Allah's law. Furthermore, he

also found that some employers refuse to cooperate with zakat centre in terms of providing zakat payment through salary cut. The dissemination of zakat information through mass media is also inefficient and not optimum. Some of zakat websites is also having a low maintainence and the information inside is written poorly. This decreases the level of confidence of the potential zakat payer, especially if they are unsure on how the zakat money is distributed among the asnaf<sup>5</sup>.

## 3. RESEARCH METHODOLOGY

The study has been conducted in Universiti Malaysia Sabah, the headquarter of UMS, in Kota Kinabalu in 2009. Out of 300 questionnaires that have been distributed, only 140 set is completed and returned. The respondents are the university's Muslim employess regardless if their positions are permanent, temporary or in contract. The justification of choosing UMS is due to several reasons. These are because of its strategic location where it is situated near the capital of Sabah, i.e. Kota Kinabalu, the number of variation in terms of salary, from high-end to middle income (according to grade), and high Islamic exposure due to a lot of religious activities from UMS mosques and also other nearest mosques such as Masjid Bandaraya and Capital Mosque. The study has used two main sources to gain data, which are primary data (questionnaire and interviews) and secondary data (past literatures and al-Quran).

## 4. RESULTS AND DISCUSSION

In general, the study found that 88.6 percent of the respondents have a high level of understanding towards the importance of zakat obligation. 79.3 percent of the respondents asserted that they pay zakat, either zakat fitrah or zakat on wealth, formally and informally. This shows that awareness is high among UMS employees in terms of zakat obligation. When asked regarding the knowledge on zakat facilities such as through salary deduction and bank-in, 62.1 percent of the respondents have knowledge of that kind of information. However, only 40 percent of the respondents know that zakat can be rebated from income tax. Regarding problems in paying zakat, 79.3 percent said that there is no serious challenge in paying zakat. This shows that if they want to pay zakat, they can pay anytime, because they know how and where. Regarding of lack of choices in terms of the methods to pay zakat, 80.7 percent of respondents affirmed that this is not a serious problem to them, which explains that what they know about zakat payment method is enough for them to fulfil the obligation of paying zakat. Even, regarding lack of promotion and publicity about zakat, 77.1 percent of the respondents said this is not true. It shows that what they know and understand about zakat is good enough. Popular methods of zakat promotion chosen by respondents are short briefing, information counter and media electronic.

In brief, the pactice of zakat behavior among the employees of Universiti Malaysia Sabah demonstrates a positive attitude and this illustrates that they have a high level of awareness on zakat obligation. In addition, the study also found that there are not in existence of serious problems for the employees to pay zakat, either in terms of where to pay and how to pay. This indicates that zakat collection among UMS staff has a lot of potential to be developed and boosted. The performance of zakat collection in Sabah has a high possibility to be enhanced in the future.

<sup>&</sup>lt;sup>5</sup> Asnaf is the 8 types of zakat recipients, as mentioned in the Quran (At-Taubah, 9:60)

## 4.2 **RECOMMENDATION**

Based on the finding of the study, there are several suggestions and recommendation to improvise zakat potential and zakat practice in Sabah. The following recommendations are expected to increase the collection zakat in the future, not just among the UMS staff, but also to the other organizations and target groups.

- 1. The practice of periodic visits (or follow-up) by relevant authorities, for example, Pusat Zakat Sabah or its representatives (such as amil and officer), either to UMS or other organizations. The number of employess has increased from time to time.
- 2. Nurturing cooperations and partnership between zakat institution and university/organizations either through conferences, seminar, research, exhibition, promotion and announcements.
- 3. Opening information counter from time to time.
- 4. Participation in university's or organization's program, to promote and publicise.
- 5. Tabling target groups and classification of level I, II and III for instance. UMS can be classified as level 1, due to the existence of high level income among the employees.
- 6. Making moduls and learning/lecture slots regarding zakat to be shared and disseminated among another potential of zakat payers, i.e. university students.

The practice of identifying zakat potential and increasing awareness in Sabah are not just concentrated in Universiti Malaysia Sabah, but also through another departments and institutions regardless of public or private sectors or individual. One strategy of locating zakat potential that can be adopted is by identifying the size of organization, income of the employees and the position (grade) of the Muslim workers.

## 5. CONCLUSION

The practice of zakat behavior should be inbedded in every Muslims. For Muslims, this is a motivation to fulfil Allah's instruction and one motivation to perfecting the five pillars of Islam. By paying zakat, it is a sign of the Muslim's obedient towards Allah and self-satisfaction derived from this action has an incredible effect compared to the small amount of wealth that has been sacrificied. In this study, it is found that there is a high level of awareness to pay zakat among Muslims in Universiti Malaysia Sabah and there is a room of zakat potential to be explored in Sabah.

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# SYSTEMATIC ZAKAT MANAGEMENT AND ADMINISTRATION: A FRAMEWORK FOR THE STATE OF KANO, NIGERIA

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#### **ABSTRACT**

This paper intends to look into the theory of Zakat as a charity obliged by Allah on every rich Muslim to be given to prescribed category of people at a prescribed time following the possession of certain prescribed wealth and its blessing in the Islamic history, by reshaping the economic wellbeing of the Muslim communities in the past. The study will also look into the reported setback that is faced by the Zakat system that that leads to its partial collapse. And the recent renaissance in the zakat system by many Muslim states and communities that bring about many positive effects to the cotemporary Muslim communities. Although, many scholars have observed some shortcomings in the present zakat administration system, this paper intends to identify the historical backgrounds of Zakat Management from the classical Islamic period; examine the evolution of Zakat management in Kano and finally examine the entire system of Zakat administration in Kano. To achieve that, the paper would review historical traditions of Zakat administration; the impacts of Zakat on the contemporary Muslim societies identify the strength/weakness of the contemporary Zakat application systems. In order to achieve the development of systematic Zakat management and administration in Kano, recommendations would be made at the end of the paper on ways to improve the system.

#### 1. INTRODUCTION

Zakat is an Arabic word which is literally implies to purification, growth or increase, blessings and appreciation. Ibn Manzur (630 H) believes that the name zakat is a compound name and can be referred to the wealth being given by and to the giver of the zakat himself. It can therefore be deduced that zakat in Arabic means growing, increasing and purifying the givers wealth or soul. Ibn Faris (1979) relates that Zakat means "to grow" or "to increase" hence, the word Zakat is used to show the role it plays in purifying and increasing the wealth of the giver.

In Islam, Zakat is compulsory alms imposed on Muslims by Allah upon acquiring a minimum amount of wealth called Nisab, to be given to particular category of people called Asnaf, as explained in the Quran (Muhammad, Amin and Oladokun 2013).

Considering the stand of Quran and Sunnah, Zakat is the third pillar of Islam. It often goes hand in hand with Salat. These two religious obligations are considered as the backbone of Islamic spiritual obligations that a Muslim cannot do away with. Zakat is a compulsory and divine act obliged by Allah (SWT) on the rich Muslims to give out from their legitimate wealth to the poor, in order to better their lives and relief their poverty. The role played by Zakat in bringing a sustainable life and reducing poverty and income inequality can never be overemphasized. Zakat improves lives by bridging the gap between the poor and the rich in the society Patmawati (2005) believes that, apart from what zakat produces in giving out to poor, and helping him to sustain his basic necessities of life. It also serves as a means of creating equality and reducing poverty in the society at large. Kahf (1997) maintain that Zakat makes its recipient to be more productive in the society. It is noted to be a medium of supporting

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the unemployed, orphans, widows, physically disabled, the sick and others. Generally, Zakat can serve as a social insurance for the members of the Muslim community in which a bright future is granted (Muhyiddin & AbdulGani 2011).

However, this instruction may be difficult to be followed by people who have weak faith in Allah and always have desire to accumulating wealth. Therefore, Zakat institution has been facing a lot of challenges such as lack of patronage by the eligible zakat payers since the early Islamic periods. It was reported that, the caliph Abubakr staged war against Zakat defaulters after the demise of the prophet (Qardawi 2006) (SAW). Other problems related to Zakat is negligence by the government and concerned agencies to ensure the systematic Zakat collection and distribution that is believed to draw the attention of the entire Muslim communities to the proper application of Zakat and its administration (Nur Hafizah and Sharifah 2012). Limited knowledge on Zakat it obligation, methods of application and its impacts on the life of Muslim communities is also contributing to problems faced by the Zakat application in contemporary Muslim communities (Wambai 1991).

In order to show the significance of Zakat and its role in bringing a sustainable lives full of love and affection among Muslim communities in Kano and the entire Muslim world, this paper intends to identify the historical backgrounds of Zakat Management from the classical Islamic period; examine the evolution of Zakat management in Kano and finally examine the entire system of Zakat administration in Kano. To achieve that, the paper would review historical traditions of Zakat administration; the impacts of Zakat on the contemporary Muslim societies identify the strength/weakness of the contemporary Zakat application systems. Recommendations would be made at the end of the paper on ways to improve the system.

### 2. ZAKAT MANAGEMENT AND ADMINISTRATION: HISTORICAL PERSPECTIVE

## 2.1 The Administration of Zakat during the time of the Prophet:

The history of Zakat administration began with the legislation of the institution of Zakat. The prophet (SAW) is reported to have assigned the duty of collecting and distributing of Zakat to some of his companions. He sent them to various vicinities after giving them the instructions on how to carry out the assignments. For instance, when the prophet (SAW) sent Mu'adh bn Jabal to another community and instructed him as follows:

..... then tell them that Allah has enjoined upon them five Salat (prayers) during the day and night; and if they accept it, then tell them that Allah has made the payment of Zakat obligatory upon them. It should be collected from their rich and distributed among their poor; and if they agree to it, don't take (as a share of Zakat) the best of their properties. Beware of the supplications of the oppressed, for there is no barrier between it and Allah." [Ibn Hajar 1494].

It has been the practice of the prophet, his companions and followers to assign the trustworthy persons in the Muslim community to collect and distribute Zakat dues. While the responsibility of accounting and auditing of Zakat funds is rested on the Muslim leader. The prophet (SAW) is reported to have audited and accounted Zakat collectors and distributors. Imam Bukhari reported that the Messenger of Allah, peace and blessings of Allah be on him, appointed a man called Ibn al-Lutbiyyah among the tribe of Asad to collect zakat of Banu Sulaim; when he came to him, he called him to account for it (Ibn Hajar 6979).

This tradition emphasizes that Zakat funds are normally collected and distributed by leaders or authority of the Muslim community. Ibn Hajar, in his explanation of the hadith reported by Muadh remarks that the prophet (SAW) sent Mu'adh to Yemen for the collection of Zakat has given the latter authority and charged him with leadership responsibility. It is therefore, understood from this that leaders may wish to collect Zakat or assign the duty to capable hands. In a situation where a person refuses to pay Zakat, the leaders should collect due from such a person forcefully.

Patmawati, (2005), stated that there were no records for the collection and distribution of Zakat revenues during the time of the prophet (SAW) and his companions and related this situation to the two main means of Zakat distribution; Firstly, that the Zakat collector distribute the Zakat revenue collected to the entitled people entitled to it in the community at the time of collection. And secondly, the prophet (SAW) distributed the Zakat revenue by himself; while the action was not recorded.

Umar ibn AlKhattab initiated another method of collecting Zakat during his time by setting checkpoints at the gates of the Muslim towns to collect Zakat from the Muslim traders and tax enforced on the non-Muslims. Umar also introduced a treasury for zakat and waqf revenues named Baytulmal in 15 A.H (Farah et al. 2012) and (Ahmed 2004).

## 2.2 The Historical background of Systematic Zakat Management in Kano

Kano is among the 19 Northern states of the federal republic of Nigeria. It lies between latitude 130 N in the north and 110S in the south and longitude 80W in the west and 100 E in the east. The state is made up of forty four local government areas. Its capital, called Kano City.

Kano state is one of the 12 states practicing Islamic legal system (Shari'ah) in Nigeria with about 95% percent Muslims (Barau 2006). It had been known for centuries as a commercial center and caravan terminus of Saharan trade (Farlex 2009). Kano is very rich with cultural heritage and many industrial activities. Local crafts, leather works, dyeing, embroidery, and agriculture are also parts of the economic activities of Kano people. In few decades back, Kano had been known to be providing employments via manufacturing companies making textiles, food and beverages, foot wears, suitcases, plastics, pharmaceuticals, and confectionaries (sweets and chocolates). Kano State has an international Airport which is considered as a busy transit center for international business-men, shuttling between Europe, Middle East and Asia. Unfortunately the airport has lost its glory recently, and most of the industries are either working below capacity, while others have been shut down or relocated. These unwanted situations are normally attached to problems related to smuggling of foreign goods, inconsistent fiscal policies of federal government, corruption, lack of manpower investment culture and declining of activities at Kano International Airport. Other issues are believed to be attributed to failure in public private partnership initiatives, market congestion, sporadic communal riots and low capacity utilization of public sector (Ado kurawa 2008).

In order to handle these problems, the state government initiates many poverty reduction agencies like Kano State Economic Empowerment and Development Strategy (K-SEEDS), and the intervention of government to establish a state's owned zakat commission in 2003 (Kano Gazette 2003). This is in addition to the introduction of community based zakat council since 1982 (Ostien 2008), and the federal government poverty reduction programs.

#### The Zakat Council

The first organized body for the collection and distribution of Zakat was a community based initiative that was found in 1982, as a result of communiqué that was released after a Zakat conference held at Bayero University Kano (BUK) on the 1st January 1982. The communiqué suggested the

establishment of a body called Zakat Council, the decision which was unanimously accepted and adopted. The council was inaugurated with its chairman and later the incorporation of other two hundred members from different parts of the state.

The impact of this council was not felt as its expected, this is for the reason that it was formed as voluntary means for giving Zakat, and there were no laws enforcing the giving out of Zakat through the Council, but Islamic scholars continued to propagates and enlighten people about its importance, though a reasonable amount was collected and distributed (Ositien 2008).

The following Table shows the statistics of Zakat collection and distribution from 1999 to 2002

Table 1: Zakat Collection by community Zakat Council, Kano

Year of collection	Amount collected	Amount distributed	
1999-2000	2,506.344.50	1.802,326.20	
2000-2001	2,887,819.00	2,292,649.44	
2001-2002	3,202,559.80	2,408,554.20	

Source: (Philip Osieten) Shariah implementation in Northern Nigeria 2008.

## The Zakat and Hubusi Commission

This program was carried out for twenty years before the intervention of government to establish an official body charged with collection and distribution of Zakat in Kano and named it Zakat and Hubusi Commission. By the introduction of this commission the services of Zakat Council stopped as the law establishing the Zakat Commission required as follows:

- a) From the commencement of law and without further assurances, the independent Zakat Council shall no longer collect Zakat in the state.
- b) All regular staff on the payroll of the Zakat Council shall transfer their services to the Chairman (Zakat Commission)
- c) This law may be cited as the Kano State Zakat and Hubusi Commission law 2003 and shall come into force on 7th November 2003. (Kano State of Nigeria Gazette NO 1 vol. 35, 20th Nov. 2003).

## 2.3 Zakat Administration in Contemporary Muslim Societies

Zakat has been discussed as a religious obligation and has played a vital role towards the eradication of poverty in the classical Muslim history (Dimas and Raditya 2010). Although, the system was faced with challenges that led to its decline and almost total collapse, a renaissance is observed in the recent attention given to the Zakat systems by many Islamic countries and Muslim communities; they recently attached much importance to it and refine the policies and regulations governing it (Zuhaili 2007).

## 2.4 Impact of Practical Application of Zakat System

Islam recognizes knowledge as a backbone of all actions and activities, while a Muslim is encouraged to seek for knowledge before embarking on any religious duty (Al-Akhdari 983 H.). Thus, theoretical facts and views about the Islamic concept of Zakat can only be better and intelligibly understood when

they are applied and practically demonstrated. Through this metamorphosis, the aims and objectives of Zakat coupled with its essence and importance will be unequivocally realized.

With the contemporary renaissance being made by the Muslim countries all over the world about the collapsing institution of Zakat, many countries have been fashioning out the proper means of collecting and distributing Zakat in line with the provision of Shari'ah (Kahf 1997). Meanwhile, Zakat collection and distribution in the contemporary Muslim society has, to some extent, brought about a positive change by alleviating poverty and income inequality in the Muslim communities, reinstating love care and affection among the Muslim communities and establishing a sustainable and accommodating environment. In order to know the degree of the validity of this proposition, the following points will be examined:

## a. Establishment of official Zakat governing bodies by Muslim governments:

Some countries have engaged in kind of reformation of Zakat system, as mentioned earlier, by establishing Zakat bodies to be managed by the government. This is considered as a laudable achievement. Countries like Sudan, Pakistan, Malaysia and Iran, Libya and Yemen have established Zakat system and made constitutional provisions imposing the payment of Zakat on the eligible Muslim citizens. Established organizations have been charged with the responsibility of Zakat collection and distribution with proper identification of the appropriate persons eligible for the payment and collection of Zakat. These countries have designed modalities for the collection and distribution of Zakat and other necessary official services, in order to facilitate a sound Zakat system (Zuhaili 2007).

These organizations have made a positive change in the life of people, by alleviating their poverty and income inequality, and improving their social welfare in the communities. Thus, Kano state emulated the Muslim countries by establishing her Zakat and Hubusi commission in 2003 (Ositien 2004)

## b. Nongovernmental Zakat organizations:

The establishment of Nongovernmental Zakat organizations aim at supporting the Zakat bodies established by government, or introducing the noble institution in a state that is yet to establish official Zakat bodies, but approved for (NGO's) to take charge of Zakat collection and distribution. These organizations have yielded a positive impact societies and communities concerned. (Mutasim Ahmed Abdelmawla 2011)

In Kano, for instance, before the establishment of Zakat and Hubusi commission, there was a community based established Zakat council since 1982 (Ositien 2006). Its impact was however, not felt. It was still considered a very good attempt towards the revival of Zakat institution in Kano state. (Muhammad 2010)

## c. Individual distribution of Zakat

Many Muslim communities prefer to calculate Zakat due from their properties, and give it to the eligible Zakat recipients by themselves willingly (Zuhaili 2007). The person who gives Zakat is conscious of his religious duties and by so doing; he gains love and affection of the people particularly the Zakat recipients. Individual payment of Zakat is the normal practice of the people of Kano as people believed that Zakat payment is a sacred duty imposed on Muslims, and that defaulting Zakat payment will cause Allah's wrath on the defaulter. This belief couple with the lack of proper management and administration of the Zakat Management might have force people to take charge of their Zakat individually. Although we have mentioned above that, Zakat is designed to be given to authorities for proper administration and management, individual payment shows the level of commitment of the giver and possibility of cooperating with the authorities where sound management is assured.

## d. Shariah advisory council for Zakat

In order to facilitate the Zakat collection and distribution system, some Muslim countries deem it necessary to establish a council of Shariah that would consist of the learned scholars in Islamic jurisprudence, this set of people would moderating the collection and distribution of Zakat dues to achieve Zakat objectives. They would equally be responsible for answering questions arising from the Zakat administration, payers as well as the collectors of Zakat (Zuhaili 2007).

## e. Poverty reduction

Zakat collection and distribution system has contributed in combating poverty in many Muslim communities. Zakat has positive effects on the life of people. Thus, many unemployed people have been employed in the Zakat collection and distribution services. It also relieves the debtor from their debts, helps the wayfarer, assist in marriages, and helps orphans in many Muslim communities (Ahmd 2004). In Kano the establishment of Zakat and Hubusi commission, shows the level of commitments by the government to use the Zakat means in its poverty reduction campaigns. (Kurawa 2008)

## f. Application of modern technological advancements

Some Zakat organizations apply modern technologies in managing Zakat collection and distribution; this is done by programming a database for the activities of the institution in order to avoid multiple payments or collection. This system is used for even distribution of Zakat revenues. (Basheer 2003).

## g. Establishment of Alhayah al-shariyyah al-Alamiyya (International council for Zakat) in Kuwait

Following the governments involvements in the Zakat systems, the organization of Islamic countries have established a body of Islamic scholars and jurist and charged them with the responsibilities of ensuring the proper application of Zakat managements in line with the provisions of Shariah based in Kuwait. This body is named as Al-Hay'ah al-Shari'yyah li al-Zakah. These bodies normally brings annual circulars of the Zakat amount (Nisab) and discuss any changes observed in the Zakat system over the periods past. (Zuhaili 2007).

In a nutshell, the aforementioned points show the positive impacts of the institution of Zakat in our contemporary society.

## 2.5 Weakness of Practical Application of Zakat System

While these contemporary efforts made by the Muslim countries and communities are seen as a positive commitment towards the institution of Zakat, others often believe that it is not free from weaknesses and shortcomings especially in terms of practical applications. Therefore, the shortcomings of Zakat collection and distribution will be discussed in this item, while solutions and recommendations would be made to address the problems associated with Zakat collection and distribution. This is necessary so as to avoid the re-occurrence of the negative effects in the course of establishing an ideal Zakat system.

- a. Negligence on the part of government against the management of Zakat management (Muhammad 2010).
- b. Part payment of Zakat dues by the rich who do not declare their exact assets for Zakat evaluation (Basheer 2003).
- c. Lack of orderliness and systematic approach to the collection and distribution of Zakat incomes (Kahf 1999).
- d. Lack of proper knowledge of Shari'ah on the institution of particularly by its practical

- application. (Wambai 1991).
- e. Distribution of Zakat revenues to wrong hands, which are not numbered among the Zakat recipients (Kuran 2002).
- f. Greediness of the poor and the needy leading to their multiple collection of Zakat Guermat and Tucker (2003).
- g. Negligence by the Zakat authorities to follow the prescribed guidelines Hairunnizam and Radiah (2010).

All the above points have negative effects and contribute to the failure of the Zakat collection and distribution system and consequently, the objectives of Zakat are being defeated. (Zuhaili 2007).

## 3. SUMMARY

Considering the foregoing hypothesis, the following analysis is to be understood:

- a. Zakat is a compulsory duty imposed on the Muslims and is one of the pillars of Islam.
- b. Zakat system welcomes new inventions and developments.
- c. Zakat is aimed at achieving spiritual, social, moral and economic objectives in an ideal Muslim society.
- d. The institution of Zakat gains momentum in the contemporary society through theoretical works, publication of books, thesis and dissertations, journals, articles, conferences and so on.
- e. Weakness of the theoretical researches on Zakat is observed especially through the consensus opinions. Repetition of researches and lack of coordination between governmental and non-governmental bodies of Zakat are also observed.
- f. The contemporary Zakat collection and distribution system has played a vital role in reducing poverty among Muslim communities, with the intervention of governmental bodies in the activities of Zakat.
- g. Problems related to the Zakat apart from its collection and distribution systems, include negligence by government and individuals, lack of sound knowledge of Shariah, distributing Zakat to the unqualified people and greediness by the poor and needy.
- h. Lack of proper coordination and cooperation among the different Zakat collection bodies.
- i. It could also be observed that, there were no enough information regarding the activities of Zakat and Hubusi commission in Kano, and this is related to lack of published reports and systematic recordings of its operations.

#### RECOMMENDATIONS

Among the major issues raised in this paper are problems attached to Zakat application in most Muslim communities, these includes; weakness in faith and submission to the commands of Allah and the desire to accumulating of wealth resulting to greed and envy by the rich Muslims. Governments are also reported to show negligence to look into the development of systematic Zakat management system that will help in facilitating the modernize system of Zakat collection and distribution as observed by other Muslim communities, this will assist in gaining the confidence of the Zakat givers to give their Zakat through the organized Zakat institution and avoid multiple payments or collections

and helps in maintaining the ethics of priority in distribution system. Another issue raised is the limited awareness on the religious implications of Zakat as religious duty, its principles, procedures and roles in reshaping the economic wellbeing of the Muslim society.

It could however be recalled that, the resistance in giving out Zakat has been originated since the early times of Islam, where it is reported that Caliph Abubakar fought Zakat defaulters and forced them to pay their Zakat dues according to Shariah guidelines, Umar Ibn Al-Khattab is also reported to have established checkpoints where Zakat is Collected at various caravan routes. All these are considered as efforts to ensure the collection of Zakat using the most suitable means in line with their time.

Considering the nature of Kano and its complexity, this study observed that, it could be difficult to apply the above methods observed by the companions of the prophet S.A.W. it therefore, suggest the following systematic Zakat management and believed that it will help in facilitating the Zakat collection and distribution in Kano:

- a. That the established Zakat and Hubusi Commission of Kano state is supposed to enjoy a full pledged autonomy in running its affairs and be given legal support to impose Zakat dues on the rich among business men, political office holders, senior civil servants, companies and industries. This right may include the previllage to suit under its name any Zakat defaulter as observed in Sudan (Basheer 2003) Malaysia (Zulkifli 2008).
- b. Considering the populous nature of Kano the Zakat and Hubusi Commission should look for decentralizing its activities especially the collection exercises in order to ease its coverage, this could be perfected using the services of Mosques, Islamic organizations and other trusted community based associations. In order to encourage these private Zakat collectors, a certain percentage should be allocated to them to fall under the share of Amil "people working for Zakat collection and distribution" see Al-Quran. Al-Taubah 9:60.
- c. The Zakat and Hubusi Commission should be organizing public lectures, workshops, seminars and advocate the entire Zakat concepts, its obligation, procedures, virtues, base, entitlements and etc. this will help in enlightening the general public about the importance of Zakat and giving it out to the recognized authorities.
- d. That the and Hubusi Commission should make all its activities especially those related to Zakat publically known and free for researchers to access, this publicity may be carried out via television, radio, journals, magazines and newspapers. Doing this will help in attracting the Zakat payers to give more corporation, defaulters and people giv9ng their Zakat individually will also be encouraged to give it through the Commission.
- e. The Commission should apply the use of modernized way of data and record keeping using computer machines by designing programs that will help in determining the amount and percentage of Zakat on each particular property regardless of its volumes or nature. Records of the Zakat payers and collectors including their addresses should be systematically kept.
- f. Finally the government should established an independent Shariah advisory council and charged them with the responsibility of ensuring that the entire operations of the Commission was carried out in line with Shari'ah and prescribed guidelines agreed upon by the Shariah advisory council. The council is also expected to account and audit the Commission in order to ensure the proper collection and allocation of funds to its rightful beneficiaries. The shariah council is to release annual reports the government and publish it for the public.

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# MUALLAF DEVELOPMENT THROUGH ZAKAT DISTRIBUTION AND PROGRAMMES IN SELANGOR, MALAYSIA: AN OVERVIEW

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#### **ABSTRACT**

Malaysia, through the various State Islamic Religious Councils (SIRCs), has collected MYR 1,634,638,216.99 of zakat and successfully allocated MYR 1,372,830,789.10 to the targeted asnaf in the year 2011. The highest collection came from the state of Selangor with a total of collection of approximately MYR 393,538,755.00. Then, it is followed by the Federal Territory and Johor. Muallaf is listed among the top four recipients in zakat distribution after the asnaf of Fisabilillah, Fuqara' and Masakin. The question is then raised regarding the type of zakat distribution or programmes pertaining to the asnaf Muallaf. Is it true that the distribution to the asnaf of Muallaf is less important compared to the asnaf of Fisabillah, Fuqara' and Masakin? Thus, this study aims to identify programmes or activities that are involved in the distribution of zakat mainly for the asnaf of Muallaf. This research has revealed that a huge amount had been allocated for the development of asnaf Muallaf in the state of Selangor. On top of that, 31 different types of programmes have been assigned to ensure that the Muallaf can sustain and further become Mukallaf after five years.

Keywords: Muallaf, Zakat Distribution, Muallaf Programmes, Selangor State Islamic Religious Council

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### 1. INTRODUCTION

Islam brings justice to this world, as manifested with numerous evidences in Al-Qur'an in justifying the truth of its message through logical reasoning that has been truly proven in opening up the human hearts in accepting the purity of Islam. Muallaf is a person who has converted or as some have interpreted as having reverted to Islam regardless of their race and nation. Multi-religion, ethnicity and diversity are very important aspects in policy making, so this article attempts to highlight the uniqueness of zakat distribution in a multi-ethnic and multi-religion country. Indeed, Islam is for everyone and it is not restricted to any specific ethnicity.

Many muallaf had nowhere to go after converting to Islam. Most of them are lacking proper Islamic education and care. The muallaf community is really in need and should seek help from the Muslims in enhancing their faith. Al-Qardawi (1986)<sup>5</sup> stated that besides alleviating poverty among Muallaf, zakat distribution should improve and increase one's Tawhid (The Oneness of Allah), Iman (belief) and Tagwa (level of righteousness) to Allah (s.w.t). Furthermore, zakat should also bring about gratitude and thankfulness to God for the bounties that He had bestowed upon us. God has bestowed on humans both the spiritual and material bounties. Prayer and other physical worship express gratitude for the grace of creation, while zakat and other financial worship expresses gratitude for the material grace of God. How disgraceful is he who sees the obvious needs of the poor and does not graciously give one-fourth of a tenth of his wealth, or thank God who had given him enough bounty to remove him from the misery and pressure of poverty. Zakat, as one of the five pillars of Islam, has obliged certain people to contribute part of their wealth to the needy. Zakat has also become an important financial source, especially in dense Muslim population countries (Muhammad Firdaus et.al, 2012)<sup>6</sup>. Zakat fund could be an incentive to the Muallaf as part of an effort to assist them to become productive recipients economically if the fund is channelled in a sustainable form. Moreover, the zakat fund could free the recipients from poverty and improve their living standard.

## 2. ZAKAT FOR ASNAF MUALLAF

The administration of zakat involves at least two broad aspects, namely its collection and distribution. The role of the state in collecting and distribution of zakat fund began later during the Holy Prophet's (s.a.w.) time in Madinah. Zakat funds were distributed among the eight categories of beneficiaries as stated in the Qur'an. There are eight prescribed categories for the recipients<sup>7</sup> of Zakat. Allah s.w.t has determined these categories when He says:

"Sadaqat are for the poor and the needy, and those employed to administer (the Zakat), for those whose hearts are to be won over, and for the freeing of human beings from bondage, and (for) those who are burdened with debts, and (for every struggle) in Allah's cause, and (for) the wayfarer: (this is) an ordinance from Allah, Allah is All-Knowing, full of Wisdom."

(Al-Qur'an 9:60)

Some of the categories of distribution of Zakat have become more or less redundant with the passage of time. Reconciliation of hearts (*Muallafat-al-Qalub*) thus, referred to distribution of Zakat among the Muslims converted in the late Holy Prophet's time (s.a.w.). *Muallafat-al-Qalub* refers to persons newly converted to Islam. In principle, this includes those who give full co-operation in contributing and

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<sup>&</sup>lt;sup>5</sup> Yusuf al-Qardawi, 1986. Fiqh al-Zakat. Volume I & II. Lebanon: Mu'assasat al-Risalah

<sup>&</sup>lt;sup>6</sup> Muhammad Firdaus, Irfan Syauqi Beik, Tonny Irawan & Bambang Juanda, 2012, Economic Estimation and Determinations of Zakat Potential in Indonesia, IRTI Working Paper Series, WP# 1433-07

<sup>&</sup>lt;sup>7</sup> Also known as Asnaf

strengthening Islam. This also includes those that are newly converted to Islam who might have lost their previous property and therefore need assistance and encouragement, and also the newly converted that are weak. Financial help may strengthen their belief (*iman*) and the sense of belonging to the Muslim Ummah. Also included are those that are aggressively against the Islam, that by providing money, they may cease from their aggression.

#### 3. CONCEPT OF MUALLAF

The word Muallaf as mentioned in al-Marbawi Dictionary<sup>8</sup> comes from two root words i.e. 'Allafa' which means "obedient, tamed, and submissive" and 'Alifahu' which means compliant. The combination of the two root words gives the definition of the word muallaf which means "to change or make somebody change his or her religion or beliefs." According to the Cambridge International Dictionary of English (1997)<sup>9</sup>, the term 'convert' means "someone who changes their beliefs or ways of living". In a multiracial country like Malaysia, Muslim converts are also known as muallafs. According to Webster's New World College Dictionary (1996)<sup>10</sup> 'conversion' refers to "a converting or being converted: specifically, a) a change from lack of faith to religious belief, adoption of a religion" and "b) a change from one's belief, religion, doctrine, opinion, etc. to another." According to McGuire (1997)<sup>11</sup>, "conversion is a process of religious change which transforms 'the way the individual perceives the rest of society and his or her personal place in it, altering one's view of the world.""

In theological studies, conversion has been associated with sociological terms. Donald Gelpi (1998)<sup>12</sup> elaborated conversion as a "social process" which consists of seven stages: (1) settlement within a particular social context that sets the tone for the conversion experience, (2) experience of personal crisis, (3) personal crisis leads to religious quest, (4) religious quest leads to a connection with an advocate of a particular religious tradition, (5) interaction within the religious community, (6) religious commitment, and finally (7) recognition of the consequences of the religious commitment. In this case, conversion is noted not only for producing interior change related to belief and conviction, but also for generating a significant ethical predisposition toward social transformation.

#### 4. MUALLAF DEVELOPMENT THROUGH ZAKAT DISTRIBUTION

Zakat is one of the pillars of faith in Islam that emphasizes socio-economic development. Any discussion on zakat in the context of worship cannot be disconnected from the socio-economic factor, especially in aiding the underprivileged based on the *maslahah* concept (al-Qardawi 1987)<sup>13</sup>. The definition of zakat has been done in various ways such as grow, blessing, pure, good and renowned. Furthermore, from the *fiqh* point of view, zakat can be extracted from a certain amount from a specific wealth for the benefit of those who are entitled to receive it as stipulated by Allah (Ibn Qudamah 1968). The primary purpose of zakat is to redistribute the wealth of the society among the poor (M.N. Siddiqui, 1978)<sup>14</sup>. Zakat is not purely welfare-oriented that relies on the contribution of the giver but an obligation that must be carried out to qualified recipients. Therefore, it is pertinent that the management of zakat should be made efficient to ensure that the rights of the recipients and the society, in general, will not be put in jeopardy.

<sup>&</sup>lt;sup>8</sup> Al-Marbawi Dictionary , Pustaka Nasional Singapura, 1354H

<sup>&</sup>lt;sup>9</sup> Cambridge International Dictionary of English. 1997.

<sup>&</sup>lt;sup>10</sup> Webster's New World College Dictionary. 3rd ed. 1996.

<sup>&</sup>lt;sup>11</sup> McGuire, M. B. (1997). Religion: The Social Context: Fourth Edition, .California: Wadworth Publishing Company.

<sup>&</sup>lt;sup>12</sup> Donald L. Gelpi, The Conversion Experience: A Reflective Process for RCIA Participants and Others (New York: Paulist Press 1998)

<sup>&</sup>lt;sup>13</sup> Yusuf al-Qaradawi, 1986. Fiqh al-Zakat. Volume I & II. Lebanon: Mu'assasat al-Risalah.

<sup>&</sup>lt;sup>14</sup> Siddiqui, M.N. (1978), Some Aspects of the Islamic Economy, Second Edition, Lahore, Pakistan: Islamic Publications Ltd.

History has confirmed that one of the reasons that led to the fall of the Umayyad dynasty was its government's failure to manage the *Baitulmal* successfully (S.M. Hasanuz Zaman, 1991). As stated in Islamic Encyclopaedia, the word Muallaf comes from the Arabic 'Al-Muallafa Qulubuhum' which means "those whose hearts are won over" or "those hearts that need softening". On the other hand, the actual phrase is connected with the Qur'an in the Surah Al-Tawbah: 60, which means:

"Zakat is for: the poor, the destitute, those who collect it, reconciling people's hearts (Muallaf), frees slaves, spending in the way of Allah, and travellers. It is a legal obligation from Allah. Allah is all knowing, all wise"

Based from above phrase, Zakat plays a significant role 'to win' and 'to soften' the heart of the Muallaf to follow Islam as a way of life. Previous Islamic scholar agreed that the term Muallaf also includes non-Muslims, but only for the purpose of turning their hearts to Islam. For example, al-Qardawi states, the case where there is a group of infidels / unbelievers being courted in the hope that they will accept Islam, such in the case of Safwan. During the opening of Mecca, Safwan was given a period of four months by the Prophet (s.a.w.) to consider accepting Islam. When the battle of Hunayn occurred, he took part in it. The Prophet Muhammad (s.a.w.) then lent Safwan his sword and gave him a few camels, taken from a valley. Consequently, after that incident, Safwan became a good Muslim (Razaleigh Muhamat et.al, 2012)<sup>15</sup>. The authentic hadith referring to the event is found in Sunan al-Tirmidhi, which mentions: "From Safwan, son of Umayya r.a., who said: "On the day of the Hunayn war, the Prophet had given me something. Truly, he was the person whom I hated most but he always gave me (something) until he really became the person that I love most."The hadith mentioned above explained that Rasulullah s.a.w had transformed Safwan who hated him most at first, but through love, care and material wealth showered upon him by Rasulullah s.a.w, his hatred changed to love. As a result, almost all of the Islamic scholars agree to accept the non-Muslim as a part of Muallaf as a way to persuade them to embrace Islam. Al-Qurtubi (1954)<sup>16</sup> mentioned three of them, which are:

- 1. Those who have just embraced Islam. They need support in order to build up their confidence towards Islam. Al-Qurtubi also included the Jews and Christians who had newly accepted Islam, even though they were wealthy in this group.
- 2. The leaders and public figures amongst them who had many friends who were non-Muslims. By giving them a part of the Zakat, it was hoped that it would attract them and their friends to embrace Islam.
- 3. The middlemen who can persuade other non-Muslims to embrace and accept Islam. On this matter, they received a part of the Zakat to become such middleman.

## 5. LITERATURE REVIEW: ZAKAT AND MUALLAF DEVELOPMENT

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<sup>&</sup>lt;sup>15</sup> Razaleigh Muhamat @ Kawangit, Abdul Ghafar Don, Salasiah Hanin Hamjah, Fariza Md.Sham, Badlihisham Mohd.Nasir, Muhammad Faisal Asha'ari, Siti Rugayah Tibek, Zainab Ismail, Ideris Endot, Anuar Puteh, A'dawiyah Ismail, Mohd Zulkipli Abd Ghani, 2012, Assimilation Level of Chinese Muallaf In Kuala Lumpur, Advances in Natural and Applied Sciences, 6(4): 524-533, 2012 ISSN 1995-0772.

<sup>&</sup>lt;sup>16</sup> al-Qurtubī, 1954. Al-Jami' Li Aḥkām al-Quran. Volume 8. Misr: Dar al-Kutub Misriyya.

Mahyuddin Haji Abu Bakar et.al (2011)<sup>17</sup> states that zakat distribution to the Muallaf can help strengthen their faith and creates a sense of belonging among Muslims to assist those who are in need like this group of people. Aishah M et.al (2011)<sup>18</sup> seeks to investigate the conversion patterns among muallafs in Malaysia. Its focus is to find out the demographic information of muallafs and to identify the popular conversion patterns among muallafs in Malaysia. From the study conducted, the following conclusions can be derived: a) majority of the muallafs come from Sabah and belongs to other ethnicities found in Malaysia such as Iban, Asli, Myanmar, Kadazan and Thai, b) many of them are unemployed despite having adequate academic level, c) majority of the new muallafs agreed that they had first obtained their information regarding Islam from people who are close to them like family members, friends, colleagues and neighbours, d) majority of the new muallafs associate their conversion process with the friendliness pattern, followed by the intellectual pattern and lastly the mystical pattern. This coincides with the first source of information they obtained regarding Islam.

Moreover, zakat distribution aims to change the lives of the poverty-stricken by enabling them to afford to live a comfortable life. al Kasani (n.d.) also mentioned that the distribution of zakat serves to cater for the needs of its recipient. For this purpose, zakat is not necessarily given to all recipients if there are those that are in need of more zakat. According to al Kasani, the government has the authority to identify ways to distribute zakat. With regard to this, Muhamad Abdul Mun'im (1997) maintains that the obligatory nature of zakat should become a catalyst to assist Muslims in four aspects through the goal of zakat distribution: to resolve poverty issue, to establish social justice, to develop a society based on love, mutual solidarity, brotherhood and to eliminate from the poor the feelings of hatred that they may harbour towards the rich. In this context, M. Shabri (1998) also argues that zakat has its own strength as it unites the Muslims, build better relations among them and encourage Muslims to work together. Zakat also should be for the purpose of being a welfare instrument to overcome economic issues or as a means to stabilize the economy of the Muslims.

Razaleigh Muhamat et.al (2012)<sup>19</sup> set outs to explore the exact level of the social aspect of assimilation between Chinese Muallaf and their Malay counterparts in Kuala Lumpur. It was certain that assimilation within the social aspect is a dilemma which the Chinese Muallaf face when they convert from their own religious belief to Islam. It suggests that when these converts begin to practice Islam, their behaviour changes in line with the identity of the Malays. This is because Islam is associated with the Malays in the Malaysian context. Whilst they are welcomed by their Malay counterparts, it is nevertheless hypothesized that they may not assimilate fully into the Malay community. Through this research, it was found/discovered that the social assimilation level of Chinese Muallaf is at the low level.

According to McGuire (1997)<sup>20</sup>, "conversion is a process of religious change which transforms 'the way the individual perceives the rest of society and his or her personal place in it, altering one's view of the world." Lofland & Skonovd (1981)<sup>21</sup>, describe the process of conversion from one religion to another; a)

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<sup>&</sup>lt;sup>17</sup> Mahyuddin Haji Abu Bakar & Abdullah Haji Abd.Ghani, 2011, Towards Achieving the Quality of Life in the Management of Zakat Distribution to the Rightful Recipients (The Poor and Needy), International Journal of Business and Social Science Vol. 2 No. 4: March 2011

<sup>&</sup>lt;sup>18</sup> Aishah M, Junaida I, Muna A. J, Siti Rafidah M. D, and Kamaruzaman Jusoff, 2011, Conversion Patterns among Mualafs at Pusat Bimbingan Islam Sultan Abdul Halim Mu'azam Syah Negeri Kedah Darul Aman (Pusba), Aishah et al./ Elixir Soc. Sci. 34 (2011) 2509-2511.

<sup>&</sup>lt;sup>19</sup> Razaleigh Muhamat @ Kawangit, Abdul Ghafar Don, Salasiah Hanin Hamjah, Fariza Md.Sham, Badlihisham Mohd.Nasir, Muhammad Faisal Asha'ari, Siti Rugayah Tibek, Zainab Ismail, Ideris Endot, Anuar Puteh, A'dawiyah Ismail, Mohd Zulkipli Abd Ghani, 2012, Assimilation Level of Chinese Muallaf In Kuala Lumpur, Advances in Natural and Applied Sciences, 6(4): 524-533, 2012 ISSN 1995-0772.

McGuire, M. B. (1997). Religion: The Social Context: Fourth Edition, .California: Wadworth Publishing Company
 Lofland, J. & Skonovd, N. (1981). Conversion motifs. Journal for the Scientific Study of Religion, 20 (4), 373-385.

Intellectual; 'response to teaching' (Kose,1994)<sup>22</sup> through reading, media, talks, b) Affection; through having good and positive personal experience with members of the Muslim society, c) Mystical; through visions and supernatural experiences, d) Experimental; going through the process of trial and error in the religion of choices, e) Revivalist; conforming to the crowd; involving emotional inspirations (Inaba, 2004)<sup>23</sup>; and f) Coercive; through pressure.

Meanwhile, Poston (1992)<sup>24</sup> came up with four (4) factors of conversion: "Example and imitation, the desire to follow out a moral idea, teachings of Islam and extra cult-affective-bonds". While Abdul Wadod Shalabi (2005)<sup>25</sup> further added three (3) common factors that lead to the decision to convert to Islam: "direction and discipline, lack of a priesthood and racial equality". However, Dawson (1990)<sup>26</sup> suggested that conversion process is 'a mixed type' of those patterns. In 1992, Bainbridge<sup>27</sup> pointed out two (2) theories on religious conversion ie; a) strain theory, b) social influence theory, and Lofland/Stark (1965)<sup>28</sup> conversion model brings about both of the theories. In Kose's (1994)<sup>29</sup> study on 70 English Muslim converts, it was found that the most common conversion patterns among them were the affection, intellectual and experimental. Among the three, most respondents associated their conversion with the affection and intellectual patterns.

#### 6. RESEARCH METHOD

This paper has is essentially based on the on-going academic research work and descriptive analysis to get an overview of Muallaf development through zakat distribution and programmes in contemporary times. An interview session was conducted on the 25<sup>th</sup> of June 2013, at 3.30 pm with two officers from The Selangor State Islamic Religious Council whom were Ustaz Mohd Helmi (Assistant Director for Muallaf Welfare in Selangor) and Ustaz Mohd Anwarulhaq (Assistant Director for Muallaf Education in Selangor). The purpose of this interview session is to get the response/feedback for the research question that had been raised. Data collection was for the period of 2002 until 2012. The Selangor State Islamic Religious Council was selected because of their achievement being the highest in the zakat fund collection in Malaysia. The question that was raised was that with the highest collection of zakat in Malaysia, why are the Muslims still putting blame and complaints to the Selangor State Islamic Religious Council regarding the distributions of zakat collection. Their concerns also focus on whether the asnaf of Muallaf have been protected accordingly through zakat funds. Malaysia was quite recently shaken by the controversial issue on the discovery of converted Muslims (muallafs / new Muslims) being investigated by the Selangor State Islamic Religious Council during their inspection based on the complaint received by Muslims on their involvement with activities organised by the Damansara Utama Methodist Church (DUMC) in Petaling Jaya on August 3<sup>rd</sup>, 2011 (Utusan: 16/10/2011). Majority of the Muslims placed the blame on the Selangor State Islamic Religious Council and questioned regarding Muallaf's rights on Zakat contribution. The blame had stressed upon the allotment of the zakat fund, as the general perception was that these Muallafs are not being supported by the authorities. Thus, this study aims to identify the

<sup>&</sup>lt;sup>22</sup> Kose, A. (1994, October – December). English converts to Islam 2. Fountain Magazine, 8

<sup>&</sup>lt;sup>23</sup> Inaba, K. (2004). Conversion to new religious movements: Reassessment of Lofland / Skonovd conversion motifs and Lofland / Stark conversion process. Human Sciences Research, 11 (2), 33-47.

<sup>24</sup> Poston, L. (1992). Islamic dakwah in the west: Muslim missionary activity and the dynamics of conversion to Islam.

Abdul Wadod Shalabi. (2005). The growing religion. Retrieved July 26, 2009 from http://www.salaam. Co.uk/themeofthemonth/jun02\_index.php <sup>26</sup> Dawson, L. (1990). Self-Affirmation, freedom and rationality: Theoritically Elaborating "Active" Conversions, Journal for the

scientific study of religion, 29(2), 141-163.

27 Bainbridge, W. S. (1992). The sociology of conversion, in H. Newton Malony & Samuel Southard (eds), Handbook of

Religious Conversion, Religious Education Press.

Lofland, J. & Stark, R. (1965). Becoming a World-Saver: A Theory of Conversion to a Deviant Perspective. American Sociological Review. 30. 862-875.

<sup>&</sup>lt;sup>29</sup> Kose, A. (1994, October – December). English converts to Islam 2. Fountain Magazine, 8

programmes or activities relating to the distribution of zakat funds, focusing mainly on the plight of the asnaf of Muallaf.

## 7. THE DISTRIBUTION OF ZAKAT ON MUALAF DEVELOPMENT IN SELANGOR

The Selangor State Islamic Religious Council is responsible to collect and distribute zakat in Selangor, and their role had shown impressive growth from time to time. This is proven by a stunning increase in the amount of zakat collection from 2008 to 2011 for all categories. Generally, most of the zakat distribution goes to the Fuqara and Masakin from 2008 and it is continually increasing through the years until 2010 totalling MYR 126 million, as shown in Figure 1.

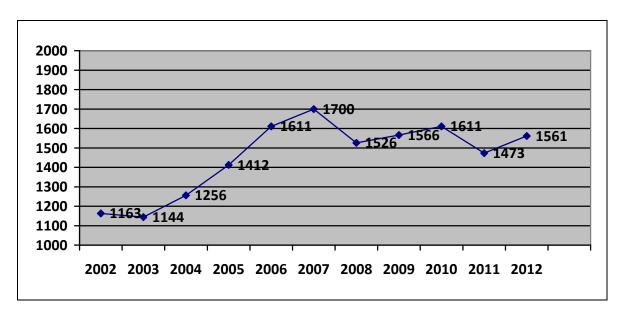


Figure 1: Selangor Zakat Distribution by Category (2008-2011)

Source: JAWHAR 2012 (unpublished)

Figure 1 shows that the amount of zakat distribution to the Muallaf is increasing from MYR 11 million (2008) to MYR 16 million (2009) and MYR 19 million in the year 2010. Only in the year 2011, the amount of zakat allocated to the Muallaf had a small decline which dropped from MYR 19 million to MYR 15 million. The rest, we can conclude that distribution of zakat to the muallaf in the state of Selangor (except for year 2011) is consistently increasing each year. The trend of zakat distribution to the Muallaf is actually reflected from the total amount of registered Muallaf in the state of Selangor every year. This research attempts to look into the amount of registered muallaf, zakat distribution and the programmes that are dedicated for the Muallaf. In general, what we can conclude is that the huge percentage allocated for the Muallaf indicated that zakat plays an important role in assisting new Muslims and helping them overcome their suffering and poverty as stated in the Qur'an (9:60). Zakat is provided to the Muallaf as a way of assisting and enabling them to start a new life in the way of Islam, as the total amount of registered muallaf increases every year, shown in Figure 2 below;

Figure 2: Amount of Registered Muallaf in the State of Selangor; 2002 -2012



Source: Department of Muallaf Development, MAIS

Figure 2 shows the increasing amount of registered Muallaf from year 2002 – 2012 in the State of Selangor. This illustration (Figure 2) supports the changes that occurred shown in Figure 1. It shows that zakat distribution is reflected by the amount of registered Muallaf in the State of Selangor. In the year 2011, the registered Muallafs were less than the previous years, and the declining distribution also may have occurred because in the same year, some of the Muallaf were transferred to the mukallaf status. Overall, this positive increment and practice serves as evidence to the view regarding the necessity of Zakat aid towards Muallaf as part of da'wah methodology since it is essential for Muslims to propagate Islam, in saving them from the swords of the Muslims here on earth and the Fire of Hell in the life after death (Al-Qurtubi, 1954)<sup>30</sup>. After that, Al-Qurtubi gave some emphasis by giving them priority in guidance, briefly as follows:

- 1. To prevent them from deeds that may spark social unrest.
- 2. To make them realize the wholesomeness (*Shumul*) of Islam as their constant guide on the right path.
- 3. To encourage them to hope for the blessing of Allah, so that their hearts are open to accept the teaching of Islam.
- 4. To show them how Islam always care for and love the Muallaf, and that the Prophet Muhammad s.a.w is a blessing for all and especially the new converts.

According to Ibn Hisham<sup>31</sup> the purpose of providing guidance to the Muallaf in the basic knowledge of the '*Deen*' (religion) and instilling them with qualities of precise moral behaviour is to encourage them to willingly embrace Islam, and to avoid evil deeds.

Table 1: Statistics For Registered Muallaf Selangor State For 2002-2012

YEAR	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL
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<sup>&</sup>lt;sup>30</sup> al-Qurtubī, 1954. Al-Jami' Li Aḥkām al-Quran. Volume 8. Misr: Dar al-Kutub Misriyya.

<sup>31</sup> Ibn Hishām, Abd al-Mālik al-Himyarī. Al-Sira al-Nabawiyya. Beirut: Dar al-Jil

DISTRICT												
Gombak Timur	25	53	44	61	55	84	82	74	104	67	64	713
Gombak Barat	113	129	98	116	97	65	57	80	46	58	61	920
Hulu Langat	161	147	129	107	164	134	128	169	271	176	196	1782
Hulu Selangor	35	55	79	72	80	99	51	48	123	68	94	804
Klang	135	182	160	155	158	156	151	156	139	142	137	1671
Kuala Langat	59	54	44	52	50	36	54	49	88	52	76	614
Kuala Selangor	37	22	23	18	20	26	15	26	24	26	32	269
Petaling Jaya	62	71	42	42	34	44	105	158	138	90	75	861
Subang Jaya	4	54	37			2					0	97
Sabak Bernam	14	10	11	9	20	19	18	31	7	25	18	182
Sepang	45	38	57	47	64	49	53	47	48	62	59	569
Shah Alam	147	109	159	239	298	318	274	290	307	380	427	2948
Perkim	318	217	358	477	548	648	519	424	313	322	315	4459
Other	8	3	15	17	23	20	19	14	3	5	7	134
TOTAL	1163	1144	1256	1412	1611	1700	1526	1566	1611	1473	1561	16023

Resource: Selangor State Islamic Religious Council

Table 1 reveals that if the total number of registered Muallaf in Selangor from 2002 to 2012 (16,023) were distributed with the amount of zakat collected in 2011, each person will get MYR 936.15. This calculation is based on the assumption that the Selangor Islamic Religious Council (SIRC) will provide aid to the existing Muallaf and new Muallaf. And if we consider the number of Muallaf for a five year period (the period set by SIRC to provide monthly assistance of MYR 500.00 to Muallaf), between the year 2007 to 2011, the overall amount of Muallaf is 7,876 people and the distribution of that year is MYR 15 million, hence each Muallaf is assumed to receive aid amounting to MYR 1904.5. This means that there are various form of aid and programmes that are not only focused on monthly assistance because the average zakat funds received exceeds the monthly aid which is MYR 500.

The highest number of Muallaf is registered under the Muslim Welfare Organization Malaysia (PERKIM)<sup>32</sup>. In terms of district, Shah Alam recorded the highest number of registered Muallaf in Selangor, followed by Hulu Langat, Klang, West Gombak and followed by other districts. Based on the ethnicity for 2013, the largest number of Muallaf were the Indians with 404, followed by other ethnics (307), Chinese (293), Orang Asli (129), Iban (112), Filipino (83), Kadazan (65), Bidayuh (48), Indonesia (29), Cambodia (25), Murut (22), Myanmar (17), Thailand (12), Eurasian (8) and Punjabi (7).

## 8. ZAKAT DISTRIBUTIONS AND PROGRAMMES FOR MUALLAF

In the state of Selangor, the Selangor State Islamic Religious Council (SIRC) is responsible for educating, assisting and monitoring the Muallaf through various programmes beginning from the first day the they

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<sup>&</sup>lt;sup>32</sup> PERKIM is a semi government body which conduct Islamic Da'wah to Muslims and non-Muslims

become Muslim until they pass away. Thus the aid and education programs setup by SIRC can be categorized into short-term and long-term programmes. Table 1 shows the type of programmes and activities and the amount of zakat involved in the year 2013 as follows;.

Table 2 : The Type of Programmes and Activities for Asnaf Muallaf and Zakat Distribution, Year 2013

NO.	TYPE OF DISTRIBUTION / ACTIVITY	AMOUNT (RM)
1	AIDUL FITRI RELIEF FUND (ONCE PER YEAR)	
	D.Y.M.M SULTAN	400
	HARI RAYA DISTRIBUTION	400
2	MONTHLY AID	500
	CIRCUMCISION	250
	CIRCUMCISION (SPECIAL CASE)	500
4	WEDDING	2000
5	FUNERAL MANAGEMENT	1500
	WEAK / NO HEIRS / NO HOUSE	100
	SHORT SUPPLY FOR LIVING COST EXPENSES	200
	EMERGENCY CASE	200
	UTILITY BILLS	100
	TRANSPORTATION FARE	50
7	EMERGENCY	
	EXPENSES DUE TO LOSS OF EMPLOYMENT (MYR 500 * 6	2000
	MONTHS) COST OF LIVING AND HOUSEHOLD EXPENSES (MYR 500* 6	3000
	MONTHS)	3000
	EMERGENCY	5000
	OTHERS	1000
8	GHARIMIN	
	MEDICATION	10000
	EXPENSES TO BUY BASIC NEEDS	5000
		APPROVAL BY
	WONGE LOAN BYE TO LOGG OF ENDING AND THE	TECHNICAL
	HOUSE LOAN DUE TO LOSS OF EMPLOYMENT	COMMITTEE
_	OTHERS	3000
9	LAWYER FEE	5000
10	GROUP HOUSE CONSTRUCTION AID	BASED ON APPROVAL
11	INDIVIDUAL HOUSE CONSTRUCTION AID	
	3 ROOMS	45000
12	4 ROOMS	55000
12	BUYING HOUSE AID	45000
	MEDIUM COST	45000

LOW MEDIUM COST		LOW MEDIUM COST	45000
13			
14			
15   BUSINESS RELIEF FUND			
16			
17			
MEDICAL AID			
MEDICAL AID (CHRONIC)	17		
MEDICAL AID (EQUIPMENT)   30000	1.0		
CONTRIBUTION FOR MUALLAF ENCOURAGEMENT	18	· · · · · · · · · · · · · · · · · · ·	
GOODIES (MUALLAF KIT)	10		
CONTRIBUTION FOR BRINGING PEOPLE TO ISLAM   S00     NEW MUALLAF   S00     OTHERS   DOTHERS     20   AID ON ISLAMIC DAY   BASED ON NEEDS     21   PRINTING / PUBLICATION   BASED ON NEEDS     22   COMPUTER MAINTAINANCE   BASED ON NEEDS     23   MUALLAF ASSOCIATION AID   BASED ON NEEDS AND     ACTIVITY AID / STUDY VISIT   BASED ON NEEDS AND     APPLICATION     25   CLASS ATTENDANCE ALLOWANCE (MYR 20.00 * 1 SESSION)   20     TEACHER ALLOWANCE     TEACHING MUALLAF CLASS 13 SESSIONS PER MONTH (MYR     100*1 SESSION)   100     LECTURE ALLOWANCE PSDK (MYR 200 * 1 JAM)   200     FARDHU AIN ALLOWANCE CLASS (MYR 150 * 1 SESSION)   150     27   EDUCATION AID     LAPTOP   BASED ON NEEDS     CERTIFICATE - MYR 300,     DIPLOMA AND ABOVE     NO LIMIT     TICKET (TWO WAY)   BASED ON NEEDS,     TWICE PER YEAR     SPECTICAL   300     PRIMARY   200     SECONDARY   250     HOSTEL   350	19		
NEW MUALLAF   500		/	
OTHERS   20			
20			300
21         PRINTING / PUBLICATION         BASED ON NEEDS           22         COMPUTER MAINTAINANCE         BASED ON NEEDS AND APPLICATION           23         MUALLAF ASSOCIATION AID         APPLICATION           24         ACTIVITY AID / STUDY VISIT         BASED ON NEEDS AND APPLICATION           25         CLASS ATTENDANCE ALLOWANCE (MYR 20.00 * 1 SESSION)         20           TEACHER ALLOWANCE           100* 1 SESSION)         100           LECTURE ALLOWANCE PSDK (MYR 200 * 1 JAM)         200           26         FARDHU AIN ALLOWANCE CLASS (MYR 150 * 1 SESSION)         150           27         EDUCATION AID         BASED ON NEEDS CERTIFICATE - MYR 300, DIPLOMA AND ABOVE NO LIMIT           REFERENCE BOOK         DIPLOMA AND ABOVE NO LIMIT         BASED ON NEEDS, TWICE PER YEAR           SPECTICAL         300           28         STIPEND AID           PRIMARY         200           SECONDARY         250           HOSTEL         350	20		DACED ON NEEDC
22   COMPUTER MAINTAINANCE   BASED ON NEEDS			
BASED ON NEEDS AND APPLICATION			
23   MUALLAF ASSOCIATION AID   BASED ON NEEDS AND APPLICATION     24   ACTIVITY AID / STUDY VISIT   BASED ON NEEDS AND APPLICATION     25   CLASS ATTENDANCE ALLOWANCE (MYR 20.00 * 1 SESSION)   20     TEACHER ALLOWANCE     TEACHING MUALLAF CLASS 13 SESSIONS PER MONTH (MYR 100* 1 SESSION)   100     LECTURE ALLOWANCE PSDK (MYR 200 * 1 JAM)   200     FARDHU AIN ALLOWANCE CLASS (MYR 150 * 1 SESSION)   150     27   EDUCATION AID     LAPTOP   BASED ON NEEDS     CERTIFICATE - MYR 300, DIPLOMA AND ABOVE     NO LIMIT     TICKET (TWO WAY)   TICKET	22	COMPUTER MAINTAINANCE	
24         ACTIVITY AID / STUDY VISIT         APPLICATION           25         CLASS ATTENDANCE ALLOWANCE (MYR 20.00 * 1 SESSION)         20           TEACHER ALLOWANCE         TEACHER ALLOWANCE           TEACHING MUALLAF CLASS 13 SESSIONS PER MONTH (MYR 100* 1 SESSION)         100           LECTURE ALLOWANCE PSDK (MYR 200 * 1 JAM)         200           26         FARDHU AIN ALLOWANCE CLASS (MYR 150 * 1 SESSION)         150           27         EDUCATION AID         CERTIFICATE - MYR 300, DIPLOMA AND ABOVE NO LIMIT           REFERENCE BOOK         NO LIMIT         BASED ON NEEDS, TWICE PER YEAR           SPECTICAL         300           28         STIPEND AID           PRIMARY         200           SECONDARY         250           HOSTEL         350	23	MUALLAF ASSOCIATION AID	
CLASS ATTENDANCE ALLOWANCE (MYR 20.00 * 1 SESSION)   20			
TEACHER ALLOWANCE   TEACHING MUALLAF CLASS 13 SESSIONS PER MONTH (MYR 100* 1 SESSION)   100			
TEACHING MUALLAF CLASS 13 SESSIONS PER MONTH (MYR 100* 1 SESSION) LECTURE ALLOWANCE PSDK (MYR 200 * 1 JAM) FARDHU AIN ALLOWANCE CLASS (MYR 150 * 1 SESSION)  26 FARDHU AIN ALLOWANCE CLASS (MYR 150 * 1 SESSION)  LAPTOP  LAPTOP BASED ON NEEDS CERTIFICATE - MYR 300, DIPLOMA AND ABOVE NO LIMIT BASED ON NEEDS, TWICE PER YEAR  SPECTICAL  300  28 STIPEND AID PRIMARY 200 SECONDARY 450 HOSTEL 350	25	,	20
100* 1 SESSION)			
LECTURE ALLOWANCE PSDK (MYR 200 * 1 JAM)   200			100
26 FARDHU AIN ALLOWANCE CLASS (MYR 150 * 1 SESSION)  27 EDUCATION AID  LAPTOP  REFERENCE BOOK  REFERENCE BOOK  TICKET (TWO WAY)  SPECTICAL  SPECTICAL  STIPEND AID  PRIMARY  SECONDARY  HOSTEL  150  BASED ON NEEDS CERTIFICATE - MYR 300, DIPLOMA AND ABOVE NO LIMIT BASED ON NEEDS, TWICE PER YEAR  300  200  350		/	
LAPTOP REFERENCE BOOK REFERENCE BOOK TICKET (TWO WAY) SPECTICAL STIPEND AID PRIMARY SECONDARY HOSTEL BASED ON NEEDS CERTIFICATE - MYR 300, DIPLOMA AND ABOVE NO LIMIT BASED ON NEEDS, TWICE PER YEAR  300  200 350	26		
REFERENCE BOOK REFERENCE BOOK DIPLOMA AND ABOVE NO LIMIT BASED ON NEEDS, TWICE PER YEAR SPECTICAL 300  PRIMARY SECONDARY HOSTEL STIPEND AID CERTIFICATE - MYR 300, DIPLOMA AND ABOVE NO LIMIT BASED ON NEEDS, TWICE PER YEAR 300 300	27		
REFERENCE BOOK  TICKET (TWO WAY)  SPECTICAL  STIPEND AID  PRIMARY  SECONDARY  HOSTEL  DIPLOMA AND ABOVE NO LIMIT BASED ON NEEDS, TWICE PER YEAR  300  200 250 350		LAPTOP	
TICKET (TWO WAY)  SPECTICAL  SPECTICAL  STIPEND AID  PRIMARY SECONDARY HOSTEL  NO LIMIT BASED ON NEEDS, TWICE PER YEAR  200  250 350		REFERENCE BOOK	
TICKET (TWO WAY)   TWICE PER YEAR   300		REFERENCE BOOK	
SPECTICAL         300           28         STIPEND AID           PRIMARY         200           SECONDARY         250           HOSTEL         350		TICKET (TWO WAY)	,
PRIMARY SECONDARY HOSTEL  200 350		SPECTICAL	300
SECONDARY HOSTEL 250 350	28	STIPEND AID	
HOSTEL 350		PRIMARY	200
HOSTEL 350		SECONDARY	250
		HOSTEL	350

	LEADERSHIP AND DA'WAH CERTIFICATE (PSDK)	300
	INSTITUT DAKWAH ISLAMIAH PERKIM (IDIP)	350
	PONDOK PASIR TUMBOH (PPT)	400
	PUSAT BIMBINGAN SAUDARA BARU (PUSBA)	300
	INSTITUT TAUFIQ ISLAMI (ITI)	525
	PUSAT DAKWAH ISLAMIAH YAYASAN ABU BAKAR (PDIYAB)	300
29	COURSE AID / TRAINING	
	BASIC LEVEL (MUALAF, IPTA/S, GENERAL, UMUM)	25000
	ADVANCED LEVEL	25000
	PROFESIONAL LEVEL	15000
	STRENGTHENING THE NON MUSLIMS	15000
	MANAGEMENT SKILLS DAKWAH NON MUSLIMS	15000
		BASED ON NEEDS AND
30	ASSISTANCE ON TALKS MUALAF PROGRAM TALKS	APPLICATION
31	FIXED ASSETS MUALLAF AID	BASED ON NEEDS AND
	LIVED ASSETS MINATTAL	APPLICATION

Source: Selangor State Islamic Religious Council, 2013

Basically, Table 2 indicates that distribution zakat aid for the Muallaf begins from the first day that they become Muslims. For example, the new Muslim would be immediately helped with monthly allowance for five years until they become a Mukallaf. This aid is important for them to bear their cost of living. Besides monthly allowance, Islam is also concerned with the education and health of its devotee. Support from SIRC towards education covers the fees, pocket money allowance, book allowance, ticket and eyeglasses. This support package is comprehensive throughout the 10 types of educational institution such primary and secondary school, university and Muallaf educational center within and outside of Selangor. For medical aid, the Muallaf is eligible for assistance of up to MYR 50,000. For accommodation, the Selangor State Islamic Religious Council had provided several aids for house repair/restoration/renovation, paying rent and also purchasing low cost house. Another allowance includes funeral services, Islamic days celebration, contribution for Muallaf society and Muallaf encourage allowance whose purpose is to encourage, assist and educate the Muallaf in becoming better Muslims.

For non-monetary program, the SIRC had assembled several programs and educational classes for the Muallaf to learn about Islam. A class on Fardhu 'Ain<sup>33</sup> (individual obligations) for them to learn about performing the Solat (prayer), Zakat, Fasting and Hajj as well as a class on learning Fardhu Kifayah<sup>34</sup> (communal obligations) that teaches them practice about the moral responsibility upon a community, such that if someone undertakes or performs such practice, then the obligation has been fulfilled and the sin and responsibility of non-performance is lifted from the rest. Moreover, in encouraging the Muallaf to attend classes, allowance for attending the class is also given. Besides that there are few subventions on courses and training for improving their management skills. This clearly manifests the great concern from

<sup>&</sup>lt;sup>33</sup> A Fardhu 'Ain act is what Allah SWT requires from each and every morally responsible person. It is thus insufficient for someone to perform such an act on another's behalf - such as the solat, zakat, Hajj (except for special conditions), keeping agreements, and avoiding wine or gambling etc.
<sup>34</sup> A Fardhu Kifayah act is what Allah SWT requires from the collectivity of those morally responsible, not from each one of

<sup>&</sup>lt;sup>34</sup> A Fardhu Kifayah act is what Allah SWT requires from the collectivity of those morally responsible, not from each one of them, such that if someone undertakes it, then the obligation has been fulfilled and the sin and responsibility of non-performance is lifted from the rest; on the other hand - if no one undertakes it, then all are guilty of serious sin for neglecting the obligation. Examples include - praying over the dead, and building mosque.

SIRC in supporting, educating and nurturing the Iman of the Muallaf to become a better person and Muslim

Table 2 displays all 31 types of programmes and activities for asnaf Muallaf through zakat distribution. What we can summarize is that from all the various types of programmes and activities, we can categorise them to four main range of zakat distribution. The first category comprise of 25 programmes involving the amount ranging from MYR 20 – MYR 500.00. The second category consists of 12 programmes amounting within the range from MYR 500.00 – MYR 10,000.00. The third category has 13 programmes with amount ranging from MYR 10,000.00 and above. Finally, the last category is the remaining 16 programmes that are stated as others, whether according to the need and application, or depending on the approval or depending on the technical approval.

### 9. CONCLUSION

In conclusion, this research has clarified that a huge of amount been allocated to the development of asnaf Muallaf in Selangor. On top of that, 31 types of programmes have been assigned to ensure that the Muallaf can sustain in facing the various challenges being a new Muslim in a Muslim majority country like Malaysia in general, and particularly in the state of Selangor. Hence, this research has answered the big question that was raised by the majority of the Muslims claiming that the Muallaf are being neglected by the religious authority or the Islamic Religious Centre in particular. On top of that, it is truly hoped these development programmes through zakat distribution will facilitate the Muallaf in preparing and transforming them to become Mukallaf after five years. However, this study is only limited to the data that was available from the officers interviewed. Therefore, this study is suggested to expand its scope to include the Muallaf themselves as the respondents in the future.

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## PERANAN ZAKAT PERUBATAN DALAM MENINGKATKAN KUALITI KEHIDUPAN ASNAF FAKIR DAN MISKIN: SATU TINJAUAN AWAL

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#### **ABSTRAK**

Tahap kesihatan yang baik bukan sahaja memberi kesan ke atas kualiti hidup individu tetapi juga kepada pembangunan ekonomi negara. Namun, kebelakangan ini kos perubatan yang semakin meningkat menjadi masalah kepada hampir semua negara di dunia. Di peringkat mikro, perbelanjaan poket (dalam pembiayaan penggunaan sektor kesihatan swasta) telah meningkat dengan kadar tinggi dan usaha mencari sumber pembiayaan lain yang boleh digembleng perlu dilaksanakan segera terutama bagi membantu umat Islam yang kurang bernasib baik. Antara sumber pembiayaan yang telah dikenalpasti dalam membantu meningkatkan taraf hidup umat Islam adalah bantuan zakat. Antara jenis zakat yang telah diperkenalkan adalah zakat perubatan. Walau bagaimanapun, sehingga kini bentuk zakat perubatan hanya terdiri daripada bantuan perubatan, bantuan rawatan dan mesin hemodialisis serta bantuan rawatan sakit kekal. Dengan menggunakan analisis deskriptif, kajian ini akan menumpukan kepada peranan zakat perubatan sebagai sumber penting dalam membantu meningkatkan kualiti hidup golongan asnaf fakir dan miskin di Malaysia. Melalui bantuan zakat perubatan yang lebih komprehensif, taraf kesihatan asnaf dijangkakan akan bertambah baik, dan seterusnya dengan kesihatan yang baik mereka dapat meningkatkan tingkat pendapatan keluarga. Apabila tingkat pendapatan meningkat, kualiti hidup seseorang asnaf akan meningkat dan kemungkinan mereka akan terkeluar dari kategori asnaf fakir dan miskin. Sekiranya hipotesis ini dapat dibuktikan maka zakat perubatan akan menjadi alat ekonomi utama dalam meningkatkan kualiti hidup dan seterusnya mampu membasmi kemiskinan di kalangan umat Islam di Malaysia.

**Kata kunci**: zakat, asnaf fakir dan miskin, tahap kesihatan

#### 1. **PENDAHULUAN**

Menurut World Health Organization (WHO), kesihatan adalah suatu keadaan yang sempurna dari segi fizikal, mental dan sosial dan bukan semata-mata ketiadaan penyakit dan cacat. Tahap kesihatan yang baik bukan sahaja memberi kesan ke atas kualiti hidup individu tetapi juga kepada pembangunan ekonomi negara. Menurut teori ekonomi kesihatan, tahap kesihatan mempunyai pengaruh penting ke atas tingkat pendapatan negara. Di peringkat makro, banyak kajian di negara-negara maju seperti Amerika Syarikat telah menunjukkan bahawa kesihatan mempunyai hubungan positif ke atas pembangunan ekonomi sesebuah negara (Bloom & Canning, 2000; 2001). Seterusnya, di peringkat mikro, kajian oleh Bloom, Canning & Savilla (2001) mendapati bahawa berbanding pendidikan, tahap kesihatan individu didapati lebih signifikan dalam menyumbang kepada agregat output negara.

Kebelakangan ini kos perubatan yang semakin meningkat menjadi masalah kepada hampir semua negara di dunia. Di peringkat global, peningkatan kos rawatan kesihatan adalah disebabkan oleh kemajuan teknologi dalam bidang perubatan selain jangkaan yang tinggi oleh pesakit terhadap rawatan yang diterima (World Health Organization, 2007). Sistem kesihatan di Malaysia juga terkesan dengan perubahan ini. Penduduk di Malaysia terpaksa menanggung kos perubatan dan

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perbelanjaan ke atas kesihatan yang semakin tinggi. Statistik dari World Health Organization menunjukkan pada tahun 2006, perbelanjaan swasta ke atas kesihatan daripada peratusan jumlah perbelanjaan ke atas kesihatan telah meningkat dari 49% pada 1996 kepada 55.4% pada 2006. Dari tahun 1996 hingga 2006, peratusan perbelanjaan poket (*out-of-pocket expenditure*) kekal melebihi 73% setiap tahun. Dalam pembiayaan penggunaan sektor kesihatan swasta, perbelanjaan poket telah meningkat dengan kadar tinggi dan usaha mencari sumber pembiayaan lain yang boleh digembleng perlu dilaksanakan segera terutama bagi membantu umat Islam yang kurang bernasib baik. Antara sumber pembiayaan yang telah dikenalpasti dalam membantu meningkatkan taraf hidup umat Islam adalah bantuan zakat.

Zakat adalah sumber ekonomi terpenting umat Islam. Sesebuah negara Islam perlu menjana sumber zakat dengan sebaik-baiknya dalam membina kekuatan ekonomi, sosial dan pendidikan negara. Dalam aspek pembangunan ekonomi, agihan zakat kepada golongan berpendapatan rendah dapat meningkatkan permintaan agregat dan meransang pertumbuhan ekonomi negara (Zarina Kadri et al., 2012). Kajian oleh Zarina Kadri et al. (2012) juga telah mencadangkan fungsi zakat diperluaskan agar dapat menjadi pemangkin ke arah negara berpendapatan tinggi.

Justeru, usaha penambahbaikan berterusan dalam pengurusan zakat di Malaysia sentiasa dilaksanakan selari dengan perubahan ekonomi semasa. Antara penambahbaikan yang dilakukan adalah dengan mempelbagaikan corak dan bentuk bantuan zakat agar lebih komprehensif sesuai dengan kehendak dan keperluan baru asnaf. Di Selangor contohnya, selain lapan asnaf zakat yang qati'e (putus) di dalam nas naqli al-Quran, jenis bantuan zakat berdasarkan kepada keperluan asnaf kini meliputi enam aspek utama iaitu keperluan perlindungan, makanan, pakaian, pengangkutan, pendidikan dan perubatan. Bagi aspek perubatan, mereka yang layak akan mendapat biaya perubatan yang optimum memandangkan kos perubatan bagi pelbagai jenis penyakit kian meningkat saban hari. Sebagai contoh, di Selangor, Lembaga Zakat Selangor telah memperuntukkan dana yang besar bagi pembiayaan kos rawatan asnaf. Pada tahun 2010, RM25.24 juta telah dibelanjakan bagi tujuan perubatan. Jumlah ini telah meningkat berbanding hanya RM23.17 juta pada 2009 dan RM15.78 juta pada 2008 (Hamizul Abdul Hamid, 2011).

Dengan kos perubatan yang semakin tinggi, jumlah peruntukan zakat perubatan dijangkakan akan meningkat setiap tahun. Tanpa sokongan kewangan, umat Islam yang berpendapatan rendah malahan sederhana sekalipun akan menghadapi masalah bagi mendapatkan rawatan kesihatan. Apabila jatuh sakit, seseorang individu tidak boleh bekerja seperti biasa, oleh itu pendapatan isi rumah individu tersebut akan terjejas. Jika individu sakit dalam tempoh yang lama maka ekonomi isi rumah itu akan berdepan dengan masalah besar bagi meneruskan kelangsungan hidup. Sehingga kini bentuk zakat perubatan hanya terdiri daripada bantuan perubatan, bantuan rawatan dan mesin hemodialisis serta bantuan rawatan sakit kekal. Program bantuan zakat perubatan sewajarnya diperluaskan meliputi rawatan pencegahan, pendidikan dan pembangunan kemudahan kesihatan bagi menjamin taraf kesihatan yang lebih baik di kalangan asnaf.

Menyedari hakikat ini, kajian ini akan menumpukan kepada peranan dan potensi zakat perubatan sebagai sumber kewangan penting dalam membantu meningkatkan kualiti hidup golongan asnaf fakir dan miskin di negeri Selangor. Selain itu, kajian ini juga akan mengkaji sama ada dengan peningkatan kos perubatan, adakah bantuan perubatan oleh pusat zakat juga turut meningkat.

Kertas kerja ini dibahagikan kepada lima bahagian. Bahagian kedua membincangkan kajian-kajian lepas berkenaan sumbangan zakat dalam meningkatkan taraf ekonomi dan sosial umat Islam di Malaysia. Bahagian ketiga menerangkan kaedah kajian ini dijalankan dan diikuti oleh bahagian keempat yang membentangkan tentang keputusan analisis deskriptif. Kesimpulan kajian dibincangkan di bahagian terakhir.

### 2. KAJIAN LEPAS

Peranan zakat dalam pembangunan ekonomi negara adalah amat penting. Namun kajian lepas berkenaan zakat di Malaysia banyak tertumpu kepada isu-isu makro seperti pengurusan dan pengagihan zakat. Agak kurang kajian yang melihat kepada isu mikro seperti kesan zakat kepada pendapatan individu terutama di Malaysia.

Tidak dapat dinafikan bahawa agihan zakat yang cekap dan sistematik dapat menjadi pemangkin pembangunan ekonomi negara dan seterusnya memperbaiki tingkat pendapatan individu. Kajian awal oleh Ismail Muhd Salleh dan Rogayah Ngah (1980) mendapati zakat yang dipungut di Perak, Kedah, Kelantan dan Terengganu mampu memperbaiki agihan pendapatan kasar pengeluar padi di negerinegeri berkenaan. Seterusnya, kajian oleh Noor Ghani et al. (2002) menunjukkan bahawa faktorfaktor kejayaan perusahaan mikro di Selangor dan Wilayah Persekutuan Kuala Lumpur (KL) adalah melalui dana zakat.

Keberkesanan skim agihan zakat ke atas asnaf fakir dan miskin melalui Skim Bantuan Kewangan Bulanan di KL telah menunjukkan kesan yang besar (sehingga melebihi 100 peratus) terhadap pendapatan asnaf (Suhailiza Abd Hadi, 2003). Manakala kajian oleh Patmawati Ibrahim (2006) di Selangor dan Fuadah Johari (2004) di Melaka mendapati agihan zakat berjaya mengurangkan ketidakseimbangan agihan pendapatan di kalangan asnaf fakir dan miskin. Kesemua kajian yang telah dijalankan ini menunjukkan bahawa peranan zakat adalah amat penting dalam membantu meningkatkan tingkat pendapatan dan taraf hidup golongan asnaf di Malaysia. Hairunnizam Wahid et al. (2004) menjalankan kajian bantuan zakat ke atas kualiti hidup asnaf fakir dan miskin dan dengan menggunakan model logit mereka mendapati bahawa bantuan zakat memberi kesan yang signifikan ke atas kualiti hidup golongan miskin terutama dari aspek pendidikan dan penyertaan sosial.

#### 3. METODOLOGI

Kajian ini menggunakan data sekunder melalui kajian perpustakaan dan statistik berkaitan zakat perubatan dari laporan tahunan Lembaga Zakat Selangor (LZS). Analisis deskriptif dilakukan dengan menumpukan kepada agihan zakat perubatan di negeri yang terpilih. Negeri Selangor dipilih kerana mempunyai pangkalan data kutipan dan agihan zakat serta laman sesawang yang komprehensif berbanding negeri lain.

### 4. KEPUTUSAN KAJIAN

Nabi Muhammad SAW menegah orang Islam untuk meminta-minta seperti sabda baginda: "Meminta itu tidak dihalalkan, kecuali kepada tiga jenis orang iaitu orang yang sangat fakir, orang yang mempunyai hutang yang sangat banyak dan orang yang wajib membayar diyat (denda yang disabitkan kepada kesalahan qisas dalam syarak". Justeru, orang yang mempunyai kesihatan dan kekuatan tubuh badan adalah ditegah untuk menerima bantuan zakat (sehinggalah sekiranya telah dibuktikan bahawa disebalik kekuatan fizikal mereka memang layak menerima zakat). Zakat hanya layak diagihkan kepada yang berhak sebagaimana firman Allah SWT dalam Surah al-Taubah 9:60 yang bermaksud:

"Sesungguhnya zakat itu hanya untuk orang-orang fakir, orang-orang miskin, pengurus zkat (amil), muallaf yang dipujuk hati mereka, untuk memerdekakan hamba, orang-orang yang berhutang, orang-orang yang berjuang di jalan Allah, orang-orang yang sedang dalam perjalanan, sebagai ketetapan yang diwajibkan Allah dan Allah Maha Mengetahui lagi Maha Bijaksana".

Di Selangor, Fatwa Pengurusan Agihan Zakat Selangor tahun 2002 yang dikeluarkan oleh Majlis Fatwa Negeri Selangor mentakrifkan fakir ialah orang Islam yang tidak mempunyai harta atau pekerjaan atau ada pekerjaan tetapi tidak halal atau ada pendapatan tetapi tidak mencapai 50 peratus

daripada had kifayah, untuk keperluan diri atau keperluan diri tanggungannya. Takrifan miskin pula adalah orang Islam yang mempunyai harta atau pendapatan halal yang hanya boleh menampung 50 peratus untuk keperluan diri atau keperluan diri dan tanggungannya tetapi tidak mencapai had kifayah. Had kifayah digunakan bagi mengukur kecukupan perbelanjaan dengan membandingkan pendapatan kasar dan perbelanjaan minimum sesebuah keluarga atau individu bagi memenuhi keperluan hidup mereka. Enam aspek keperluan hidup manusia termasuklah tempat tinggal, makanan, pakaian, pendidikan, rawatan dan pengangkutan. Maka seandainya pendapatan isi rumah yang diperolehi setiap bulan tidak mampu memenuhi keenam-enam keperluan-keperluan ini maka seseorang itu layak dikategorikan sebagai asnaf fakir atau miskin.

Secara umumnya, bantuan zakat perubatan diberikan bagi membantu asnaf fakir atau miskin membiayai kos rawatan perubatan daripada mana-mana hospital kerajaan. Asnaf yang layak menerima bantuan perubatan perlu memenuhi syarat umum agihan zakat, tidak mendapat mana-mana bantuan yang mencukupi bagi membiayai kos perubatan serta perlu mendapat pengesahan bertulis daripada hospital kerajaan. Di Selangor, jenis bantuan zakat perubatan termasuklah untuk perubatan kronik seperti pembedahan akibat kemalangan, rawatan bulanan, peralatan (alat tiruan atau alat sokongan seperti kaki palsu) dan dialisis. Jadual 1 dibawah menunjukkan jenis bantuan zakat perubatan tersebut.

Jadual 1: Jenis bantuan zakat perubatan di Selangor

Kategori bantuan	Jenis bantuan
Perubatan kronik	Kemalangan yang memerlukan pembedahan, peralatan implan, rawatan
	kanser, pembelian ubat atau keperluan pesakit yang disyorkan oleh pegawai perubatan.
Rawatan bulanan	Pesakit yang memerlukan susu khas, lampin pakai buang serta keperluan pesakit yang disyorkan oleh pegawai perubatan.  Tambang kenderaan ulang-alik ke hospital untuk mendapatkan rawatan.
Peralatan	Bantuan alat tiruan atau alat sokongan seperti kaki palsu, tangan palsu, kalipers, tongkat tangan/ketiak, oksigen, kerusi roda, katil, alat pendengaran, cermin mata khas, kasut khas dan lain-lain peralatan yang disyorkan oleh pegawai perubatan.
Dialisis	Bantuan termasuklah hemodialisis, suntikan (Eprex/Recormon), APD dan CAPD.

Sumber: Lembaga Zakat Selangor

Agihan zakat perubatan di Selangor menunjukkan bantuan perubatan diberikan kepada asnaf fakir, miskin, muallaf dan gharimin. Jadual 2 menunjukkan agihan zakat perubatan kepada asnaf-asnaf tersebut pada tahun 2008 sehingga 2011 di Selangor. Jumlah keseluruhan kutipan zakat dari tahun 2008 hingga 2011 menunjukkan peningkatan dari tahun ke tahun. Walau bagaimanapun, peratus pertambahan kutipan zakat dilihat semakin menurun dari tahun 2009 hingga 2011 iaitu dari 48%, 32% dan 2%. Keadaan ini mungkin disebabkan oleh kesedaran yang tinggi untuk membayar zakat di kalangan masyarakat pada tahun 2009 di samping kaedah-kaedah baru pembayaran zakat telah diperkenalkan seperti e-zakat dan Skim Berkat iaitu pembayaran zakat secara potongan gaji bulanan. Selepas tahun 2009, didapati kadar pertambahan kutipan zakat kembali menurun. Bagi jumlah agihan zakat perubatan, Jadual 2 menunjukkan peningkatan dari tahun ke tahun kecuali pada tahun 2011. Trend yang sama ditunjukkan bagi setiap kategori asnaf.

Untuk agihan zakat perubatan mengikut kategori asnaf pula, peratusan jumlah zakat perubatan daripada jumlah keseluruhan kutipan zakat agak konsisten dari tahun 2008 sehingga 2011 iaitu lebih kurang 8.5% kecuali pada tahun 2011 iaitu sebanyak 7.9%. Dari segi peratusan pertambahan

peruntukan zakat perubatan, kadarnya didapati telah menurun dari tahun ke tahun sehingga mencecah -6.54% pada tahun 2011. Keadaan ini menunjukkan bahawa walaupun kos perubatan di Malaysia semakin meningkat dari tahun ke tahun namun bantuan zakat perubatan kepada asnaf di Malaysia didapati telah menurun. Hal ini perlu diberi perhatian oleh pihak kerajaan dalam memastikan kebajikan setiap anggota masyarakat terutama golongan yang tidak bernasib baik diberi perhatian yang sewajarnya.

Selain asnaf fakir dan miskin, zakat perubatan juga diberikan kepada asnaf gharimin iaitu mereka yang mengalami kesempitan hidup akibat hutang-piutang yang melibatkan hutang perubatan sakit kronik atau rawatan dialisis. Bagi rawatan dialisis LZS membiayai rawatan hemodialisis, suntikan (Eprex/Recormon), APD dan CAPD dengan kadar rawatan dari RM70 hingga RM3,960 bergantung kepada jenis rawatan yang diterima pesakit. Pada tahun 2011, LZS telah menyumbang sebanyak RM24.9 juta bantuan zakat untuk pesakit dialisis. Di bawah bantuan ini, 1,005 orang telah dibantu melalui bantuan hutang rawatan dialisis manakala 682 orang menerima bantuan bagi menampung hutang perubatan.

Jadual 2 juga menunjukkan berbanding asnaf fakir, miskin dan muallaf, asnaf gharimin dilihat menerima bantuan dengan jumlah paling tinggi dan semakin meningkat dari tahun ke tahun terutama bagi hutang rawatan dan sumbangan mesin dialisis. Pada tahun 2008, asnaf gharimin menerima RM12.7 juta bagi membiayai hutang rawatan atau sumbangan mesin dialisis meningkat kepada RM24.9 juta pada tahun 2011. Pada masa yang sama, bantuan kepada kategori asnaf yang lain didapati telah berkurang. Contohnya, bantuan perubatan kepada asnaf fakir adalah sebanyak RM196,664 pada tahun 2011 berbanding RM2,113,217 pada tahun 2010. Manakala, penerima bantuan perubatan bagi asnaf miskin pula adalah sebanyak RM364,063 pada tahun 2011 dan RM2,732,462 pada tahun 2010. Keadaan ini menggambarkan tahap kesihatan penduduk Malaysia yang semakin rendah dengan bilangan penghidap penyakit diabetes yang semakin meningkat dari tahun ke tahun. Pihak Kementerian Kesihatan seharusnya memberi perhatian serius kepada fenomena ini dengan mengambil inisiatif bagi membendung masalah penyakit diabetes di kalangan penduduk Malaysia, Hasil Kaji Selidik Kesihatan dan Morbiditi Nasional (NHMS) pada tahun 2011 mendapati kira-kira 2.6 juta penduduk Malaysia menghidap diabetes. Data kajian NHMS juga menunjukkan bilangan pesakit diabetes meningkat 31 peratus dalam lima tahun berbanding peningkatan 11.6 peratus pada tahun 2006 bagi orang dewasa berumur 18 tahun dan ke atas (Kementerian Kesihatan Malaysia, 2011).

Jadual 2: Agihan zakat perubatan mengikut kategori asnaf di Selangor bagi tahun 2008 hingga 2011

Kategori asnaf	2008 (RM)	2009 (RM)	2010 (RM)	2011 (RM)
Fakir	27,679	200,837	2,113,217	196,664
Miskin	355,080	423,959	2,732,462	364,063
Muallaf	66,766	89,538	813,678	51,616
Gharimin:				
<ul> <li>Hutang Rawatan/ Sumbangan Mesin</li> </ul>	12,662,988	17,886,064	21,458,408	24,869,413
Dialisis				
Hutang Perubatan	3,127,513	5,290,994	3,793,559	3,724,770
<ul> <li>Sumbangan Tabung Khas Penyakit</li> </ul>	-	-	660,000	299,640
Kronik				
Jumlah keseluruhan untuk Gharimin	15,790,501	23,177,058	25,911,967	28,893,823
Jumlah zakat perubatan	16,240,026	23,891,392	31,571,324	29,206,166
Jumlah keseluruhan kutipan zakat	188,988,771	279,191,041	364,946,019	373,465,626
% pertambahan kutipan zakat	-	48%	31%	2%
% zakat perubatan daripada jumlah	8.59%	8.56%	8.65%	7.9%
keseluruhan kutipan zakat				
% pertambahan peruntukan zakat perubatan	-	47.11%	32.15%	-6.54%

Sumber: Laporan Pengurusan Zakat 2009-2011, Lembaga Zakat Selangor

Selain itu, pada 14 Disember 2011, bantuan zakat perubatan sebanyak RM1 juta telah diberikan dalam bentuk Tabung Pesakit Kronik dan Kecemasan oleh LZS kepada 10 buah hospital terpilih di Selangor dan Kuala Lumpur bagi meringankan beban pesakit beragama Islam yang kurang berkemampuan bagi menjalani rawatan di hospital berkenaan. Jelas sekali secara keseluruhannya zakat perubatan mempunyai peranan yang besar dalam membantu meningkatkan kualiti hidup golongan asnaf di Negeri Selangor khususnya dan Malaysia amnya.

## 5. KESIMPULAN

Zakat adalah sumber ekonomi penting bagi umat Islam. Jika diuruskan dengan baik, zakat dapat menangani pelbagai masalah sosial dan ekonomi dalam masyarakat terutama umat Islam. Melalui bantuan zakat perubatan, taraf kesihatan asnaf dijangkakan akan bertambah baik, dan seterusnya dengan kesihatan yang baik mereka dapat bekerja dan meningkatkan tingkat pendapatan keluarga. Apabila tingkat pendapatan meningkat kualiti hidup seseorang asnaf akan meningkat dan kemungkinan mereka akan terkeluar dari kategori asnaf fakir dan miskin. Sekiranya hipotesis ini dapat dibuktikan maka zakat perubatan akan menjadi alat ekonomi utama dalam meningkatkan kualiti hidup dan seterusnya mampu membasmi kemiskinan di kalangan umat Islam di Malaysia. Oleh itu, satu kajian empirikal perlu dilakukan pada masa akan datang bagi melihat kesan zakat perubatan terhadap kualiti kehidupan asnaf iaitu dengan mengumpul data primer melalui kaji selidik atau temu duga kepada golongan asnaf fakir dan miskin. Input yang diperolehi boleh dijadikan sumber kepada pembentukan model zakat perubatan bagi membasmi kemiskinan di kalangan asnaf pada masa hadapan.

### **PENGHARGAAN**

Kajian bagi menghasilkan kertas kerja ini dibiayai sepenuhnya oleh projek penyelidikan FRGS/1/2013/SS07/USIM/02/2.

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# ISTIHALAH: BROADENING THE HORIZONS FOR HUMAN IN SCIENCE AND TECHNOLOGY'S ADVANCEMENT

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## **ABSTRACT**

Istihalah is defined as change, transformation, transmutation and impossibility of a matter. It has been a topic of debate among the Islamic scholars for a long time; whether it is halal or haram after a matter has been through a changing process. In general, the scholars gave the description of istihalah along with examples that does not limited to transformation of wine to vinegar only. Instead, they also gave many variations including carcasses bone becomes ash and status of dogs' or pigs' carcasses buried in salt to name a few. In the case for halal and haram of istihalah products, there has been many opinions arose from the scholars; rigid, moderate, and loose. One thing that is clear is amidst the rigid opinions are being practiced in the society, the moderate opinions are considered as the most nearest to religion. Thus it is apparent that the objective of the Islamic syariah is to realize the moderate opinions in life.

Keywords: Istihalah, halal, haram, transformation, islam

### 1. INTRODUCTION

As Muslims around the world concern about halal and haram in their everyday life, the knowledge regarding that has been excavated throughout the years. This happens especially in this new era of science at the time of advancement through modern technology in order to enhance our life. The issue becomes more prominent when Muslims constitute 1.65 billion people around the world in 2010 and expected to increase by over one percentage point each decade with the ratio of one out of four by 2020 and increase by one out of three by 2075 (Kettani, 2010). The awareness does not only affect the Muslims, but the non-Muslims as well as the marketability of various products that is halal is more extensive then the haram ones since both Muslims and non-Muslims can acquire it.

Halal is an Arabic word derived from the verb *Hala* which bears the meaning of "opening a node, unwind, unscrew, unravel, untangle, disentangle, disengage, or resolving something". In Islamic concept, its definition is "things, food, or actions permitted by God's will or instruction, clean, pure, and opposed to haram" (al-Jallad, 2008)(Malboobi & Malboobi, 2010) (Latif, 2011). On the other hand, haram is derived from the verb *Harrama*; the opposite of halal which bears the meaning of "taboo, inviolable, sacred, holy, ill-gotten, sin, wrongdoing, offence, illegal, prohibited, not allowed" (al-Jallad, 2008) (Latif, 2011). The development of new technology in genetic engineering and modern biotechnology especially gave rise to religious concerns for ijtihad by Muslim scholars of various Islamic Schools of

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Thought to describe the status of products produced from them. Even though halal and haram in Islam has been clearly defined in the al-Quran and Hadith, there are still elements which are still in need for more information. Alternative methods to determine halal and haram are *al-Istihalah* (transformation), *al-Istihlak* (decomposition), *al-Dharurah* (necessity), and *al-Istibra*' (quarantine) (Jamaludin, Zaki, Ramli, Hashim, & Rahman, 2011). But, this paper will be focusing on *istihalah* only.

The Al-Quran and As-Sunnah are two of the most important religious sources of Islamic teaching. In the Al-Quran, there are pointers and teachings which are definite (absolute) and then there are certain laws which are general and subject to interpretations and elaborations as provided by the As-Sunnah. Principles that are still not definite beyond the As-Sunnah are subject to interpretation by the Muslims, more specifically, those in the society that are qualified to dissect the laws (ulama') that are mentioned in both the Al-Quran and As-Sunnah via ijtihad.

Fiqh knowledge is the product of ijtihad by the ulama' on the Al-Quran and As-Sunnah which allow proper understanding of the sacred texts. Fiqh knowledge extents to encompass explanations on principles and laws in the Al-Quran and As-Sunnah, spanning situations and conditions that are relevant to those principles and laws. Activities related to ijtihad in various stages are documented in various Fiqh scriptures and is carried out in a frame responding to changes and dynamics in each generation. It is not uncommon that changes are made to previous ijtihad with the inclusion of the differences in opinion between the former and the latter.

## 2. UNDERSTANDING ISTIHALAH

Istihalah is derived from the root word of Arabic; *Hala* with the root word  $\supset \supset \bowtie$  which literally means changing from one form, state, nature or character to another (Malboobi & Malboobi, 2010) (Jamaludin, Zaki, Ramli, Hashim, & Rahman, 2011)(Mohamad, Sidik, & Omar, 2012). Scholars in Islamic School of Thought has been doing research or ijtihad regarding to its meaning by conceptual, thus it can be defined as transformation of materials to other materials (non-reversible transformation) that involves the conversion of compositions and properties includes the conversion of filth's (*najs*) physical appearance and its properties such as name, odour, taste, colour, and nature into pure (*thahir*) (Jamaludin, Zaki, Ramli, Hashim, & Rahman, 2011).

In a term of Fiqh Law, Al-Istihalah describes change in a substances etc, for example, the change from wine (khamar) to vinegar (khalil). Dispute arises in question of the halal/haram status of those things that undergo istihalah; both product (before undergoing istihalah) and end product (after istihalah). Among them, wine undergoes istihalah to produce vinegar whereby wine and vinegar are at two ends of the spectrum, the former haram for consumption, while the latter halal. Fiqh laws and the ijtihad concerning istihalah related products have been around since the early days of Islam and the growth of Fiqh laws. Disciples of the Prophet Muhammad S.A.W. have asked the Prophet in a friendly manner of the do's and don'ts that surround istihalah as in the change of khamar to khalil, which are found in several stories of the Prophet's life.

According to Wahbah al-Zuhayli, istihalah is the "process of change that occurs to a najs (ayn najasah) substance to a pure substance either naturally or through mediation". He also gave examples like "the change of deer blood to musk; the change of wine to vinegar through naturally or via mediation by some other (which speeds the fermentation); the change of animal carcass or dog to salt as a result of the dog falling into salt; the change of faeces to ash as a reault of burning it; the change of fats to soap; the change of soil from drains (tainted with faeces) which has dried and lost the trace of the faeces; the change of faeces that has been buried in soil and lost all traces of the faeces after a certain period of time" (Wahbah al-Zuhayli, 1997: 1:100).

# 3. THE OPINIONS OF 4 SECTS OF ISLAM ABOUT ISTIHALAH

Mentioned many times in ancient Fiqh scriptures, istihalah is often an issue that causes difference in opinion among ulamas. In general, the istihalah concept is accepted through means of ittifaq in only certain cases. A predominant part of istihalah is practiced within certain sects with discretion. Ulamas of the Hanafi sect mostly accept the concept of istihalah although there has been a bit of a dispute between Muhammad and Abu Yusuf. The view of the Maliki sect with regards to istihalah is similar to the Hanafi sect.

The Syafie sect however, only accepts three scenarios where istihalah is concerned;

- i) The natural conversion of wine to vinegar;
- ii) Dead animal skin (hide) except dog and pig after it is being tanned;
- Something that transforms into an animal, for example when a carcass is infested by maggot, thus becoming new life; (Wahbah al-Zuhayli: 1: 101).

Wine that is artificially transformed into vinegar (human act of adding fermenting agents etc. into it for speedy transformation) is rendered inacceptable.

The Hanbali sect stands similar to the Syafie sect point of view whereby istihalah is only accepted in the context of wine transformation to vinegar naturally. It is also accepted if wine is unintentionally put in a place (with certain conditions) that cause acceleration of transformation.

# 4. CURRENT ULAMA'S POINT OF VIEW

Points of views by current ulamas or Muslim scholars in this issue are abundant albeit not extensively documented. In the resolution of Muslim Ulama conference on medical issues, held in Kuwait in May 1995, it was decided that (Wahbah al-Zuhayli: 660-665);

- i) Gelatine formed by istihalah from najs animal sources (skin, bones and veins) are halal and safe for consumption.
- ii) Soap made by istihalah from porcine (or dead animal/carcass) fat is pure and should be used.
- iii) Cheese made from rennet originating from dead animal/carcass is halal and pure for consumption.
- iv) Cosmetics with porcine fats are not usable unless it has undergone istihalah process and has changed in form and in nutrients.
- v) Food (certain foods like cheese, oil, butter, yoghurt, biscuits, chocolate and ice cream) containing porcine fat as part of it ingredients without change in composition and nutrients is haram for consumption.

## 5. CONCLUSION

The fatwas by ulama' both from the past and current is an indicator that istihalah is indeed an important concept for application especially in existing situations where usage of non-halal food ingredients have come into play. Now more than ever, food technologists, biotechnologists, pharmaceutical experts etc, have a crucial role to play in giving invaluable input with regards to istihalah. Input that can further

reinforce the objectives of Syariah i.e. tolerance, flexibility and ease of realisation. Among the mercy of Allah 'Azza wa Jalla, towards His beings, is to ease general issues in Syariah as a broadened way for the livelihood of Muslims. Ulam salafus salih says, 'Don't say that difference in opinion is a dispute; rather say that it is a broadening of horizons.'

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#### HALAL MARKETS IN CHINA: POTENTIALS AND CHALLENGES

Isa Ma<sup>1</sup>

## **ABSTRACT**

This paper aimed to evaluate Halal markets in China including Halal market potentials and challenges in China through analysis of Chinese Muslim populations (market size), purchasing powers, geographic locations (market places), and Chinese Muslim living situations in China (challenges). This paper also combated some problems relating to Halal markets in China and provided some basic information about Chinese Muslims and on Halal markets in China for potential Halal marketers.

Keywords: Chinese Muslims and Halal markets in China

## 1. INTRODUCTION

As companies head towards a global market that deals with people from many different cultural backgrounds, it has become essential for marketers to understand culture's influence on consumer behaviours. The recognition of the importance of culture on consumer behaviours has led to an increasing amount of research across cultures (Sojka and Tansuhaj 1995). More significantly, many studies have succeeded in establishing links between culture and consumer behaviours (McCracken 1986).

As the cultural variables and differences increase, the number of communication misunderstandings also increase. Barnlund (1989) suggests that a way to approach cultural understanding is to undertake a careful description of how people relate to one another in search of the norms that regulate social acts or behaviours. The most powerful elements of cultures are those that lie beneath the surface. Kluckhohn and Strodtbeck (1961) call these underlying cultural principles "value orientation". Each society has distinctive set of value and belief orientation. While each of these societies will certainly have significant variations on the mainstream culture, a dominant value prevails at any one time (Kluckhohn and Strodtbeck 1961, Hofsted 1981, Brislin 1990, Ramsey 1996). The dominant values are based on the frames of reference consisting of learned patterns of behaviours, assumptions and meanings, which are shared to varying degree of interest, importance and awareness among members of a group.

Numerous cultural studies on consumer behaviour have been conducted, especially in western context. In those studies, differences were found in consumption patterns or behaviours between people of various ethnic groups (e.g. Saegert, Hoover and Hilger 1985) and various geographic sub-cultural groups that hold differing cultural values (e.g. Gentry, Tansuhaj, Manzer and John 1988). For instance, researchers have found differences in various consumer behaviour aspects such as brand loyalty (Saegert et al. 1985), decision making (Doran 1994), novelty seeking and perceived risk (Gentry et al. 1988) across sub-cultural groups. Although previous studies have identified differences in various consumer behaviours across sub-cultural groups, most of the past studies dissected consumer behaviours and each study examined one or two specific aspects in a piecemeal-based way. There has been relatively little effort to examine the culture's influence on consumer behaviours in an integrated framework.

In the context of international marketing and globalization, marketers have to decide what market strategies to be adopted in order to address a particular group of people. For example, if Malaysian marketers want to promote their Halal products to Muslims in China, they must know this market with details including where

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these Halal markets are exactly located, how large the market sizes are, what the purchasing powers are etc., and more precisely they must know whether the Chinese Muslims in China do prefer to buy Halal products, including their Islamic values, beliefs and attitudes towards Halal products.

If the Chinese Muslims in China have low Islamic values, and beliefs in Halal products, they might not care about the nature of a particular product. If the research found that the sub-cultural groups are different in their Islamic values, and beliefs in Halal products, their attitudes toward Halal products will not be same too. As a result, their purchasing behaviours toward Halal products might be different, then individualistic marketing strategy is adopted for each target Muslim group in China; if the research found that the underlying sub-cultural groups are not significant different in their Islamic value, beliefs, ethnocentrism, trust, self-identity, dietary acculturation including their norms, attitudes and behavioural intentions towards Halal products, then a uniformed strategy across-cultural groups is acceptable.

Although there are very significant numbers of Chinese Muslims in China, their levels of understanding in Islamic values including religiosity, ethnocentrism, trust, dietary acculturation, norms and attitudes towards Halal<sup>2</sup> products are remaining unknown to us and this motives us to carry on this research.

We have been acknowledged from time to time that there are about 30 million of Muslim populations in China, which can be considered as a very significant market for anyone who wishes to penetrate their Halal products and services to this market. Especially, after 30 years of economic reform, average Chinese citizen's per capital income has increased to U\$D1500 (2008 figure).

Table 1.1: Rural and Urban Chinese Resident Disposable per Capital Income
During the Period of 15<sup>th</sup> and 16<sup>th</sup> Five Year Plan

	During the Period of 15° and 16° Five Year Plan								
Year	Rural Residents Family Disposable per Capital Income (¥:Yuan)	US\$* (a)	Urban Residents Family Disposable per Capital Income (¥:Yuan)	US\$* (b)	US\$ Average (a + b) /2				
2001	2366.4	346.5	6859.6	1004.3	675.4				
2002	2475.5	362.4	7702.8	1127.8	745.1				
2003	2622.2	383.9	8472.2	1240.4	812.2				
2004	2936.4	429.9	9421.6	1379.4	904.7				
2005	3255.0	476.6	10493.0	1536.3	1006.5				
2006	3427.5	501.8	11500.3	1683.8	1092.8				
2007	3609.2	528.4	12604.4	1845.4	1186.9				
2008	3800.5	556.4	13814.4	2022.6	1289.5				
2009	4001.9	586.0	15099.1	2210.7	1398.4				
2010	4214.0	617.0	16548.6	2422.0	1519.5				

Source: 2001-2005 data derived and digested from Lian, Yumin and Wu Jianzhong (2006), the Digital Map of China's Development, China Times Economic Publishing House (Zhong Guo Shi Dai Jinji Chu Ban She), pp.009. 2006-2010 data is estimation based on rural per capital income average growth rate 5.3% and urban resident per capital income average growth rate 9.6% annually. Exchange rate\*: based on June 17, 2009, 1 US\$=\frac{1}{2}6.83.

Despite this, yet we have known if these Chinese Muslims possess certain level of purchasing power, and more precisely whether they are keen to seeking Halal products to fulfil their cultural needs. Neither do we know about their level of understanding about Islamic values and beliefs, nor do we know the degree of their understanding of Halal/Haram (CAP, 2006, pp17) and their attitudes toward Halal products. Marketing strategy theory suggests us that if the research finds that the underlying sub-cultural groups are significant different in their cultural value, beliefs, attitudes, and behaviours, then a individualistic strategy addressing for each of the sub-cultural groups is employed, otherwise a uniformed strategy should be adopted across the sub-cultural groups.

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<sup>&</sup>lt;sup>2</sup> Halal literarily means "lawful" or "permissible" according to Islamic laws/Shariah, and its opposite is Haram literarily means "unlawful" or "prohibited" according to Islamic Laws/Shariah.

China, with 1.3 billion people including thirty millions of Muslim population increasingly enhanced buying power, is one of the largest consumer markets in the world. Especially after China joined WTO in 2001, China has become the fastest growing country in terms of its economic development in the Asia-pacific region and world, average GDP growth rate was 9% per year in the past 30 years since it started economic reform in 1978 and real GDP per capital has increased almost four folds.

**Table 1.2: China Socioeconomic Development to 2020** 

	1995	2000	2010	2020
Population/billions	1.211	1.287	1.423	1.60
Urbanization %	29	32	38	44
GDP growth	5	9.6	9.4	8.1
GDP per capita	\$700	\$700-\$1673	\$1673-\$2913	

Sources: CASS 1997; Lan, Yumin and Wu Jianzhong (2006.6), "China Development Digital Maps", China Times Economic Publishing House, pp003.

This development tread has led China increased international linkages with global world. As a result, the country's foreign trade system has undergone a complete reorientation, transforming China into a country where foreign trade serves as the primary engine for growing. Hence, from an insignificant pre-reform stage, China is today one of the major international traders and a significant participant to world capital market. How to handle China now is a hot topic among world political leaders. China is simply the biggest part of a new world. You cannot just switch it off<sup>3</sup>.

What we can do is be prepared well. Naturally, both academicians and marketing practitioners agree on the enormous influence and economic power, which China will exert in the 21<sup>st</sup> century. Indeed, with more foreign companies plugging into this market, their experiences through both success and blunders have greatly increased our knowledge about this previously untouched market. Unfortunately, Muslims in China have yet to be touched by overseas researchers until recent chaos happened in Xinjiang on July 5<sup>th</sup>, 2010. The world begins to pay attention on Muslims in China.

Today, China is said as a powerhouse for 500 world famous multinational corporations (MNCS), such as World Marts, Carrefour, GM, NEC, IBM, Microsoft Corporation, Boeing, Starbucks, KFC, and McDonald and so on, you just name it, and you will find all of them are operating in China, and this does not include millions of factories owned by the local Han Chinese, who are considered as Non-Muslims or heathens by Chinese Muslims.

This is not the problem, the problem is that each of them including millions of local Chinese firms produces something in one way another which is not considered as Halal or permissible to people who believe in Islam (Muslims), but Muslim consumers unconsciously consume these non-Halal products daily. For example, Starbuck Coffee is not considered as Halal<sup>4</sup>, KFC and McDonald restaurants in China serve pork burgers. Colgate and sweet candies are being sold in China containing animal fat which is not considered as Halal for Muslims.

China is becoming the largest manufacturer of goods in the world. It produces all kinds of goods on earth, and "made in China" is becoming a brand in the world marketplaces. Its membership to WTO has brought great impacts to Malaysian livelihood. Fifteen years ago when China requested investment from Malaysia (personal experience), many Malaysians ignored and turned down to that gold opportunity, but now China comes to Malaysia with flooded products including non-Halal and poised products.

A challenging scenario comes to Muslim consumers in Malaysia is uncountable Chinese made foodstuff/products now flooded in most supermarkets in Malaysia, and whose nature of Halal (Lawful or

<sup>&</sup>lt;sup>3</sup> "Mishandle China", Fareed Zakaria, News Week 2007

<sup>&</sup>lt;sup>4</sup> According to news circulated on internet Starbuck has not got Halal certificate from JAKIM: Department of Islamic Development Malaysia

permissible in Islam) status is unknown to many Malaysians. To some people, I mean Muslim consumers may not choose to be particular about the nature of a product. But, the fact is that thousands and thousands daily consuming goods such as foodstuff, beverage and wearing products (for example, wallet, shoes, jackets and handbags made of pig skins, perfume contained alcohol, and cosmetic contained alcohol and pig fat or unidentified animal fats) are available in Chinese markets as well as in Malaysian markets, and the nature of Halal of these products is unknown to us, but Malaysian are buying them daily. Hence, to buy or not to buy a type of products, especially foodstuff made by the Chinese (Non-Muslims) in China is not only a challenge to Muslims in China, but also to Muslims in Malaysia. As a matter of fact, Muslim consumers in Malaysia do really go to supermarkets and buy products made by the Chinese Non-Muslims (infidels) every day, and so do Muslims in China.

Even if one is not so particular about the Halal nature of a product, then, the Chinese poison milk (Sin Chew Daily, July, August and September 2008) case should be a hard lesson to all of us to learn irrespective or regardless an individual consumer is Muslim or not. To worry some or not, it is not a simple matter anymore, not only is it concerned to Muslims about Halal of a product, but more importantly it is a matter of life and death. "The big white rabbit sweet candies" once were available in most markets in Malaysia which were contaminated by melamine. Only after the case of Melamine worldwide renown, the products disappeared from the Malaysian markets.

For a Muslim any issue that concerns the question of Halal and Haram should be taken seriously. As the beliefs of a Muslim are set by Islam, there is nothing that can be taken lightly. Due to cultural assimilation taken place so long since the Manchurian dynasty and ignorance of Muslims in China, this basic principle in Islam might be also traded off or sacrificed.

Today's marketplaces in China and Malaysia are flooded with a wide range of foods made in China. Some of these are harmful to our health, for example, the poison milk and some are prohibited under Islamic law or Shariah, such as many processed foods containing high level of sugar and salt, various types food additives such as gelatine (CAP, 2006, PP98) whose Halal nature is unknown to us.

The issues of purity of a product or service (Halal) is something that is to be concerned to all of us, or at least it should be sensitive to Muslims in China if they want to continuously live as Muslims in a Communist Han Chinese dominated country. However, due to long term of enculturation with the Han Chinese, it can be noticed obviously that some Chinese Muslims adopt some Han Chinese habits such as heavy smoking and drinking alcohol in public places, especial the Uyghur Muslims who are general alcohol drinkers, they argued that it is their cultural heritage from their ancestors.

When the Uyghur look at the Hui, they would find that the Hui are more Chinese Han alike in appearance and dressing. If there is difference, that's religion. The Huis take Islam as their only religion. The other ethnic groups, such as Bao'nan, Salars and Dongxiang are remaining as myths to most Chinese as well as to Muslims, as their origins of race are unknown or debatable. So Muslims in China too today lead challenging lives. They do not only face political and economic harassments, but their socio-cultural aspects, for example, the food products that they commonly consume in everyday life are also facing threats. Social events and activities are dominated by the mainstream culture that is the Han Chinese culture.

The Han Chinese dominated culture is unknowingly and insensibly influencing and assimilating Muslim lifestyles. As a result, Muslim lifestyles are gradually disappearing and assimilated into Chinese Han culture that is the final goal of this regime wanted to achieve, they did it successfully in certain aspects such as in the area of education and culture. Brainwashing TV programmes and cultural shows dominated by ethnic Han Chinese are intensified in the region of Northwest China.

Parallel to the economic reform, religious freedom was declared within the same year. Since then, the Chinese Muslims have not wasted time in expressing their convictions. According to Malaysian External Trade Development Corporation (MATRADE), the Chinese Muslim population as 2006 has grown to approximately 30 million<sup>5</sup> people.

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<sup>&</sup>lt;sup>5</sup> Rizal, Mohd Adly (2007), "Investing in China-what you need to know" The Halal Journal, May-June

Has this presented a lucrative opportunity for foreign investments to enter into the Halal market in China? That depends entirely on which side of the fence you are on. There is currently a strong demand for Halal Products in China. However, with the exception of a few home grown small and medium scale enterprises which has successfully implemented international best practices for food processing and manufacturing, most of the small and medium enterprises (SMEs) in China still use traditional operating standards. This is due to the fact that Muslim SMEs in China lack the proper financing, business and technical expertise to compete in the local markets which we could see with our own eyes during the exhibition of Malaysian International Halal Showcase (MIHAS 2009) held from 7<sup>th</sup> -10<sup>th</sup> May 2009 at MATRADE.

Hence, assistance is required by the Chinese Muslims in China from foreign investors to expand and upgrade their processes to international standards and in this case the Chinese Muslims are eager to receive to investors from Muslim countries such as Malaysia. Generally, Muslims in China have positive attitude towards Malaysia. In addition, China currently lacks professional Muslims that are knowledgeable in international business and technical practices for the Halal industry. Investments from Muslim countries are required to upgrade the business management capabilities of the SMEs, manufacturing operations, acquire better technical expertise and introduce international best practices and standards (Rizal 2007).

The objective of the investments in Halal markets in China is to gain market share in the local markets in China and the gradual expansion into the international markets. A successful execution of these objectives will ensure lucrative returns to investors assisting local producers in developing the Chinese Halal market.

From the market demand perspective, 17<sup>th</sup> January 2003 marks a historical point for the development of Halal industry in the country with the unveiling of the first comprehensive Islamic supermarket in China. Located in the Niujie District in Beijing, the supermarket offers over nine thousand items with over three thousand products specific to the Muslim market. A small food court offers a range of tasty snacks, noodles and dumplings. The Niujie Islamic supermarket not only provides a one-stop centre for Muslims to fulfil their religious dietary requirements but also a channel for local Muslim enterprises to effectively market their Halal products to a wider range of consumers. Leveraged buyout on the low production costs prevalent most parts of China.

Chinese enterprises are more inclined in fostering partnership with foreign companies to the Halal industry locally and abroad rather than trading in imported products. Because of lack of transparency, my Malaysian friend Mr. Ahmad who has been studying in Beijing for the past decade told me in 2008 that most products being sold in Niujie Islamic supermarket were not Halal because product suppliers were non-Muslims. He argues how can non-Muslims supply Halal products for Muslims? It is ill-logic, he argued. I was shocked.

While companies from Malaysia with strong Halal product offering can still penetrate the Halal markets in China, this could be usually achieved by partnering with the local Muslim associations and Muslim companies in China through joint ventures.

Malaysian companies can leverage on the strong influence associations have over the Halal consumer markets in the area. For example, in Xinjiang, an organisation representing the Xinjiang Muslim food industry is the Urumqi Muslim Food Association. There are also thousands of Islamic associations spread all over of China across city, county and provincial level which can be sources for sorting out of Muslims owned or non-Muslims owned firms in a particular area for investment in the form of leveraging.

Fundamentally speaking, there are ten ethnic Muslim groups geographically located all over of China, although they are all Muslims, we believe that they will display great differences in preference of Halal products due to differences in their ethnic, cultural and geographical and educational backgrounds. Each of these ethnic Muslim groups across the regions, provinces, counties, cities, communities and neighbourhood in all over of China, has its own unique set of rules of behaviour (personal experience).

We also have the acknowledgment that there are 30 million of Muslim populations in China. By increasing average Chinese citizen's purchasing powers, we believe that there is a potential for Halal markets in China. However, we do not know much about this previously untouched market. Therefore, we need to do a

research particularly addressing on Halal markets in China by focus on Chinese Muslims' cultural values such as religiosity (beliefs), ethnocentrism, trust, Habits, self- identity, dietary acculturation, including their attitudes, norms, perceived controllable behaviours towards Halal products and their purchasing intention towards Halal products.

Globalization has led to the commercialisation and despiritualisation of all aspects of human life, including Muslim religious practices. In many traditions, consumption of food is not just to satisfy physical needs but has spiritual significance. Certain foods and products are considered lawful (Halal) while others are prohibited (Haram). Consumption of lawful foods and products promotes spiritual development (Sheikh Yusuf Al-Qaradawi). In information technology terminology this is called "GIGO"-garbage in and garbage out. Not long ago, we consumed foods that were produced by small famous using ecologically sustainable agricultural practices and that were free from chemicals. Natural farming based on millennia old wisdom of our farming tradition, was the prevalent practice until the appearance of industrial agriculture.

With the introduction of "scientific" farming practices promoted by Chinese bureaucrats trained in Western and Communist educational system, and under competitive pressure from big corporations, farmers in China began using increasing amounts of in-organic fertilizer, harmful pesticides, herbicides and other chemicals. For example, the poison rice<sup>6</sup> case was just a piece of iceberg from millions of such cases unveiled in China. Only now are we beginning to realize the harmful effects of the use of chemicals on our health and the environment. Based on theory of GIGO-Garbage in and garbage out, can consumption of foods which are produced by destroying our health contribute to the "illumination of our hearts"? There was once upon a time when we consumed largely fresh, wholesome natural food. But with the advent of food technology and food industry, we have been eating more and more processed foods containing chemicals, additives, preservatives and taste enhancers. Consequently, we are taking into our bodies more chemicals which could be injurious to our health. There is an emerging view among public health practitioners and researchers linking exposure to chemicals, whether in the food we consume or the air we breathe, to diseases like cancer. Besides, the health risks, in many cases, processed foods offend the dietary practice or regulations of certain groups. Many additives are from animal sources, sometimes from cows and pigs. Therefore, vegetarians, Hindus and Muslims cannot eat food containing such additives.

Because we do not have adequate laws on labelling in China, Chinese Muslim people are consuming food that violates their dietary practice or rules. The problem is compounded by the import of food items from regions that are subject to proper inspection and testing. For example, some types of sweet candies, e.g. Big White Rabbit, which contain pig milks, animal fats and gelatine, manufactured in Guangdong province and widely being sold in Northwest China where Muslims occupy a big majority comparatively as well as being sold in Malaysia.

The issue of Halal or Haram is of cruel important to Muslims in China as well in Malaysia, because it touches on their Iman or faith. They are required to be scrupulous in avoiding prohibited and suspect things. Unfortunately, we do not have adequate information about Muslims in China including Halal markets in China, Muslims' cultural values, beliefs, their attitude toward Halal products and their preference of Halal products.

When Muslims in China consume foods in public hotels and restaurants located in other than their own hometowns, or on trains and aircrafts travelling in China, or purchasing food items from supermarket and hypermarkets, very often, they are not sure whether the food conforms to Islamic dietary rules. There is no proper certification and they do not have access to information to form an opinion. The Muslims in China highly regard the Halal certification issued by the official Islamic institutions with full confidence and trust because they do not have adequate skilled personnel and testing facilities to conduct rigorous inspection and testing on food offered for sale to public.

The official Islamic institutions in China, such as China Islamic Association together with its branch offices in Provincial, County and City level should push for the enactment on different level of state legislation, regulating the production, transportation, storage, distribution and sale of Halal food and products. It must

<sup>&</sup>lt;sup>6</sup> Old rice polished with calcareousness and resold in the market as new.

provide for strict punishment of those who misrepresent non-Halal food and products as Halal and thereby deceive consumer into consuming or buying them. After the Shandong incident<sup>7</sup>, we cannot accept the mistakes made by the government by saying that the religion is not allowed to interfere the state affairs.

This is not a matter of Muslim religion is interfering the state affairs but the state is violating the freedom of religious practice of Muslims by allowing non-Halal foodstuff and products being sold to public as Halal. For Muslims, Halal and Haram is a matter of state affairs as well as personal religious matter, and more precisely it concerns its citizens' healthy matter, so the state must take stand on this issue. The World Health Organisation has come out with guidelines on Halal food which could be enacted as local legislation subject to amendments that we deem necessary.

Muslim scholars should not confine their studies and opinions only to how animals are slaughtered, meat is transported and stored, and food is prepared. Technological society has thrown up new issues that require authoritative answers rooted in Islamic teaching, and not Fatwa-s justifying what we have had in the name of value-free science and technology. Is it permissible to eat food loaded with chemicals injurious to health and produced by killing other living things, destroying the environment and fracturing the ecological balance created by God? Is it Halal (lawful) to consume meat from animals that are reared under extremely cruel conditions, for example, sheep slaughtered in the dark night using mechanic machines, in violation of the Shariah? Not only do we urgently need answers to these important questions to ensure that Muslims consume licit food, but also are we interested to know whether the Halal and Haram matters are indeed important to Chinese Muslims.

This research is a part of our effort to resist the homogenization of cultural values, attitudes, behaviours (taste and lifestyle) promoted by Sinocization process led by ethnic Han Chinese dominated governments and institutions. We believe in diversity and will struggle to preserve our way of life, culture, norms and values against the onslaught of capitalism, Chauvinism and Sinocization taken place on Muslims in China. On this backdrop, and faced by these challenges to Muslims in China, our research will focus on the following problems:

- (1) What is the level of Chinese Muslims' understanding in Islamic beliefs (religiosity)? Is there any difference of Chinese Muslims' understanding in Islamic beliefs (Religiosity) across ethnical Muslim groups and across geographical regions in China?
- (2) What is the level of Chinese Muslims' Cultural Adherence (ethnocentrism) to Islamic culture? Are Chinese Muslims proud of Islamic culture? Is there any difference of Chinese Muslims' Islamic culture across ethnic groups, and geographical regions in China?
- (3) What is the level of Chinese Muslims' trust towards Halal products available in the markets? Do Chinese Muslims trust those products being sold in supermarkets, aircrafts and trains as Halal? Is there any difference of Chinese Muslims' trust towards Halal products available in the market across ethnical Muslim groups and across geographical regions in China?
- (4) What is the level of Chinese Muslims' self identity being a Muslim? Are Chinese Muslims proud of their Muslim identity? Is there any difference of Chinese Muslims' self identity being a Muslim and being a Chinese across ethnical Muslim groups, across geographical regions in China?
- (5) What is the level of Chinese Muslims' Halal Dietary Acculturation (Familiarity to Halal products)? Are Chinese Muslims familiar with Halal and Haram matters? Is there any difference of Chinese Muslims' familiarity towards Halal products across ethnical Muslim groups and across geographical regions in China?
- (6) What are the Chinese Muslims' attitudes towards Halal products? Are they positive or negative towards Halal products? Is there any difference of Chinese Muslims' attitudes towards Halal products across ethnical sub-cultural groups and across geographical regions in China?
- (7) What are the Chinese Muslims' norms and perceived controllable behaviours towards Halal products in a Chinese environment and non-Halal surroundings? Are Chinese Muslims seeking for Halal products? Is there any difference of Chinese Muslims' norms and perceived behaviour towards Halal products across ethnical Muslim groups and across geographical regions in China?

<sup>&</sup>lt;sup>7</sup> Pork butcher shop labelled as Halal (pure and genuine) in Chinese and drawn wide range of protest in Shandong, then spread to Hebei and Henan provinces and created regional chaos in 2003.

#### 2. HALAL MARKET SIZE

Today, if you ask a Chinese Muslim or Chinese Muslim scholar, he will probably say that Muslim population figure in China is more than 65 million at least 30 million as conservatively, and if you ask the leaders of Chinese Islamic Associations in China and Communist government officials, they will say that Muslim population in China is not more than 20 million.

Many Chinese communist officials pointed out that the figure of 48 million (see table 2.1) before 1949 was incorrect and the figure of 20 million Muslim manufactured by the Chinese Communist regime in 1990 was accurate. However, that figure never changes in the past twenty years in Chinese government documents and official stances. Surely, the Chinese government downplayed the real figure of Muslim population in China as usually it did in its report on its military expenditure. Whereas in the case of Muslims in Taiwan, this would be another case where the Kuo Ming Tang (KMT: Chinese Nationalist Party) in Taiwan would play up the Muslim figures for international attentions.

In order to attract attention from international as well Muslim communities for the purpose to expand its diplomatic relationship, the Taiwanese government usually puffed up Muslim population figures in Taiwan. For example, there are only 20 thousand Muslims in Taiwan reported by Islamic Association in Taipei. However, the Taiwanese government often claims that there are about 200 thousand Muslims in Taiwan.

On the other hand, the Chinese Communist Regime in the mainland China downplayed Muslim figures in China in order to avoid international attentions. China has been condoned by international communities for violating human rights including Muslims' freedom of religious practice. As a result, China's report on Muslim population looks like its military expenditure, it is a state secret.

Today, the population of Muslims in China is estimated to be between 30 million to some 65 million, and some even estimate that Muslim population has reached 200 million according to unofficial counts. This big disparity may stem from the existing census method, although it is worth noting that before the liberation in 1949, the KMT government estimates were already at 48 million as Table 1.3 shows.

If you look at Chinese official documents on Chinese culture and history published by Chinese Ministry of Foreign Affairs, you would find that there were Buddhism, Daoism and Christianity in official documents, but no Muslims-if there were, there were only some minorities living in the northwest China. For ethnic Han Chinese, if there were Muslims in China, which meant that, the Chinese government's assimilation policy would have failed. For the Chinese communist regime, the less Muslim population, the better it is for it to fool international communities. We should not forget that Confucian culture excludes foreign cultures. In the Biography of Zuo, Confucius says: "if he who is not from our race must have different heart from us".

Nevertheless, neither Taiwanese KTM regime nor Chinese communist regime in the Mainland is speaking the truth. The Chinese communist regime in the mainland would insist that there are about 20 million Muslim populations in China. According to National Censuses conducted in 1990, 2000 and 2010, this figure never changes in the past twenty years.

The Chinese regime in Taiwan would also say there are 200 thousands of Muslims in Taiwan, although there are only 20 thousand Muslims in Taiwan and most of them have been assimilated into ethnic Han Chinese, which means that they speak Chinese, drinking alcohol, and eating pork?

Table 1.3 Muslim Populations in China before Liberation (1949)

	Province/Region	Muslim Population	Number of	Muslim Communities
		In China	Mosques	
1	Xinjiang/新疆	2,350,950	2045	2045
2	Gansu/甘肃	3,510,920	3891	3891
3	Ningxia/宁夏	753,400	655	655
4	Qinghai/青海	1,186,590	1031	1031

5	Dong San Sheng/东三省	7,533,680	6570	6570
6	Rehe/热河	278,950	241	241
7	Suiyuan/绥远	384,620	253	253
8	Cha Ha Er/察哈尔	195,050	175	175
9	Hebei/河北	3,379,410	2942	2942
10	Henan/河南	3,094,800	2703	2703
11	Shanxi/陕西	4,129,090	3616	3616
12	Shaanxi/山西	1,589,570	1931	1931
13	Shandong/山东	2,890,430	2513	2513
14	Yunnan/云南	4,508,290	3971	3971
15	Guizhou/贵州	519,160	449	449
16	Sichuan/四川	2,615,330	2275	2275
17	Guangxi/广西	280,180	429	429
18	Guangdong/广东	558,450	201	201
19	Hunan/湖南	1,302,900	932	932
20	Hubei/湖北	1,587,080	1134	1134
21	Jiangxi/江西	286,590	205	205
22	Zhejiang/浙江	357,300	239	239
23	Anhui/安徽	2,288,580	1515	1515
24	Jiangsu/江苏	1,963,170	1302	1302
25	Fujian/福建	471,750	157	157
	Total	48,104,240	42,371	42,371

Source: Fu, Tong Xian (1937), Islamic History in China, First published by Shanghai Commercial Publishing House and reprinted by Ningxia People's publishing House in 2000, pp111. Chinese government officials as well representatives of China Islamic Association (CIA) rejected these figures without given valid reasons and proper calculations.

Because of this, we would never really know the exact Muslim figures in China-unless we conduct an independent census on Chinese Muslim population in China and Taiwan, which would be impossible in China.

As Table 1.3 shows that the largest Muslim population in China is the Hui people. The Hui name derived from Islam which means "Min Aina ila Aina" indicating those who shall return to their origin- the Chinese Name for Muslims and Islam". The Huis comprise near half of China's Muslim population (48%) and are scattered throughout all over of China.

Table 1.4 Muslim Populations in China in 1990 and 2000 After 50 years of Liberation

	Three et jeurs of zhiser union										
	Ethnic Muslim	Population	Population	Growth	Growth	Annual	Population	Percent			
		Groups		within	Rate	Growth	in	in			
	Огоира	1990	2000	10 years	%	Rate %	2010	2010			
Α		The Chinese origin									
1	The <u>Hui.</u>	8,602,978	9,816,800	1,213,822	14.00	1.27	11030622	48.0			
В			The	Turkic Origin	1						
2	the Urghur,	7,214,431	8,399,400	1,192,400	16.34	1.48	9,591,800	42.0			
3	Kazak,	1,111,718	1,250,500	139,700	12.58	1.15	1,390,200	6.0			
4	Kyrgyz,	141,549	160,800	17,300	12.06	1.10	178,100	0.7			
5	Uzbek,	14,502	12,400	-2400	-16.21	-1.71	10,000	0.04			
6	Tatar	4,873	4,000	-170	-3.44	-0.34	3,830	0.01			
7	<u>Salar,</u>	87,697	104,500	17,000	19.37	1.71	121,500	0.5			
С			The I	Mongol origin	s:						
8	Dongxiang	373,872	510,380	140,100	37.50	3.08	650,480	2.8			
9	Bao'nan	12,212	16,500	4,800	41.27	3.34	21,300	0.09			
D			The	Iranian origin	:						
10	the Tajik	33,538	41,000	7800	23.4	2.04	48,800	0.2			
	Total	17,597,370	20,328,100	2,730,730	13.4	1.34	23,058,830	100			

Source: National Census in 2000. Muslim Population in 2010 was estimated in 2008

When we look at the Huis from their appearance, we will find that the Huis are very much similar with the Han Chinese, the Huis eat food with chopsticks, they dress like the Hans, their appearances look like the Hans, and they speaks Han Chinese language, especially those Huis live in South China or big cities such as Beijing, Shanghai and Guangzhou etc. These are Chinese Muslims whose mother tongue is Chinese, whose religion is Islam, and they are called Hui or Hui Hui in Chinese.

We may simply say that Chinese Muslims are the Huis or Hui Hui, or the Hui people. So when we say Chinese Muslims, we mean that we are referring to people who are speaking Chinese language and believing in Islam. The Hui does not have a "common area" and a "common language", hence the definition of ethnic or nationality does apply onto the Hui. Nearly all of the Turkic Muslims are found in the Northwest provinces, such as Gansu and Xinjiang.

The autonomous administrative system is originally designed to give the minorities' political equality with the Han people and to help them maintain their distinctive identities at the same time, but this sweet promise has been broken since 1957. The Han Chinese language (Pu Tong Hua or Mandarin) is being promoted as the official spoken language of the country. All minority peoples are urged to learn it, which is the primary step to ethnic Han assimilation.

Generally speaking, all minorities live harmoniously with the Han people side by side. Recent cases in Xinjiang<sup>8</sup> and Tibet<sup>9</sup> shows that the government polices do not work well to promote economic development among minorities to enable them to catch up with the Han people.

Due to bias and prejudice, the Hans always assume themselves superior than other minorities in all aspects, and all the minorities were considered as backward, therefore they need rescue and salvation or saviours from the Han Chinese. Because of this bias, those state-owned corporations and companies operating in Xinjiang, Qinghai, Gansu and Ningxia traditionally take employees from those Han Chinese who are originally from East or South China, instead of employing the local Minorities who are indigenous people in these areas.

<sup>9</sup> In the month of June, July before the Olympic game started, Tibetans uprising in Lhasa, South Gansu and Aba in Sichuan against the Chinese Communist ruling.

<sup>&</sup>lt;sup>8</sup> Before the day of Olympic game started on 8.8.2008, bombing attack on Chinese armed forces occurred in Kashgar, Xinjiang on 4.8.2008. Source: Sin Chew daily, International, August 31<sup>st</sup> 2008.

Broadly speaking, the Hans always intentionally interfere in the ethnic minority affairs and try to convert them into Han Chinese. After having converted to Islam, a Han Chinese feels it is not right to call him as Han people continuously as he is Muslim now, so he decides to change his nationality status from Han to Hui, the government would say that he could not do so, even though he is a Muslim now and his Muslim (Hui) status cannot be recorded into his personal file or household account kept by the government. So long his Han nationality status does not change, his religion status will remain no change, although privately he is Muslim now, and the government records would maintain that he is still Han, therefore he is not counted as Muslim in the government statistics or census. Therefore a Han Chinese is not allowed to change his Han ethnic background to Muslim ethnic Hui background in the Northwest China.

However, if a Hui, somehow, because of marriage or other reason, has lost the religion of Islam and sense of belonging to Muslim community, and decided to change his nationality status from Hui to Han, he is most welcome, and he can do so very smoothly without facing any harassment.

Every time when the Government does national census survey, and the Muslim population announced by the government is always based on the accumulated figure of those ten minorities whose religion is Islam and other ethnic groups including the ethnic Han who might take Islam as their religions are not accounted. Whatever the government is trying to do, it eventually cannot cover up the fact that there is a huge Muslim population distribution in China.

Table 1.5 Ten Ethnic Muslim Populations in 2010 Chinese National Census

Region	Hui	Uyghur	Kazak	Dong xiang	Kyrgyz	Salar	Tajik	Uzbek	Bao nan	Tatar
Beijing	249223	6975	1602	484	189	644	21	51	24	23
Tianjin	177734	2170	476	121	41	122	11	19	10	4
Hebei	570170	864	320	78	25	131	8	7	7	17
Shaanxi	59709	670	277	30	6	43	1	3		1
Inner- Mongol	221483	658	377	574	141	53	6	6	90	6
Liaoning	245798	1917	448	27	125	88	10	5	2	14
Jiling	118799	1127	467	32	36	50	2	2	6	5
Hei long jiang	101749	884	165	19	1431	7	9	5	3	3
Shang hai	78163	5254	639	362	58	941	14	14	16	12
Jiangsu	130757	4367	2124	420	61	353	17	15	32	19
Zhejiang	38192	5377	695	322	279	424	3368	86	17	9
Anhui	328062	710	1203	112	14	78	3	4	15	9
Fujian	115978	1159	1492	339	50	80	19	9	5	17
Jiangxi	8902	852	1718	49	46	44	33	9	0	4
Shan dong	535679	4635	1116	126	90	609	32	13	7	11
Henan	957964	3035	4805	72	37	279	23	16	4	4
Hubei	67185	2577	2191	67	36	135	9	9	6	10
Hunan	94705	6716	2775	62	62	79	3	33	13	15
Guang dong	45073	6438	4602	403	577	823	165	73	25	55
Guangxi	32319	1795	1884	17	28	128	2	13	1	24
Hainan	10670	393	1553	19	1	21	0	0	0	0

Chong qin	9056	1162	259	102	28	71	2	4	9	1
Sichuan	104544	1945	1882	191	74	223	23	17	43	15
Guizhou	184788	548	2093	958	2	99	0	0	8	3
Yunnan	698265	1282	896	181	34	265	7	11	49	10
Xizang	12630	205	2143	757	2678	255	0	4	15	0
Shanxi	138716	1570	794	116	23	156	3	7	4	1
Gansu	1258641	1937	4444	546255	48	13517	13	15	18170	18
Qinghai	834298	209	680	6331	4	107089	3	2	904	2
Ningxia	2173820	613	190	1261	12	72	1	3	21	2
Xinjiang	983015	10001302	1418278	61613	180472	3728	47261	10114	568	3242
All China	10586087	10069346	1462588	621500	186708	130607	51069	10569	20074	3556

Source: 2010 Chinese National Census.

Those small figures, less than one thousand, are planted by the Chinese government to show the world that China is the paradise for all ethnic groups. Figures such as, 1, 2, 3 and 4, most of them are students enrolling universities and schools in these regions.

# 3. GEOGRAPHICAL LOCATION/HALAL MARKET PLACES

The most recent economic thrust is the opening of the Great Northwest since 2000, primarily an area where Muslims reside. This has been complemented by a series of ongoing trade exhibitions in Lanzhou and Ningxia among others. Much work is needed to make this economic developmental opportunity for Muslims a reality. Ideally, Muslim population size (N) multiplies disposal per capital income will be the market size or potential (N\*\$). Although we know there is a considerable Muslim population in China, and we know the disposal per capital income in China, yet we do not know whether they understand the Halal products, whether there is a need and want for Halal products. That leads this research.

Source: Muhammad Daniel Wang Dianwen, a famous Muslim calligrapher in China and my friend.

Figure 1.1 Chinese Muslim Communities in China

Muslims in China traditionally live around mosques and mosques are community centers too. If you can find a mosque in any particular place in China, you are almost ensured to find out a Muslim community in that area including Halal restaurants and business centre, then your life would be easy there. Unlike Taoism and Buddhism temples in China which were normally built up in an isolated area or far away from community centers, but mosques in China were normally built in the gold places where commercial and community centers are usually standing, for example, Xiguan Grand Mosque in Lanzhou city, the capital city of Gansu province occupied the city centre and the most valuable and gold place in the city, no matter what price syndicates in the city wanted to pay for the place, Muslims there did not trade their mosque for money. A Fengshui master told ethnic Han Chinese in the city that the Xi Guan Grand Mosque sited exactly on the head of dragon worshiped by ethnic Han Chinese in the city, as a result, ethnic Han would never rise up their heads, so the ethnic Han used Chinese government power in Lanzhou and tried very best to reallocate the mosque to another place, the ethnic Han failed.

In China, each mosque represents a particular Muslim community and serves Muslim people in that particular community, and Muslim population in that particular community normally does not cross or conjoin with another mosque due to following different sects of the religion of Islam or geographical distance. It is therefore, a mosque means a community, a society, a market, more importantly.

There are now more mosques open in China than there were prior to 1949, one would finds among the Muslims in China today a wide spectrum of Islamic belief. Archaeological discoveries of large collections of Islamic artefacts and epigraphy on the southeast coast suggest that the earliest Muslim communities in China were descended from Arab, Persian, Central Asian, and Mongolian Muslim merchants, militia, and officials who settled first along China's southeast coast from the 7-10<sup>th</sup> centuries, and then in larger migrations to the North from Central Asia under the Mongol-Yuan dynasty in the 13-14<sup>th</sup> centuries, gradually intermarrying with the local Han Chinese populations, and raising their children as Muslims

Muslims in China are practicing Sunni, Hanafi Islam, residing in independent, small communities clustered around a central mosque. These communities are characterized by relatively isolated, independent Islamic villages and urban enclaves, who relate with each other via trading networks and recognition of belonging to the wider Islamic "Umma" headed by an Ahong (from the Persian, akhun) or Imam who was invited to teach on a more or less temporary basis. Muslims in China live dispersedly in nationwide, however, in a particular place they live in small communities or clusters concentrically.

Before 1949, based on KMT government estimation there were 42,371 Mosques all over of China. If we assume that there were one thousand Muslims living around each mosque on average basis, the population of Chinese Muslims in China then would be 1000X42, 371=42,371,000 (≈42 million) which was very close to the figure, 48 million, which was the figure given by the then government. If there were about 500 Muslims living around a mosque, we would have at least about 21 million Muslims in China before 1949.

Suppose if there were about 250 Muslims living around a mosque, we would have at least 11 million Muslims in China before 1949. Census on Muslim population might not be accurate as what the Chinese KTM regime released and CCP leaders criticised. Regardless, whatever a case might be, it is a deadly fact that there are potential and substantial Muslim populations in China which no one could deny.

As what the Chinese Communist cadres argued on the inaccurate of Muslim population estimated before 1949, but the number of mosques would be accurate as mosques per see were public places in those and now days under government watching and monitoring, how many mosques in a particular city, county or province are obvious. The number of mosques was public and open information, and the government could not play fool with. The only possibility was something happened in the period of 1957 to 1960 to Muslim populations in China, In this period, the Great Leap Forward campaign took place, it was a man-made tragedy, at least thirty-five million of Chinese people died in starvation, so did Muslim population.

According to the Chinese Communist propaganda writer and promoter, Stockwell<sup>10</sup> (1996, p144) there were more than 30,000 mosques in China in 1993. If we assume that the pro-communist western writer was correct because he got accurate data and sources from the Chinese Communist regime, if we assume on average there were one thousand Muslims living around a mosque, then the total Muslim population would be 1000 X 30,000=30,000,000 (30 million) in 1996.

The estimated figure of one thousand is based on our experience, because those mosques on official list usually would have some voltage such as huge population or long history. If it was a historical mosque, the Muslim population living around a mosque would be not less than 1000 after hundred years of historical process.

In China, on average, an officially listed mosque normally has at least one hundred years of history. Otherwise it would not be listed as officially, without sufficient Muslim population support and request, it is impossible to build up a new mosque in resident area. Furthermore, one thousand is a minimum unit for counting population in a particular village, district and city for building up a mosque.

Therefore, in any case, the number of mosques is more accurate if the figure of population might be manipulated by administration for political agenda or calculated mechanically, then, we would have 30 million of Muslim populations in China, and this figure is still conservative figure as some Chinese Muslim scholars estimated about 65 million. Other estimation says that mosques in China were more than 3700 or 4000.

As mosques were not built just like that, without enough Muslim population supporting and active participating in contribution, to build a mosque is as difficult as building up a house on the top of Himalaya. Whatever the Muslim population is in China, one thing we are very sure that there are potential and substantial Muslim markets or Halal markets all over of China since there are concrete Muslim consumers.

## 4. HALAL MARKET IN CHINA: PURCHASING POWER AND MARKET SIZE

We assume that Muslim population size in China is 30 million, if the disposable per capital income on average Chinese citizen is U\$D1500 (2008), we assume, average disposal per capital income for Muslim minorities is U\$D1000, then, Halal market in China would be about approximately: U\$D1, 000X30 million=U\$D30, 000 million or 30 billion which is surely a huge market.

Generally, there are two major factors which can determine the Halal market potentials in China. First, assuming the Government is pro-business, pushing political concerns aside and other factors are constant, then the first factor determining the Halal market potentials would be the Muslim populations in China, the size of consumer population really does matter; the second factor determining the Halal market potentials would be the purchasing power which is measured through the disposal per capital income, which could be obtained from the reports of China national statistics, and the data of these two factor can be retrieved and digested from various national statistic reports. Hence, Halal market potentials can be calculated thoroughly. In 2012, Muslim disposal income has reached a significant level of U\$D1500 (based on surveyed data).

However, the challenge is do Muslim consumers in China need Halal products? Do they have wants for Halal products? Do they hold those Islamic values? We do not have answers to these questions. Muslim consumers' Islamic values or the level of understanding of Islamic values will influence Muslim consumers' attitude towards Halal products, as a result, which will influence consumers' purchasing behaviours, such as buy or not to buy, prefer or not prefer Halal products.

# 5. WHY MUSLIMS IN CHINA?

Muslims in China take great pride in citing a Hadith that says "Seek knowledge even unto China".

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<sup>&</sup>lt;sup>10</sup> Stockwell, Foster (1996), "Religion in China Today", New Word Press, Beijing, China. P144

Figure 1.2 Arabic Calligraphy "Seek knowledge even unto China"
By Chinese Muslim: Cheng Guang Yuan



This Hadith is a call for China studies. It points to the importance of seeking knowledge, even if it meant travelling as far away as to China. Especially, as at the time of the Prophet Muhammad (PBUH), China was considered the most developed civilization of the period. Islam in China began to spread and fruitful during the caliphate of 'Uthman ibn Affan (Allayhi Rahma, ra), the third caliph. After triumphing over the Byzantine, Romans and the Persians, 'Uthman ibn Affan, dispatched a deputation to China in 29 AH (650 C.E., Eighteen years after the Prophet's (pbuh) death), under the leadership by Sa'ad ibn Abi Waqqaas (Allah ArRahamuhi), Prophet Muhammad's (Suanlanlla Allahi Allaihi WaSuanllaimai (S.A.W). or PBUH) maternal uncle, inviting the Chinese emperor to embrace Islam.

Even before this, the Arab traders during the time of the Prophet (PBUH) had already brought Islam to China, although this was not an organized effort, but merely as an offshoot of their journey along the Silk Road (land and sea route). Now, the question is what has happened on Muslims in China after thousand years of evaluation? Are they still Muslims who follow Islamic values? Or have they been Sinocized by ethnic Han Chinese? Do they particular about Halal and Haram in products they consumer?

Although there are only sparse records of the event in Arab history, a brief one in Chinese history, The Ancient Record of the Tang Dynasty describes the landmark visit (Fu, 1937).

To Chinese Muslims, this event is considered to be the birth of Islam in China. To show his admiration for Islam, the emperor Tang Gaozong, in the Second Year of Yonghui (651 C.E) ordered the establishment of China's first mosque (Fu, 1937).

The magnificent Guangzhou city mosque known to this day as the 'Memorial Mosque.' still stands today, after fourteen centuries. One of the first Muslim settlements in China was established in this port city. The Umayyad and Abbasids sent six delegations to China, all of which were warmly received by the Chinese (Fu, 1937).

The Muslims who immigrated to China eventually began to have a great economic impact and influence on the country. They virtually dominated the import/export business by the time of the Sung Dynasty (960-1279 CE). Indeed, the office of Director General of Shipping was consistently held by a Muslim during this period. Under the Ming Dynasty (1368- 644 CE) generally considered to be the golden age of Islam in China, Muslims gradually became fully integrated into Han society.

An interesting example of this synthesis by Chinese Muslims was the process by which their names changed. Many Muslims who married Han women simply took on the name of the wife. Others took the Chinese surnames of Ma, Mai, and Mu - names adopted by Muslims who had the names Muhammad, Mahmud, Masoud and Mustapha. Still others who could find no Chinese surname similar to their own adopted the Chinese character that most closely resembled their name-Ha for Hassan, Hu for Hussein, or Sa for Said, La for Abdullah, Sha for Shamsuddin and so on.

In addition to names, Muslim customs of dress and food also underwent a synthesis with Chinese culture. The Islamic mode of dress and dietary restrictions were consistently maintained and not compromised. In time, the Muslims began to speak Han dialects and to read in Chinese. Well into the Ming era, the Muslims could not be distinguished from other Chinese other than by their unique religious customs. In spite of the

economic successes the Muslims enjoyed during these and earlier times, they were recognized as being fair, law-abiding, and self-disciplined. For this reason, once again, there was little friction between Muslim and non-Muslim Chinese. Over the years, many Muslims established Mosques, schools and Madrasahs attended by students from as far as Russia and India. It is reported that in the 1790's, there was as many as 30,000 Islamic students, and the city of Bukhara-the birthplace of Imam Bukhari, one of the foremost compilers of Hadith-which was then part of China, came to be known as the "Pillar of Islam."

The rise of the Manchurian Dynasty (1644-1911 CE), though changed this. The Qing was established by Manchurians (not Han) and who were a minority in China. They employed tactics of divide-and-conquer to keep the Muslims, Han, Tibetans, and Mongolians in struggles against one another. In particular, they were responsible for inciting anti-Muslim sentiment throughout China, and used Han soldiers to suppress the Muslim regions of the country. When the Manchurian Dynasty fell in 1911, the Republic of China was established by Sun Yat Sen, who immediately proclaimed that the country belonged equally to the Han, Hui (Muslim), Man (Manchurian), Meng (Mongol), and the Zang (Tibetan) peoples. His policies led to some improvement in relations among these groups.

Since the People's Republic of China was founded in 1949, tremendous upheavals occurred throughout China culminating in the Cultural Revolution. Muslims along with all the Chinese population suffered. After the third congress of the 11<sup>th</sup> Central Committee, the government greatly liberalized its policies toward Islam and Muslims. Since religious freedom was declared in 1978, the Chinese Muslims have not wasted time in expressing their convictions.

Under China's current leadership, in fact, Islam appears to be undergoing a modest revival. Religious leaders report more worshipers now than before the Cultural Revolution, and a reawakening of interest in religion among the young.

According to a publication on mosques in China (1998 edition), there are now 32,749 mosques in the entire People's Republic of China, with 23,000 in the region of Xinjiang. There has been an increased upsurge in Islamic expression in China, and many nationwide Islamic associations have been organized to coordinate inter-ethnic activities among Muslims. Islamic literature can be found quite easily and there are currently some eight different translations of the Qur'an in the Chinese language as well as translations in Uyghur and the other Turkic languages.

Muslims have also gained a measure of toleration from other religious practices. In areas where Muslims are a majority, the breeding of pigs by non-Muslims is forbidden in deference to Islamic beliefs. Muslim communities are allowed separate cemeteries; Muslim couples may have their marriage consecrated by an imam; and Muslim workers are permitted holidays during major religious festivals.

Muslims of China have been given difficulties to make the Hajj to Mecca. China's Muslims have no says n the country's internal politics. As always, the Muslims have been silenced. Islam is very much alive in a small area or village. China's Muslims have difficulties to manage and practice their faith, sometimes against great odds, since the seventh century.

However, few people outside China are aware of the presence of Muslims in the Middle Kingdom although China's Islamic population may be as large as sixty-five million. Even within the country many Han Chinese, the majority ethnic group, have real knowledge of their Muslim neighbours. Most of these Muslims are members of families and lineages which can trace their religious heritage back through many centuries. Many of them live in villages, towns, urban neighborhoods, and even whole regions in which the dominant culture has for centuries been Islamic rather than Chinese.

In Muslim communities, with their own mosques, Madrasah, Halal butchers and food stalls, and many other distinctive features, are found in almost every part of China, from the Southern coastal provinces of Guangdong and Fujian, here the first Muslims to visit China came as sailors and merchants, to the far northeastern provinces of Liaoning and Hei long jiang.

The Capital, Beijing, has its own long-standing Muslim quarters in the area around the Niujie (Ox Street) Mosque which is considered as National Mosque of Chinese government. There are at least forty other mosques in the Beijing city. Far in the Southwest, for example, Yunnan has a large and influential Muslim population that is part of the complex ethnic path-work in the province and it was this province once upon a time had an Islamic State.

Islam and its highly visible culture have left the deepest impressions in China's remote northwest, along what has become known as the Silk Road-the ancient system of trading routes affording access to Central Asia, the Middle East and Europe. It is on the region, the present-day provinces of Gansu, Qinghai and Shaanxi and the autonomous regions of Ningxia and Xinjiang are situating. Northwest of China has had a complex history, as ancient remains still visible today testify.

Over the centuries it has been home to speakers of the Tibetan, Turkic, Mongolian, and Chinese language families. Evidence of the Manichaean, Nestorian, and Buddhist beliefs that preceded Islam survives in works of art such as the Buddhist cave shrines of Mai ji shan, in Southern Gansu province, and the cave paintings of Bezeklik, just off the road between Urumqi and Turpan in Xinjiang.

The eerie ruined cities of Gaochang and Jiaoche in the Turpan basin are redolent of ancient pre-Islamic civilizations. It was in this intricate cultural, religious, and ethnic matrix that many of the most important development of Islam in China took place.

Since starting the years of Qianlong, Chinese emperor (1735-1796) of the Qing dynasty, the ethnic Han have been penetrating and colonizing the northwest region through immigration of the ethnic Han people from the East and South of China systematically. Through 300 years of immigration of the ethnic Han from East and South of China, today we can see the ethnic Han is all over of China.

It is not accident that Muslim communities and cultures are more distinctive and highly developed in China's northwest than in other parts of the country, for it is this region that is closest to the Central Asian and Middle Eastern origins of Chinese Islam. In many ways the existence of these communities can be regarded as an extension of main stream Central Asian culture into China. The mainstream Central Asia consists of the states of Uzbekistan, Turkmenistan, Tajikistan, Kyrgyzstan, and Kazakhstan. The independent Muslim khanates which ruled these lands were conquered by Russia and incorporated into the Russian empire during the nineteenth century. The states as they existed in those days were created as separate Soviet Socialist Republics under Stalin's government as a means of controlling their Turkic and Iranian speaking populations, and they have achieved a measure of independent statehood since the collapse of Soviet power in 1991. So had these had happened in China too. Most of Xinjiang, ruled by the Manchurian state since the power of the Qing dynasty was extended westward during the eighteenth century under the rule of the Qianlong emperor is clearly that Central Asian states in language, religion and culture, and the neighboring regions of Gansu, Qinghai, Ningxia and Shaanxi have been profoundly affected by Central Asian civilization.

Today Central Asian culture, subsumed for more than a century into a generalized imperial Russian, and later Soviet, identity, still remains relatively unknown outside of a small circle of specialists. Russian became the language of the empire, and subsequently of the whole Soviet Union and displaced many of the minority languages. The Muslims of Central Asia were discouraged from retaining their traditional languages and cultures, since these were so closely connected with Islam. Muslim beliefs were intolerable both to the imperial Russian state, based on the Orthodox Church, and to its successor, the Soviet Union, which promoted atheism.

The very existence of Muslim communities often was regarded as a threat to the unity of the state. Consequently, Central Asian cultures were severely damaged by a process of Russification and Sinocization in Xinjiang, Gansu, Ningxia, Qinghai and Shaanxi in China. There was once a Muslim led rebellion community by Ma Zhongying, popularly referred by Chinese Muslim as "little commander" from Linxia, Gansu and once settled down in Kazakhstan after it failed to attempting to establishment of the independence of Northwest of China in 1918 was cracked down and cleansed by the Stalin regime with the request of Mao Zedong, and once upon a time the Russian Communist Party was respected as "big brother" by the Chinese Communist party in China.

#### 6. CONCLUSION

In this paper we have evaluated Muslim populations in China including their geographical distributions and their disposal incomes (purchasing power). Based on these data, we could calculate Halal market size and potentials in China and some challenges. We confirm that there are at least 30 million of Muslim populations in China; we also confirm that an average disposal income of Chinese Muslims in China is about U\$D1500 in 2012. We also confirm that Halal markets in China everywhere, but majority of Chinese Muslims are living in the Northwest China. Due to constant food poison incidents and crisis, Halal food products producers and marketers may take the whole China as their potential markets, Halal not just for Muslims but for all, for humanity.

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# KEBOLEHLAKSANAAN SISTEM JAMINAN HALAL DI KALANGAN PENGUSAHA RESTORAN DI MALAYSIA: ISU DAN CABARAN

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#### **ABSTRAK**

Malaysia telah berjaya memperkenalkan standard halal pertama di dunia dan adalah antara negara pengeksport produk halal utama. Atas faktor permintaan tinggi dunia terhadap produk halal menyebabkan ramai pengusaha makanan berlumba-lumba ingin mendapatkan pensijilan halal Malaysia. Untuk mendapatkannya sesuatu produk makanan perlu mematuhi aliran prosedur kerja dan standard yang ditetapkan oleh JAKIM.Bagi syarikat multinasional, mereka diwajibkan untuk membuat Sistem Jaminan Halal (SJH) terlebih dahulu. Dan tidak menjadi kesukaran untuk mereka mematuhi keperluan pensijilan halal yang ditetapkan. Ini terbukti apabila kajian menunjukkan sebahagian besar eksport produk halal adalah disumbangkan oleh syarikat multinasional dan syarikat bersaiz besar. Manakala bagi premis makanan yang ingin memohon pensijilan halal, pelaksanaan SJH dalaman amat digalakkan. Justeru, kertas kerja ini akan membincangkan kebolehlaksanaan SJHdi kalangan pengusaha restoran. Perbincangan secara kritis akan dibuat dengan menyenaraikan beberapa kemungkinan permasalahan dan isu yang akan dihadapi oleh para pengusaha restoran dalam proses mereka melaksanakannya. Dicadangkan agar prosedurpengurusan SJHsecara umumnya mungkin boleh dipermudahkan untuk kategori restoran kerana latar belakang dan ketidakmampuan mereka tanpa merosakkan sifat halal yang syumul.

Kata kunci: konsep halal, premis makanan restoran, sistem jaminan halal

## 1. PENGENALAN

Produk halal tidak dinafikan mempunyai pasaran yang luas bukan sahaja dalam Malaysia malahan di pasaran antarabangsa.Malaysia telah berjaya mengeksport produk halal bernilai RM33 bilion pada tahun 2012 dan sebahagian besar eksport produk halal itu, iaitu sebanyak 71 peratus adalah disumbangkan oleh syarikat multinasional dan syarikat bersaiz besar (Harian Metro, 4 April 2013). Permintaan produk halal yang tinggi menyebabkan ramai pengusaha termasuk bukan Islam berlumba-lumba ingin mendapatkan pensijilan halal Malaysia.

Bagaimanapun, pengusaha kecil dan sederhana (IKS) mungkin menghadapi masalah untuk bersaing menjadi pengeksport atas faktor kesukaran mendapatkan sijil halal. Ini kerana pensijilan Halal Malaysia dikeluarkan antaranya berdasarkan standard bagi makanan halal iaitu Pengeluaran, Penyediaan, Pengendalian dan Penyimpanan - Garis Panduan Umum (MS1500). Pengusaha kecil dan sederhana sering gagal mendapatkan sijil Amalan Pengilangan Baik (GMP) yang merupakan salah satu daripada keperluan di bawah manual dan standard halal. Berbanding pengeluar yang mempunyai kilang pemprosesan yang besar, mereka mudah mendapat sijil GMP (MStaronline, 9 Februari 2010).

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Senario yang sama juga berlaku di kalangan pengusaha restoran. Banyak restoran yang menjual makanan halal tidak memiliki pengiktirafan sijil halal atas faktor kesukaran mereka untuk mematuhi keperluan dan standard halal yang telah ditetapkan (Dayang Aniza, 2012). Terdapat banyak restoran yang pemiliknya beragama Islam tidak mendapatkan sijil halal kerana yakin bahawa makanan yang disediakan sudahpun halal, namun secara hakikatnya ramai yang meragui sama ada restoran mereka benar-benar mengutamakan kebersihan atau tidak malah ada yang tidak mengambil berat daripada mana datangnya sumber makanan (Berita Minggu, 13 November 2011; Harian Metro, 14 Julai 2011).

Terdapat juga restoran yang menggunakan bahan mentah makanan seperti kicap tanpa logo halal, menggunakan alkohol sebagai bahan ramuan masakan dan proses pengendalian makanan yang tidak menepati konsep halal (Jabatan Agama Islam Selangor, 2010). Dari aspek peralatan memasak dan menghidang makanan pula, ada restoran yang menggunakan peralatan memasak dan menghidang makanan diperbuat daripada campuran tulang khinzir untuk menjadikan peralatan tersebut lebih berkilat dan kelihatan cantik (Faiza Zainudin &Siti Haliza Yusop, 2009).

Pembuktian ini menunjukkan bahawa terdapat pengusaha premis makanan dan restoran yang mengambil sikap sambil lewa dan tidak serius dalam menjaga persoalan halal dan haram makanan yang dijual. Sedangkan jaminan kehalalan sesuatu produk makanan adalah bermula dari awal proses penentuan bahan mentah, proses penyediaan sehinggalah ia siap dihidangkan. Justeru, Jabatan Kemajuan Islam Malaysia (JAKIM) telah mengarahkan setiap pengeluar makanan halal berskala besar dan multinasional yang ingin mendapatkan pensijilan halal untuk membangunkan Sistem Jaminan Halal (SJH) dalaman mereka tersendiri. Pada masa yang sama JAKIM juga menggalakkan pengeluar makanan halal berskala kecil termasuk premis makanan seperti restoran untuk melaksanakan SJH dalaman terlebih dahulu (Jabatan Agama Islam Melaka, 2012). Adalah sesuatu yang cukup meyakinkan jika sesebuah restoran mengambil inisiatif untuk membangunkan SJH dalaman bagi restoran mereka dan melaksanakannya secara akur atas rasa tanggungjawab terhadap kepentingan umat Islam. Ini kerana tuntutan hidup masyarakat hari ini yang sibuk bekerja menjadikan restoran adalah tumpuan utama untuk mendapatkan makanan siap. Kerana itu, tentunya kita tidak mahu makanan yang disajikan di restoran ini tidak menepati kriteria halal.

Justeru, kertas kerja ini dibuat bertujuan untuk menghuraikan dengan jelas tentang keperluan pelaksanaan SJH dalam prosedur pensijilan halal Malaysia. Kertas kerja ini juga membincangkan kebolehlaksanaan SJH dalaman di kalangan pengusaha restoran memandangkan mereka adalah pembekal utama jenis makanan siap. Perbincangan secara kritis akan dibuat dengan menyenaraikan beberapa kemungkinan permasalahan, isu dan cabaran yang akan dihadapi oleh para pengusaha restoran dalam proses mereka melaksanakannya. Cadangan agar prosedur pengurusan SJH mungkin boleh dipermudahkan untuk kategori restoran juga dikemukakan sebagai alternatif dalam pelaksanaannya.

# 2. KEPERLUAN SIJIL JAMINAN HALAL DALAM PROSEDUR PENSIJILAN HALAL MALAYSIA

JAKIM telah terbabit dalam memberi pengesahan dan pensijilan halal kepada makanan dan barang gunaan di Malaysia sejak tahun 1974. Sebagai agensi pusat yang menjaga hal ehwal industri halal dan badan pelaksana pensijilan halal sejak berpuluh tahun lamanya, JAKIM bertanggungjawab melaksanakan prosedur pensijilan halal menggunakan garis panduan dan standard ini dengan kerjasama beberapa jabatan kerajaan lain seperti Kementerian Kesihatan Malaysia (KKM), Jabatan Perkhidmatan Veterinar (JPV), Jabatan Kimia Malaysia dan Institut Penyelidikan Produk Halal (IPPH) UPM.

Secara asasnya, prosedur pensijilan halal melibatkan dua (2) aspek utama. Aspek pertama berkaitan dengan standard dan garis panduan yang dijadikan rujukan. Aspek kedua pula adalah menyentuh pelaksanaan operasi berdasarkan aliran prosedur pensijilan halal yang telah ditetapkan secara seragam sama ada di peringkat JAKIM atau negeri.

Standard berkaitan makanan halal telah dibangunkan secara rasminya pada tahun 2000 dan telah dikemaskini sebanyak dua kali iaitu pada tahun 2004 dan 2009. Walaupun standard ini wujud. Manual Prosedur Pensijilan Halal Malaysia (MPPHM) juga dijadikan rujukan utama dalam Standard Operating Procedures (SOP) secara tidak rasmi oleh para pegawai JAKIM sebelum ia diterbitkan pada tahun 2005. Kedua-dua manual dan standard ini perlu dirujuk bersekali kerana kedua-duanya adalah saling melengkapi bersama dengan beberapa standard lain iaitu MS 1514:2009 (Amalan Pengilangan Yang Baik atau GMP) dan MS 1480:2007 (Keselamatan Makanan Berdasarkan Sistem HACCP). Semua standard, manual prosedur dan garis panduan ini digunakan dalam menentukan status halal sesuatu makanan dalam prosedur pensiiilan makanan halal di Malaysia (Portal Rasmi Halal Malaysia. http://www.halal.gov.my).

Operasi pelaksanaan proses pensijilan halal di JAKIM atau di Jabatan Agama Islam Negeri (JAIN) adalah dilaksanakan oleh auditor atau pegawai syariah (Unit Syariah) dan auditor atau pegawai teknologi makanan (Unit Teknikal). Pegawai syariah adalah terdiri daripada pakarpakar syariah manakala pegawai teknikal adalah kebanyakannya pegwai yang dipinjamkan dari Kementerian Kesihatan Malaysia (KKM). Dari sudut pelaksanaan dalam menentukan status halal makanan, pegawai syariah adalah lebih terfokus kepada aspek halal dari sudut hukum syarak sementara pegawai teknikal akan lebih tertumpu kepada aspek keselamatan dan kebersihan makanan berdasarkan standard MS 1514 dan MS 1480. Pegawai atau auditor akan dihantar untuk mengikuti kursus dan latihan serta wajib menduduki peperiksaan dan lulus bagi standard GMP dan standard HACCP. Pensijilan halal hanya diberikan setelah pemeriksaan dilakukan secara terperinci dengan menggunakan pendekatan 'product traceability' di mana tiga (3) elemen akan digunapakai iaitu 'supplier traceability', 'process traceability' traceability' dan 'costumer (Portal Rasmi Halal Malaysia, http://www.halal.gov.my).

Setiap permohonan bagi mendapatkan pensijilan halal, pemohon akan melalui prosedur dan proses tertentu. Proses kerja pensijilan halal ini merangkumi perkara-perkara di bawah:



Sumber: JAKIM, 2013

Proses kerja ini akan digunapakai oleh setiap pemohon dari setiap kategori sama ada industri kecil, kecil dan sederhana serta multi nasional. Apa yang membezakan adalah jumlah bayaran yang dikenakan iaitu mengikut kategori sesebuah industri sebagaimana dalam Rajah 2 di bawah:

Rajah 2: Kadar Caj Industri Mengikut Kategori



Sumber: JAKIM, 2013

Berbeza dengan premis makanan atau restoran. Kadar caj yang dikenakan adalah mengikut unit atau dapur.

Jadual 1: Kadar Caj Premis Makanan / Restoran / Katering dan Hotel

Premis Makanan / Restoran / Katering Hotel	Kadar (RM)
setiap satu unit premis	100
setiap satu unit dapur (kitchen) - bagi hotel	100
setiap satu unit restoran - bagi hotel	100

Sumber: JAKIM, 2013

Untuk memudahkan proses mendapatkan pensijilan halal, mulai 1 Julai 2013 JAKIM telah mewajibkan semua permohonan baru pensijilan halal Malaysia dalam kategori Multinasional untuk melaksanakan Sistem Jaminan Halal (SJH) (*Halal Assurance Management System*) sebelum membuat permohonan pengesahan halal. Manakala, bagi permohonan sediaada dalam kategori berkenaan, mereka diberi tempoh sehingga 31 Disember 2013 untuk mewujudkan dan melaksanakan sistem tersebut. Adalah tidak mustahil perkembangan positif untuk meningkatkan integriti produk halal menjadikan SJH ini diaplikasikan kepada seluruh pengusaha makanan lebih-lebih pengusaha kecil dan sederhana (PKS) dan pengusaha restoran.

SJH adalah satu sistem yang dirangka untuk membantu memastikan status kehalalan bahan mentah, proses dan produk yang mendapat pengiktirafan sijil halal adalah dijaga dan dipantau sepanjang masa secara berterusan. Ianya perlu diurus dengan Perancangan Pengurusan Jaminan Halal (PJH) yang merangkumi objektif SJH, struktur pengurusan SJH, garis panduan Halal (seperti pengertian halal haram, dasar al Quran, Hadith, Fatwa, Manual Prosedur JAKIM, MS 1500, panduan halalharam bahan mentah dan proses pengeluaran produk), prosedur piawaian operasi (SOP) halal (merangkumi SOP untuk bahan mentah, R&D, permohonan halal), rujukan teknikal SJH, sistem pentadbiran dan sistem dokumentasi (mencakupi pembekal, pembelian, penggunaan bahan mentah, proses, stor serta penilaian, pemantauan dan tindakan pembaikan) (Guidelines For Halal Assurance Management System, 2012).

Pengenalpastian Titik Kawalan Cara Kawalan Kritikal (Halal & Langkah Critical Point) Pembetulan Sistem Dokumentasi Proses dan Kawalan Pengesahan Dokumen Pengurusan Jawatankuasa Program Sistem Jaminan Latihan Halal Dalaman Halal

Rajah 3: Pengurusan Sistem Jaminan Halal

PJH ini mestilah dilaksanakan dan difailkan dalam bentuk *hardcopy* bagi tujuan semakan pihak JAKIM. Antara 5 fail penting yang perlu ada:

- 1. Fail Utama profil syarikat termasuk pemegang saham, polisi syarikat, carta organisasi, semua sijil berkenaan, senarai pembekal, senarai pekerja termasuk rekod suntikan *typhod&* latihan, aliran proses produk, pelan premis, lain-lain (kawalan perosak, rawatan sisa air, eksport, rekod penyembelihan (yang berkenaan sahaja), laporan kewangan (untuk tentukan kategori syarikat).
- 2. Fail Bahan mentah/ Ramuan sijil halal, bahan kritikal
- 3. Fail Isu Halal surat masuk keluar, laporan audit JAKIM
- 4. Fail Jawatankuasa Halal minit mesyuarat, rekod latihan/seminar/kursus/praktikal Halal
- 5. Fail Permohonan Halal dokumen-dokumen penting semasa memohon e- Halal online (bentuk *hardcopy* termasuk sijil pendaftaran syarikat, lessen perniagaan, surat pengesahan jawatan & salinan IC pegawai bertanggungjawab, laporan kewangan tahunan, senarai produk, jenama dan bahan mentah, lampiran sijil Halal, spesifikasi atau COA, aliran proses produk, peta ke kilang dan pelan kilang.

Bagi industri multi nasional, mereka perlu mewujudkan Jawatankuasa Halal Dalam (*Internal Halal Committee*) yang terdiri daripada:

- i- Pengerusi (pengurusan kilang)
- ii- Eksekutif Halal Muslim
- iii- Pegawai di bahagian pembelian
- iv- Wakil bahagian pengeluaran.
- v- Minima 2 orang pekerja Muslim.

Mewujudkan Eksekutif Halal adalah salah satu daripada syarat dan tanggungjawab pengurusan jaminan halal dalam industri. Keperluan mengadakan Eksekutif Halal ini adalah selaras dengan MS 1500 versi 2009 di mana 'Pihak Pengurusan hendaklah mewujudkan sebuah jawatankuasa atau pegawai eksekutif Halal yang terdiri daripada orang Islam yang bertanggungjawab memastikan keberkesanan sistem kawalan Halal dalaman' (MS 1500:2009).

Antara tanggungjawab Eksekutif Halal termasuklah menyusun PJH (dalaman) secara bertulis, menyelaras pelaksanaan PJH di syarikat, mengadakan program latihan PJH di syarikat, melaksanakan audit dalaman secara berkala dan/ atau berdasarkan keperluan, menyediakan

laporan hasil audit dalaman, membuat laporan kepada pengurusan tertinggi berkenaan urusan berkaitan PJH serta berhubung secara langsung dengan pihak JAKIM/JAIN (Guidelines for Halal Assurance Management System, 2012).

#### 3. ISU DAN CABARAN DALAM MELAKSANAKAN SISTEM JAMINAN HALAL

Sistem Jaminan Halal adalah merupakan garis panduan yang dibangunkan bagi memandu industri atau pengusaha dalam mewujudkan sistem halal dalaman yang akan mengawal pelaksanaan dan pengeluaran produk halal. Terkini, SJH ini telah diwajibkan untuk industri pengeluar makanan berskala besar (multi nasional). Manakala bagi kategori premis makanan atau pengeluar berskala kecil ianya masih dalam perancangan pihak JAKIM. JAKIM telah mengeluarkan satu garis panduan untuk melaksanakan SJH dalaman. Garis panduan ini sewajibnya menjadi asas kepada setiap pemilik industri multi nasional dalam membentuk SJH dalaman mereka. Pelaksanaan garis panduan SJH ini sesuai jika ianya diterapkan di kalangan pengusaha multi nasional yang ternyata mempunyai nilai pendapatan tahunan melebihi RM25 juta.

Adalah sesuatu yang cukup menggembirakan jika SJH ini turut dilaksanakan oleh pengusaha restoran atau premis makanan. Ia secara asasnya dapat bertindak dalam mengawal pelaksanaan konsep halal secara menyeluruh dari dalam sesebuah restoran itu. Persoalan di sini ialah sejauhmana kebolehlaksanaan SJH ini di kalangan pengusaha restoran? Adakah pengusaha-pengusaha restoran yang ingin mendapatkan pensijilan halal boleh melaksanakan SJH dalaman mereka sebagaimana yang telah dilaksanakan ke atas pemilik industri multi nasional? Ini kerana SJH ini hanya akan berjaya dilaksanakan jika pengusaha yang terlibat mampu melaksanakannya. Kemampuan di sini adalah melihat kepada faktor kewangan yang mencukupi, kecukupan tenaga manusia, kemahiran yang dimiliki, prasarana dan sebagainya.

Secara asasnya, jangkaan awal kajian menafsirkan bahawa para pengusaha restoran boleh melaksanakan SJH dalaman untuk restoran-restoran mereka. Apatah lagi SJH dalaman ini amat-amat dituntut untuk dibangunkan oleh setiap pengusaha yang ingin mendapatkan pensijilan halal Malaysia. Namun, kemampuan untuk melaksanakannya agak sukar jika para pengusaha restoran terpaksa mengikut secara keseluruhan dan secara rigid garis panduan SJH yang telah ditetapkan oleh JAKIM pada tahun 2012. Ini kerana terdapat beberapa isu dan cabaran yang akan dihadapi oleh mereka dalam proses pelaksanaan tersebut.

Sebagaimana yang dibincangkan sebelum ini, garis panduan SJH yang dikeluarkan oleh JAKIM adalah satu garis panduan untuk memastikan status kehalalan bahan mentah, proses dan produk yang mendapat pengiktirafan halal dijaga dan dipantau sepanjang masa dan berterusan. SJH adalah satu sistem pengurusan yang bersistematik merangkumi aspek kawalan dokumen, pengenalpastian titik kawalan kritikal, cara kawalan dan langkah pembetulan, proses pengesahan, pengwujudan jawatankuasa halal dalaman dan program latihan.

Melihat kepada pengoperasian restoran-restoran di Malaysia hari ini, rata-ratanya rutin harian mereka adalah sangat mudah. Kebanyakan restoran hanya mempunyai beberapa orang pekerja di dapur (bahagian proses atau tukang masak), beberapa orang di bahagian cuci, beberapa orang pelayan dan seorang di bahagian kewangan. Tugas harian mereka adalah rutin yang sama iaitu melibatkan aktiviti memasak, mengambil pesanan, melayan pelanggan, mencuci dan membersih. Kebanyakan mereka mungkin sedar dan tahu tentang kepentingan halal namun tidak ada satu sistem pengurusan operasi halal yang tersusun dalam pengawalan sumber bahan mentah, proses dan produk makanan siap yang dihasilkan. Justeru, sukar bagi mereka untuk mematuhi secara tegar dan rigid garis panduan SJH yang telah ditetapkan. Terdapat beberapa kebarangkalian isu dan cabaran yang boleh dijangka dalam mereka melaksanakannya. Beberapa pengubahsuaian mungkin boleh dicadangkan untuk membolehkan SJH dalaman dilaksanakan.

Sebagai contoh, salah satu syarat dalam garis panduan SJH adalah menubuhkan Jawatankuasa Halal Dalaman yang berfungsi untuk memantau dan melaksanakan SJH dalaman. Untuk kategori industri multi nasional, JAKIM menetapkan jawatankuasa itu merangkumi Pengerusi (pengurusan kilang), Eksekutif Halal Muslim, pegawai di bahagian pembelian, wakil bahagian pengeluaran dan minima dua (2) orang pekerja Muslim. Adalah sesuatu yang sukar bagi pengusaha restoran yang rata-ratanya adalah di dalam kelompok industri kecil yang mempunyai nilai pendapatan tahunan kurang daripada RM500,000 untuk menggajikan seorang Eksekutif Halal Muslim dan pada masa yang sama mempunyai beberapa orang pekerja yang akan memantau bahagian-bahagian tertentu.

Jawatankuasa Halal Dalaman untuk kategori restoran boleh diwujudkan namun perlu dikaji dari segi keperluan menggajikan seorang Eksekutif Halal atau beberapa pegawai. Apa yang mungkin termampu oleh mereka adalah meletakkan minima dua (2) orang pekerja Muslim di bahagian dapur (bahagian pemprosesan), seorang pekerja Muslim di bahagian bahan mentah (bermula dari mendapatkan sumber bahan mentah hingga ke dapur) dan seorang Pengerusi (pemilik restoran) bagi memantau pelaksanaan secara keseluruhan.

Dari segi keperluan mewujudkan sistem dokumentasi dan kawalan dokumen, tidak dinafikan ia sangat penting bagi tujuan semakan oleh JAKIM. Sistem dokumentasi yang digariskan oleh SJH adalah menyeluruh merangkumi fail profil syarikat, fail bahan mentah dan ramuan yang digunmakan, fail isu halal dan ia perlu difailkan dalam bentuk *hard copy*. Melihat kepada pengoperasian premis-premis restoran di Malaysia, tugas ini mungkin agak sukar memandangkan mereka tidak mempunyai bilik khas untuk menempatkan dokumen dan tidak mempunyai pekerja atau kerani yang boleh membuat sistem dokumentasi dengan teratur.

Oleh kerana para pengusaha retoran rata-ratanya tidak mempunyai sistem pengurusan halal yang sistematik, adalah sukar juga bagi mereka untuk mewujudkan satu sistem kawalan dan langkah pembetulan bagi mana-mana prosedur yang tidak mematuhi garis panduan halal. Pengenalpastian mana-mana prosedur yang tidak mematuhi garis panduan halal juga sepatutnya dilakukan oleh orang yang mempunyai ilmu dalam bidang tersebut. Mungkin inilah juga antara cabaran yang akan dihadapi oleh pengusaha restoran. Selain itu, pengusaha restoran juga mungkin sukar untuk melaksanakan program latihan secara menyeluruh untuk semua pekerja sebagaimana yang ditetapkan. Mungkin mereka hanya perlu menghantar beberapa orang pekerja untuk mendapatkan latihan dari mana-mana agensi yang menyediakan khidmat tersebut dan kemudiannya berkongsi ilmu dari latihan tersebut secara *in-house training* bersama pekerja lain yang mungkin tidak memerlukan perbelanjaan yang banyak. Ini kerana faktor kemampuan dari segi kewangan dan prasarana serta faktor masa banyak memainkan peranan dalam melihat kebolehlaksanaan SJH di kalangan pengusaha restoran.

#### 4. PENUTUP

Secara asasnya, SJH dalaman dibangunkan berdasarkan keperluan yang terdapat dalam standard halal MS1500 dan Manual Prosedur Pensijilan Halal Malaysia. Sistem ini merupakan garis panduan yang dibangunkan bagi memandu industri dan pengusaha untuk mewujudkan sistem halal dalaman yang akan mengawal pelaksanaan dan pengeluaran produk halal. Sesuatu yang sungguh menggembirakan pengguna Islam khususnya jika SJH dalaman ini dapat dilaksanakan oleh setiap kategori industri tidak kira kecil, sederhana atau multi nasional. Ini kerana SJH berfungsi untuk memastikan status halal bahan mentah, proses produk halal benar-benar dipantau sepanjang masa secara berterusan.

Namun begitu, realiti semasa menunjukkan pengusaha restoran tidak mempunyai kemampuan yang besar sebagaimana industri multi nasional dari segi kewangan, prasarana, tenaga pekerja dan lain-lain. Ini boleh membawa kepada permasalahan dalam pematuhan pengurusan SJH yang telah ditetapkan dalam garis panduan JAKIM. Justeru, kertas kerja ini telah

menyenaraikan beberapa jangkaan isu dan masalah yang mungkin akan dihadapi oleh para pengusaha restoran dalam melaksanakan SJH dalaman. Pada masa yang sama, disarankan beberapa cadangan untuk memudahkan garis panduan SJH yang telah ditetapkan oleh JAKIM untuk kategori restoran tanpa merosakkan kesempurnaan maksud sebenar halal dalam Islam.

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# THE CONCEPT OF HALAL ECONOMY: AN INITIATIVE TO INTEGRATE THE HALAL PRODUCTS INDUSTRY AND ISLAMIC BANKING AND FINANCE

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#### **ABSTRACT**

In Islam there is no separation between the principles of *halal* products industry and Islamic banking and finance. Both should complement each other in order to provide a holistic *halal* economy. However, in practice it shows that both industries do not communicate with each other. This paper is an attempt to discuss the issue with a special focus on the developing of the concept of *halal* economy based on the Qur'an and the Hadith of the Prophet Muhammad. The paper further attempts to discuss the initiatives that have been made by the Malaysian government to integrate both industries. To achieve the first objective a reference has been made to the Qur'an, the Hadith of the Prophet and the exegesis of both. For the second objective a reference has been made to current literatures including papers presented in seminars. The paper concludes that a holistic *halal* economy needs to be established in order to serve the *maslahah* (public interest) for the *ummah*.

**Keywords**: Halal Economy, Halal Industry, Islamic banking and finance.

## 1. INTRODUCTION

'Halal Economy' is a new term that is being discussed especially in recent Halal's conferences. This term serves to integrate the production of halal products with the Islamic finance. In Malaysian experience, halal product industry (HPI) and Islamic banking and finance (IBF) have their different historical background and regulation. For instance, IBF was established in Malaysia in early 80's² and governs by the Islamic Banking Act 1983 and Takaful Act 1984; whereby HPI is regulated by the Ministry of Domestic Trade, Co-operatives and Consumerism and the Department of Islamic Development Malaysia (JAKIM) under the Trade Description Act 2011 and MS1500:2009. The HPI is now being put as a new agenda for national economic growth.<sup>3</sup>

In 2011, World *Halal* Research and World *Halal* Forum held in Kuala Lumpur Convention (KLCC) Centre, was promptly placed "Towards *Halal* Economy" as the theme of the event; then it was known as *Halal* 2.0. Then, this term yet again debated in World *Halal* Week Summit 2013 which was also held in KLCC with the intention to strengthen the momentum of integrating the HPI and IBF.

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Apart from this, there are also other factors that support the *halal* economy initiative. With regard to this the Security Commissioner through its Shariah Advisory Council (SAC), established in 1996 under section of the Securities Commissioner Act 1993 obviously adopts the criteria - the manufacture or sale of non-*halal* products or related product – as one of the criteria to determine the involvement or non-involvement of a company in *halal* activities so as to be listed in the Shariah compliant lists. This listing of Shariah Compliant Company could be considered as one of the attempts that have been made by the SC to integrate the HPI and the IBF. As such the IBF also does not allow any activities that contradict with Shariah.

The spirit of *Halal* Economy in other part of effort was spread out directly with the developing of private equity through the launching of Social Acceptable Market Investment (SAMI) *Halal* Food Index during World *Halal* Forum 2011 held in Kuala Lumpur. SAMI *Halal* Food index is the world's first *Halal* Food Index was unveiled at the opening of the forum by Tun Abdullah Ahmad Badawi, the former Prime Minister of Malaysia.<sup>5</sup> Interestingly, the Malaysian listed food companies form over a third of the 274 companies which represent two-fifth or US\$53 billion<sup>6</sup> (RM161 billion) of the index's total market capitalization of US\$114 billion (RM345 billion). Regarding the launching of SAMI *Halal* Food Index, Rushdi Siddiqui explained that this platform adds feather (further) to Malaysia's Islamic finance hub and the convergence of both IBF and the HPI.<sup>7</sup>

# 2. THE MEANING OF HALAL ECONOMY FROM THE QU'RAN AND HADITH

The term 'Halal Economy' is not specifically mentioned in the Qu'ran and the Hadith. However, there are many verses of the Qu'ran and the Hadith of the Prophet Muhammad that explains halal and haram products to be consumed by the Muslims. There are 56 verses of the Qur'an that mention the word 'halal' and its root words and out of this 21 verses stress on food consumption. In addition there are many hadiths of the Prophet mention about halal in different contexts and meanings in the treaties of the Hadith of the Prophet Muhammad. As such, there are some indicators that help to understand the importance of integration of HPI and IBF. The indicators are discussed below:-

# 2.1 Prohibition of Riba'

Allah forbids Muslims to involve with *Riba*'. He asserted *Riba*' and trading is almost different. Indeed, the sin of *Riba*' war declared by Allah and His Messenger. This shows that sin and the effects of *Riba*' on the lives of mankind. It is based on some evidence from the Qur'an as follows:

"Those who take (take) Riba' will not stand except as stands one whom Satan by his touch swinging (Satan) is. That is because they say: "That indeed is the same deal as Riba'". but Allah hath permitted buy and sell (trade), and prohibits Riba'. so anyone wh has come to a reminder (of) from his Lord, then it stops (in obedience thereto), then what has taken the first (before the ban) is a right, and the case is up to God. and those who repeat (the act of taking the laptop) so that the Fire, to dwell therein."<sup>8</sup>

Similarly, Allah gives strong admonition to those who believe and fear to die for *Riba'* in daily activities. Offense of *Riba'* implies a great and large enough for allowing Allah and His Messenger to fight these people in the afterlife. Evidence is taken from the verses of Surah Al-Baqarah:

"O ye who believe! Fear Allah and leave (your demand) Riba' (which are still in the people who owe) that, if you and those who believe."

"So, if you do not also do (order of prohibition of Riba' is), then you know: will the war from Allah and His Messenger, (as a result you will not find a safe). and if you repent, then your right (the real) is the original tree from your property. (Such a) you do not unjustly, and you do not mistreated by anyone."

According to Imam Malik, in interpreting above verses, he said, "verily, I flipped through the pages of Quran and Sunnah of His Prophet, yet I did not find anything worse than riba', as Allah has declared war against it."

In other part of Quran, Imam Al-Qurtubi in interpreting the verse 168 of Surah Al-Baqarah states that all things *halal* except it has been proved non *halal*. He also mentioned that non-*halal* is any property involves the six elements which are of *Riba*', sacred, *Suht* (bad), fraud, contempt and *syubhah* (uncertainty).<sup>10</sup>

In a Sahih hadith that warning Muslim the big sinners of Riba':

"those who eat Riba' even a dirham, it is as the sin of adultery 33 times, one that grows out of the meat from illegal sources, then the hell is the key for him." <sup>11</sup>

This Hadith shows us Allah prohibits totally to commit *Riba*' and the very ultimate consequence to those who involve in Riba' is a sin that tremendously impact to all mankind. Not surprisingly strong warning from Allah to give warning to Muslims to avoid the occurrence of *Riba*'.

For the *halal* products, Quran has mentioned to all mankind to consume *halal* and *tayyib* (hygiene, safe and pure). The verse 168-169 *al-Baqarah*, has been interpreted by many *Tafsir* (interpretation of Quran) books by citing Hadith narrated by Sa'ad bin Abi Waqqas:

"Narrated by Ibn Mardawaih, Ibn Abbas said: Al-Baqarah verse 168-169 read to Saad bin Abi Waqqas said, "O Messenger of Allah, how can God accept my prayer?" The Prophet said, "Look for good food then your prayer will be granted, indeed a man who swallowed an illegal gratification in his stomach, then his prayer will not be accepted for 40 days, that a slave who grows his life from "suht" (forbidden food) and Riba', the fire was most deserve to him" 12

This hadith was recorded in several different Hadith books according to the status of narrators who had narrated the hadith.

There are other hadiths that have different utterance but to the purpose and the same message using *halal* products and Islamic finance. The hadiths as below:

"Knowingly consuming a dirham of riba is worse for a man than committing adultery thirty-six times, those who grow meat of what is prohibited, then the hell is primary for him." <sup>13</sup>

### 2.2 The Rules of Halal

In Quran, there are four verses which clearly mentions the term *Halal*an Tayyiban. The verses state that we are required to obtain *halal* products based on the word 'minma' (ممن ) which the word 'min' (من ) to mean '*liltab'idh*' (من ) that means 'from a' or 'half of'. This has meant that all the things which God gave to man in part is clean and *tayyib* and some are not *halal* and not *tayyib*. This is because God does not use the word 'ma' (ما ) only which means 'anything' in this verse. <sup>14</sup> The four verses are:

"O people! enjoy what the earth that is lawful and good, and do not follow the footsteps of Satan: for Satan is the clear enemy to you." 15

"... and eat of the things that God has given you, lawful and good, and fear God whom you believe." 16

"... so eat of what you have to (in war), as the lawful and good things, and fear Allah for Allah is Oft-Forgiving, Most Merciful." <sup>17</sup>

"... therefore, eat (O and those who believe) of what Allah has given the you from the things the lawful and good, and grateful for the favors of Allah, if you only serve." <sup>18</sup>

To specify the meaning of "mimma" in the above verses, Umar bin Abdul Aziz, the Umayyad caliph in interpreting it with a very famous saying:

"good on the way and not merely an effort to get good nutrition is" 19

Thus, the way of Allah revealed the commands requires to seek the truth that *halalan tayyiban* (*halal* and pure) is not merely consumption of *halal* product, but also including the sources and services involved.

In other context, a Hadith has mentioned the description of people who are refused their prayer by Allah.

"Narrated Abu Huraira: r.a. Allah has said: "O people, verily Allah is Tayyib, and He did not receive good except only for Allah order any of the people believe the same as ordered to the Apostles. God has said, "O Messengers, eat of the good kind." He said "O you who believe, eat of the good things that have given to you." Then he mentioned the long journey of a man lifting hands and prayed, "O Lord, O Lord, with clothes, blankets and dusty, food from illegal sources, drink from a source that is unlawful, his clothing from the illegal, given food from the illegal, then how prayer will be granted a God?"<sup>20</sup>

Looking into the hadith, the Prophet Muhammad used word *Masdar* (derivatives) in the Hadith, prayer denied because of practicing unlawful in the life.

"... about food, drink, clothes and fed the illegal, then how prayer will be accepted?"

According to the Arabic version of the hadith, it clearly use *Masdar* noun ( الإسم المصدر ) for the word ( مطعمه ), ( مطعمه ) and (ماسبه) shows that matters relating to the description of the act itself. As the hadith above, the use of *Masdar* expresses to not consume the illegal food, water and the attire, but anything that describes the prohibited food, drink and clothing.

Thus, the Prophet indicated that prayer rejection cause is not only the illegal or less nutritious of food, drink and the clothes alone, but it involves also the resources, processes and ways to get it. The hadith shows the description of food and drink consumption are the cause of rejection of Muslim prayer.

The citation further showed inclusive term *halal* means the ways and means of earning income is as stated by Shaykh Uthaimain in its interpretation:

"Halal means any lawful manner, and efforts to get it, Tayyib will mean good things on the substance of things." <sup>21</sup>

# 3. MALAYSIA'S INITIATIVE IN *HALAL* ECONOMY

People in *halal* industry always said the integrated *halal* famously called 'from farm to fork' that shows the integrated supply chain throughout of the sources of product until to the consumer. However, for *Halal* Economy, they extend it to be '3F'- 'from farm to fork to finance'. It has been cited by CEO of HSBC Amanah Malaysia, Rafe Haneef to comment on *Halal* Economy said:

"If we are going to move Towards a Halal economy, we have to take a holistic approach; the whole cycle, the whole chain has to be Halal from the production to the financing."<sup>22</sup>

Malaysia has also witnessed significant growth of Islamic banking asset which total banking industry has grown from 6.9 percent in 2000 to 22 percent in 2011. The contribution of Islamic finance to the Malaysian economy has also been significant, accounting for 2.1 percent share in the country's gross domestic product (GDP) in 2009, when compared to 0.3 percent in 2000.<sup>23</sup>

In conjunction with IBF, HPI in Malaysia considered a new growth area, has also shown significant development. *Halal* industry is considered one of the fastest growing business segments in the world today. <sup>24</sup> Research by World *Halal* Forum Secretariat reveals that the global trade of *halal* food and non-food products is estimated US\$2.3 trillion (excluding banking). *Halal* and Islamic finance, two Shariah-based trillion dollar industries, are growing 15 to 20 per cent annually, with massive mainstream potential complementing each other perfectly. <sup>25</sup> In terms of positioning Malaysia as Global *Halal* Hub, former Prime Minister of Malaysia, Tun Abdullah Ahmad Badawi said:

"The initiative to merge the Halal sector, comprising Halal food, products and services with Islamic finance industry will further top entrench Malaysia's leading position in the global Halal industry. These industries formed the foundation of the new economic paradigm of the Halal Economy."<sup>26</sup>

Converging HPI and IBF considered as reuniting twins separated at a birth.<sup>27</sup> Both industries will set a new drive of economy. CEO of Global Futures & Foresight, David Smith mentioned:

"The convergence of Halal food and Islamic Finance industry is actually a bigger issue. It's about people running THEIR lives, living THEIR lives According to their value sets. For the Muslim population, According to Halal, Shariah-compliance, Tayyib ... tied to the Qur'an. The important thing here is it is not one or two industries converging, it's 10 and 20 converging industries."<sup>28</sup>

Beyond that, current Prime Minister of Malaysia, Datuk Sri Mohd Najib Tun Abdul Razak describing the merging of *Halal* and Islamic finance is a real economy and very realistic to the needs of *ummah*. He said:

"We need to think beyond industries and move into the larger Realm of a Halal Economy, a value-based economy rooted in trust, integrity and fairness."<sup>29</sup>

Regarding to statements above, Muslim should admit that these industries are gifted by the Creator of all creation. For Muslim, they are responsible to realize the instruction of Allah that order to Islam followers. Thomson Reuter's Head of Islamic finance (Asia) Rafiza Ghazali said:

"There is a disconnection between the halal industry and Islamic financing, which is ironic since we're working within the same religion, but are not talking to each other."

Today, we can see that the impact of Islamic finance and *Halal* to the real world, Muslim and Non-Muslim countries. When both sectors merge, it will design a new model of economy with its own fundamental value and will shape a unique power to Muslim countries, as well as to global people. Current Prime Minister of Malaysia said:

"The twin pillars of this economy are the Halal products sector and the Islamic Financial services sector. The convergence of these two Shariah-based industries forms a strong economic platform that is built on a shared set of values - values that will play an increasingly strategic role in the global Shaping markets in the coming decade"<sup>31</sup>

## 4. CONVERGENCE OF HPI AND IBF

The convergence of HPI and IBF would be looked into several elements. First, education and training should be integrated in order to understand the complimentary of both sectors towards Halal economy. Second, laws, regulations and standards that applied in HPI and IBF to be revised and amended in order to harmonize and linkage to each other's. Third, to increase awareness amongst people, the promotion actions should be taken place from many parties, government and private sectors. Table 1, Table 2 and Table 3 show the connection of both sectors with the respective elements.

# 1. Education and Training.

Table 1: The connection between HPI and IBF in education and training

Area	HPI	IBF
Research and	Halal Product Research Institute (HPRI UPM),	Faculty / Centre / Islamic banking
educational	International Institute for Halal Research and	and finance / Takaful Program
institution. /	Training (INHART IIUM), Institute of Halal	offered in IPTA & IPTS.
Programme	Research and Management (IHRAM USIM),	
for	Program Food Science & Technology offered in	
undergraduate	higher education institutions (IPTA & IPTS).	
and		
postgraduate		
at IPTA/IPTS		
Training	Halal Industrial Development Corporation (HDC).	International Shari'ah Research
Providers.		Academy for Islamic Finance
		(ISRA), Islamic Banking and
		Finance Institute Malaysia
		(IBFIM), International Centre for
		Education in Islamic Finance
		(INCIEF).
Industry	Manufacturers and halal services.	Banks and Takaful Operators.
players.		
Agencies,	Seminar, Consultant and Training Providers.	Seminar, Consultant and Training
third parties		Providers.
from		
government or		
private sectors.		

## 2. Laws, Regulations and Standards.

Table 2: The connection between HPI and IBF in laws, regulations and standards

Area	HPI	IBF
Legal	JAKIM, MAIN, Majlis Fatwa Kebangsaan and	Bank Negara Shariah Advisory
Authority.	Mufti of respective states.	Council (SAC) and Majlis Fatwa
		Kebangsaan.
Marker.	Halal Certificate and Halal Malaysia Logo.	Shariah Compliant.
Act.	Trade Description Act (TDA 2011).	IBA 1983 and Takaful Act 1984.
State or	State enactments with different practices in	Bank Negara Malaysia (BNM).

federal	respective states in Malaysia.	
jurisdiction.		
Standard and policies.	Halal and Islamic standards.	Accounting and Auditing Standards of Islamic Finance Institution (AAOIFI).
Directories and company listing.	Halal Directories	List of Shariah-Compliant Securities (Islamic Capital Market)

## 3. Promotion and Development.

Table 3: The connection between HPI and IBF in promotion and development

Area	HPI	IBF
Product and	Product (food & consumer goods) and services	Services (customer satisfaction etc.)
service	(logistic, tourism and consultancy).	and product ( <i>mudharabah</i> ,
development.		musharakah etc.).
Agencies and	Related agencies and legal bodies (MITI,	Related agencies and legal bodies
legal bodies.	MATRADE, Standard Malaysia, Jabatan Mufti	(BNM, SAC, Majlis Fatwa
	and etc.).	Kebangsaan and etc.).

#### 5. CONCLUSION

As conclusion, *Halal* Economy is a new term to describe the convergence of *Halal* industry and Islamic finance which comes from one source - Islam. The using of '*Halal* Economy' is not new and alien area in Islamic economy, but it has been used as an introduction of new concept of economy that has been recognized as potential global business. The using of '*Halal* Economy' is more acceptable and reliable. *Halal* has been accepted globally as a product of quality, hygiene, pure, safety and clean. Furthermore, to accommodate foods to the third 'one billion' of Muslim people, the *Halal* logo has very high market value. In Malaysia, non-Muslim stakeholder companies are more dominant rather than Muslim stakeholder companies. In order to remedy Islam phobia that has been spread throughout the globe, '*Halal* Economy' might be the reliable term to been used to harmonize Muslim and the rest of the people in the world. Thus, *Halal* economy becomes an agenda of community and economic catalyst for the best alternative solution for most global crisis twines. In addition, the recent World *Halal* Forums promote combination of the Islamic financial system and branded as "*Halal* Economy", which would be a new concept of the world economy.

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<sup>&</sup>lt;sup>1</sup> 6<sup>th</sup> World Halal Forum, 4-6 April 2011, Kuala Lumpur Conference Centre on theme "Towards Halal Economy – The Power of Values in Global Markets" and World Halal Week Kuala Lumpur, 3-4 April 2013 on theme "Halal Economy – Creating the Momentum".

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<sup>&</sup>lt;sup>5</sup>Rushdi Siddiqui, (2011). WHF Post Event Report. www.worldhalalforum.org/download/WHF2011-PostEventReport.pdf

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<sup>9</sup> Al-Baqarah 2:278-279

<sup>10</sup>Al-Ourtubi (2003), Jami' al-Ahkam, Darul 'AlimKutub, Saudi Arabia, Vol.3p.11.

<sup>11</sup> At-Thabarani (1983), Al-Mukjam Al-KabirMaktabah Al-UlumwalHikam, Mausoul, pg 114

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15 Al-Baqarah:2:168

16 Al-Maidah:5:88

17 Al-Anfal:8:69

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<sup>19</sup>Asy-Syaukani, FathulQadir, pg 220, Sayyid Muhammad Tantawi, Tafsir Al-Wasit, pg 266

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<sup>21</sup> Muhammad bin Soleh Al-Uthaimain, Tafsir Al-Quran Lil Uthaimainpg 189-190 in interpreting verse 168 :Al-Baqarah.

<sup>22</sup>RafeHaneef (2011), CEO HSBC Amanah Malaysia, 4-5 April 2011 6<sup>th</sup> World Halal Forum, Kuala Lumpur <sup>23</sup> Zeti Akhtar Aziz, (2011). Governer's Keynote Address at the Launching of IBFIM's Islamic Finance Qualification Framework & Progression Route (IFQFPR): Talent Development in Islamic Finance Over The Next Decade on December 14, 2011. <sup>24</sup> www.investpenang.gov.my/portal. Retrieved on July 18, 2013.

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<sup>29</sup>Datuk Sri Mohd Najib Tun Razak, (2011), World Halal Forum 2011, Kuala Lumpur Conference Centre April 2011

<sup>30</sup>RafizaGhazali (2011). Discussion on "Halal Economy" during the Islamic Financial Intelligence Summit, Kuala Lumpur.

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<sup>&</sup>lt;sup>6</sup> Rafi-uddin Shikoh, (2012). Investment Potential in the Halal Food Sector presented at International Food and Agriculture Congress 15-19 February 2012, http://www.sesric.org/imgs/news/image/640-presentation-3-shikoh.pdf (accessed 11 Jul 2013) <sup>7</sup>Rushdi Siddiqui, (2011), World Halal Forum 5 April 2011 held in Kuala Lumpur, http://halalfocus.net/2011/04/05/malaysianfirms-form-core-of-sami-halal-food-index/

## THE TRENDS IN CONSUMPTION OF ORGANIC FOODS IN MALAYSIA: AN OVERVIEW

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#### **ABSTRACT**

Several of literature is available that discusses determinants of organic food consumption. However different models and determinants are used in the literature. This paper aims to focus on the importance of affective attitude, emotions, personal norm, involvement and uncertainty related to organic food consumption. The paper is based on primary data sources, which 500 sets of questionnaires will be distributed randomly all over Peninsular Malaysia concerning personal determinants of organic food consumption. Both the values theory and the theory of planned behavior have been referred to as relevant theories for better understanding consumers' choice for organic food. Organic food consumption decisions can be explained by relating attributes of organic food with more abstract values such as "security", "hedonism", "universalism", "benevolence", "stimulation", "self-direction" and "conformity". Appealing to these values can positively influence attitudes towards organic food consumption. Besides attitude, subjective and personal norm and (perceived) behavioral control influence consumption of organic food.

Keywords: Organic food, Consumption decision, RASCH Model

# 1. INTRODUCTION: OVERVIEW

Over the past decades there has been increased awareness among the consumers including environmental consciousness that has a considerate result on consumer behavior. The subject about the environment is not new, as indeed, destructing the environment has always been a part of human nature, which has influenced humans' lives at both individual and community level (Khwaja, 2008). In addition the issue has been significant to every country, when it is observed that people mostly are concerned or very fretful about these existing problems (Diekmann&Franzen, 1999; Dunlap &Mertig, 1995). The concept of green marketing has been introduced in order to address the environmental issues whereby it gives opportunities to marketers to create green products and influencing the consumers to purchase the products especially to the green users that are very alarmed about the environment.

Organic food is one of green products that has become common to consumers who claimed environment and health conscious whereby there has been increased in the organic food market. The organic food market in the US has reached new heights, with retail sales in the year 2010 total of USD26.6 billion, which this represents a significant increase from USD6.1 billion in just ten years earlier (Nutrition Business Journal, 2011). Underlying this increased level of sales is the US consumers, whose increase demand for organic food is responsible for propelling rapid expansion in the organic food market. According to Lohr (2011), the organic food markets are expanding to globalization with annual growth rate of 15 to 30 percentages especially in Europe countries, United States and Japan.

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Related to the organic food, the National Organic Standards Board of the U.S Department of Agriculture (USDA) defined organic food as how it cannot be made rather than how it can be made, must be produced without the use of sewer-sludge fertilizers and pesticides genetic engineering focusing more on biotechnology, growth hormones, irradiation and antibiotics. There is no legal definition as to what constitutes a "natural" food. However, the food industry uses the term "natural" to indicate that a food has been minimally processed and is preservative-free. Natural foods can include organic foods, but not all natural foods are organic (Ahmad &Juhdi, 2010).Indeed, the consumer nowadays have prefer organic foods that preservative free whereby it is an important component in the green products, and plays a key role in consumer behavior.

By looking at the consumers' intention to purchase the organic products, there are several factors that would influence the consumers purchase organic food products for example organic knowledge, attitudes, environmental concern, subjective norms and price consciousness. Several researchers have reported that greater awareness and additional knowledge concerning organic food has a positive influence on attitudes towards organic food and levels of consumption (Chryssochoidis, 2000; Padel and Foster, 2005; Bonti-Ankomah and Yiridoe, 2006; Gracia and De Magistris, 2007; Stobbelaar et al., 2007). In addition, the consumers are willing to pay the organic foods that have environmental and food quality attributes which is it can be a good predictor of organic food demand (Krystallis, and Chryssohoidis, 2005).

In the context of Malaysian consumers, they are becoming more conscious and aware of the healthy foods that come from the changes in socio-demographic and economic whereby a lot of various foods that been produced in Malaysia (Mansori, and Zhen, 2012; Saleki, and Saleki, 2012). Therefore, this study is to examine the determinants of the consumer behavior in Malaysians towards the intention to buy organic foods as well to have better understanding the trends of organic foods consumption in Malaysia.

According to Ahmad &Juhdi (2010), in Malaysia organic food is consider at the introductory stage where not all many people aware about. The studied been conducted to have better understanding among urban Malaysian consumers' choice of food products. The findings of the studied showed women were more likely than men to agree that they would purchase more organic foods if they were less expensive and more available. In fact, the broad range of possible factors that influences organic food decision making, there are others that might considered as barriers to organic food consumption among Malaysian instead of price.

Malaysia is a multi-cultural nation which is formed majority by Malays, Chinese and Indian with the population approximately 28 million, which estimated it will reach 30 million by 2015 (Euromonitor, 2011). The organic food industry in Malaysia is still new and the consumers in Malaysia are convincing that organic food could give benefits to those who consume it. In fact, according to the (Malaysian Industrial Development Authority, 2009) consumers' demand for functional and healthy foods has grown due to the increased awareness of nutritional value and fortification of foods.

Furthermore, majority people in Malaysia especially Malays are Muslim and the consumption from this cohort is based on the Halal concept whereby there are many variety of selection of products and services in Malaysian markets. The key of the Halal concept is "permissible" that not only focuses on health or quality but also emphasizes on how food is processed and prepared to the consumers. According to Hassan, (2011)Syed Marzuki, Hall, and Ballantine, (2012) Shah Alam, and Sayuti(2011) the consumers are very concern and careful when deciding the food they want to consume by referring the guidelines that been provides in Al-Quran as well by looking for the authentic Halal certification issued by Malaysia's Department of Islamic Development (JAKIM) which under the of the Ministry in the Prime Minister's Department.

Although a number of studies have investigated with concentration on developed countries but still in Malaysia there are only few studies that have been done on the organic foods. Factors such as organic knowledge, attitudes, environmental concern, subjective norms, and price consciousness that related to these consumers in buying organic foods in Malaysia are being overlooked (Saleki, and Saleki, 2012). In addition, previous studies are inadequate and not in-depth compared to the studies that have been done in Europe countries especially understanding consumers' perception and behavior on organic foods.

#### 2. LITERATURE REVIEW

According to Liu (2003), green foods is the food that are safe to be consumed, are fine quality, are concerned with humane animal treatment are nutritious foods and are produced under the principle of sustainable development. In fact, the methods of the processing food are not involving material that can give negative effect to the consumers such as pesticides and chemical fertilizers. In 1980s the production of organic food is part of the "green consumerism" movement. Organizations and customers that promote green consumerism wish to use the impact of the market to cut down the damages to the environment caused by the increasing rate of consumption worldwide (Allen and Kovach, 2000).

Consumers of organic food can be classified into 3 categories which are: a) Greens, these consumer hold interest in protecting the natural environment and ecosystem; b) Food Anxious, these people are concerned about using pesticides, additives, and chemicals in their food; c) Humanists, these people are against the agricultural systems and processes of factories; and d) Hedonists, these people take pleasure in eating good food, and look for improved taste and quality in their food (Davies, et al., 1995).

Magnusson et al. (2001) investigated purchase frequency, purchase criteria, perceived availability, and beliefs about organic products in Sweden. As a research method a survey was used. Questionnaires were mailed to a sample of 2,000 respondents, aged from 18 to 65 years.

The findings found out that only small proportion of consumers purchase organic food regularly. Although the majority of respondents stated positive attitudes toward organic products, the intention to buy organic food was expressed by small number of respondents. A good taste was the most important purchasing criterion followed by long shelf-life and healthiness.

Similar results about healthiness and positive attitudes toward organic products have been found by Zanoli et al. (2002). The research focused on consumer perception and knowledge of organic products and related behavior in Italy. Data were collected from 60 respondents through semi-structured interviews. The results showed that consumers perceive organic products as difficult to find and expensive. However, most of the respondents perceived organic food positively and associated them with health.

Tarkiainen et al. (2005) applied an extension of the Theory of Planned Behavior (TPB) to examine the intention to buy organic products. The studied were examined relationships between attitudes, subjective norms and intention to buy organic food. The findings indicated positive relationships between subjective norms and attitudes, and between attitudes and buying intentions. The hypothesis about relationship between perceived availability and intention to buy was rejected. That finding was explained by sufficient availability of organic products on the Finnish market. Also the hypothesis about relationship between importance of price and intention to buy organic food was not supported. However, this finding might be due to the fact that price premium for organic food is almost non-existing in Finland.

Furthermore, Lodorfos et. al. (2008), the study also focused on determinants of the intention to buy organic products and the TPB model was used as a conceptual framework. The purpose of the article was to examine appropriateness of the TPB model for organic food market and to identify other factors which

influence the intention to buy organic food. Overall, the authors provided empirical evidence supporting relevance of the TPB model and showed that price, availability of organic food, and product information are important predictors of the intention to buy organic products.

The organic food purchases are positively and significantly linked with the intention to purchase organic food, a positive attitude towards organic products with respect to health and environmental benefits, and there were higher levels of behavioral control. Also Tarkiainen and Sundqvist (2005) find a positive and significant relation between the attitude towards buying organic food and the intention to buy.

Studies on organic consumer behavior as well as food safety and its correlation to sociodemographic and attitudinal factors have received widespread attention in the literature. Nonetheless, previous researches verifying the role of ethnicity on organic food product consumption have mostly relied on U.S. data (Misra, Huang, and Ott 1991; Knight and Warland 2004; Dettmann and Dimitri 2007; among others). The Hartman Group (2006) further concluded that it may be erroneous to assume the stereotypical profile of a single ethnic group (e.g., Caucasian Americans) to be the main consumer, as those of other ethnicities may actually exhibit higher levels of organic usage or are more likely to be consumers committed to an organic lifestyle. These results could be rationalized by the relatively heterogeneous ethnic backgrounds (Caucasians/whites, African Americans, Hispanics, Asians, and others) of the U.S. population.

Quah and Tan (2009), conducted an exploratory study to examine organic food product purchase decisions in Penang, Malaysia. The studied focused on the consumer decision making process, while focusing on socio demographical and attitudinal differences may have important implications to marketers and consumer-insight analysts in order to develop effective marketing strategies and to predict future trends in the Malaysian organic product food industry. The findings of the studied show that consumer sociodemographics and attitudes are found to be important determinants of organic food products purchase decisions, although the effects may not identical for each ethnic group.

# 3. METHODOLOGY

### 3.1 The RASCH Model and Consumer Behavior

Rasch modeling techniques were developed to take account of differences between different consumers in the extent to which they perform correct behaviors for different tasks (Bond & Fox, 2001; Kaiser, 1998). This prevents important information being lost when item scores are averaged across the entire sample as is the case in most scales. Rasch models differ from additive scales that they do not rely on the following assumptions common in most other scaling techniques: (1) all items have the same impact on the scale score (i.e. in Rasch scales simple averaging of scores is not the way forward), (2) all item response categories or "levels" have the same distance from the next response category (i.e. in a Rasch scale the distances between the levels in, for example, a 7- point scale point Likert type scale, are not necessarily the same). Furthermore, Rasch models give probabilistic rather than deterministic values for their parameters. The estimated parameters describe the difficulty (reflecting the likelihood that people correctly conduct a behavior) associated with each practice (d), the differences between the levels of an item (by estimating the socalled Thurstone like thresholds tk), and the performance (b) of participants on the scale (a measure similar to a persons' score on a traditional scale).

# **3.2** The Proposed Methods of Research

Rasch model will be proposed as the research methods in order to analyze parameters: first, how to check item and response categories validity through estimated parameters; secondly, how to introduce in a multilevel model the measures of customers' behavior obtained by Rasch to investigate which – and how – some independent variables influence behavior towards organic food.

The Rasch model is a latent structure model by means of which it is possible to derive continuous measures on an interval scale from total scores obtained by a set of subjects on a set of items. This situation is common in social sciences, as stated, for example, by Molenaar in a fundamental book on Rasch Models which it is easy to find examples of observable human behavior indicating that a person has more or less of such a general property, but the concept has a surplus value, in the sense that no specific manifest behavior fully covers it (Fischer and Molenaar, 1995).

#### 4. CONCLUSION

The research will give implications for the Malaysian food and Halal industry especially in general and for the organic food sector in particular. It also can be implies for market segmentation strategies in order to ensure effective marketing outcomes. In addition, it is important to increase awareness among the consumers towards the organic food product value and benefits in order to develop health consciousness.

Furthermore, the marketers will know how consumers in Malaysia perceived organic food product by understanding the reasons of buying with using a proper communication message. Hopefully the intended message would be appealing for consumers who fall within the same category of buyers who exhibit their interest towards organic food products. In addition, education of consumers must become one of the first objectives for organic producers.

The study will give contribution to socioeconomic research, market actors and policy makers whereby it can create consumer awareness on organic foods and to develop an effective communication plan including the marketing strategies. In fact, the result from the study can be use for marketing planning of organic food products to effective marketing strategies, sales channel and promotion to be targeted to these groups of consumers.

Moreover, by using the Rasch model for the analysis will give insightful and knowledge in the future research especially organic food sector because Rasch model have several advantages such as it permits object-free instrument calibration and instrument-free object measurement, which makes it possible to generalize beyond the calibrated sample (Wright, 1967). In addition, not only does the Rasch model permit traditional item analysis (e.g., item difficulty and reliability), it has the added advantages of test linking and equating. For a large-scale testing program, where the overexposure of items seems certain, the ability to equate items onto a common scale and replace poor functioning ones becomes a necessary component to help ensure exam security and integrity.

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# A FAMILY BUSINESS SUSTAINABILITY: LESSONS FROM A MUSLIMPRENEUR'S JOURNEY<sup>1</sup>

Ummi Salwa Ahmad Bustamam<sup>2</sup>

#### **ABSTRACT**

Strategy research in entrepreneurship is generally concerned with individuals or groups pursuing lucrative opportunities and driving the strategic decision making process particularly in new and emerging enterprises. However, scholars claim that research on family business is also an imperative area to be explored. This is due to the importance of survival for family business. This paper aims to explore on how a Muslimpreneur's family business strategize the business that could be sustained for generations. Using a qualitative approach, this paper narrates the business journey of a Muslimpreneur, Haji Dahlan, who is the third generation of a family-owned business known as Mesti Best Co. This paper concludes with a discussion of the lessons and implications as well as the accomplishments of this particular family business venture.

**Keywords**: family business, sustainability, Muslimpreneur, strategy, case study

# 1. INTRODUCTION

Family business is defined as a business that owned and managed by one or more members of a household of two or more people related by blood, marriage or adoption (Olson et al., 2003). Generally, about one third of family businesses make it to the second generation of family owner/managers, and around a tenth is transferred to the third generation (and beyond) of ownership/management (Poutziouris et al., 2001).

De Geus (1997) viewed companies as living beings that must adapt, have moral dimensions, and have a desire to survive to withstand the changes inherent in the environment. However, as Astrachan (2010) discovered, there are many factors that complicate the task of assuring long-term survival. For example, as family and business grow older and larger over time, family ties often retreat making norms, obligations and informal control more difficult to maintain. As ownership diffuses, control over the business becomes harder to exercise (Schulze et al., 2003).

Apart from business vitality, research shows that consistent family values and a synthesis between family and business values are crucial for maintaining family ownership in the long run (Pieper, 2007). The most important finding by Olson et al (2003) on family business sustainability was that the success of the business depended on family processes and how the family responded to disruptions rather than simply how the owner managed the business alone.

<sup>&</sup>lt;sup>1</sup> This case presents the actual business and identities have been changed to protect business privacy. This case was written for academic purpose only and the author disclaims any legal responsibilities.

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Despite the importance of survival for family business, there are relatively few publications dealing with the subject in any organizational context (Astrachan, 2010). Hence, this paper seeks to explore how a Muslimpreneur's family business strategize the business in order to sustain in the dynamic economic environment in Malaysia.

#### 2. METHODOLOGY

This study employed a qualitative approach whereby a case study research strategy was adopted to gain an in-depth study about the research topic (Yin, 2009). This paper specifically illustrates how a Muslimpreneur strategizing his family business for sustainability. The idiographic explanations inherent in the case study approach enabled a deeper understanding and detailed indepth information that provided credible and valuable knowledge about the case. Primary data were gained through in-depth interview sessions with the Muslimpreneur. For data analysis, the research will be using the five-phased cycle, namely: (1) compiling, (2) disassembling, (3) reassembling (and arraying), (4) interpreting, and (5) concluding as proposed by Yin (2011). At the end, case study will provide lessons which learnt from the interviewee's unique experiences (Yin, 2009). This paper narrates a Muslimpreneur's family business journey.

## 3. THE CASE STUDY

# • Entrepreneurial Background

The entrepreneur in this study, Haji Dahlan, is part of a third generation family-owned business known as Mesti Best Co. Beginning as a *halal* soy sauce manufacturer, Mesti Best Co. was previously known as Elok Co. The company was founded in 1950 by Sheikh Muhammad, Haji Dahlan's grandfather. According to Haji Dahlan, Elok Co. was the sole company that sold *halal* soy sauce in Kelantan and was famously known for its 'Sedapnya'. The company grew as a family business and the market was concentrated in a small town called Kota Bharu, Kelantan, a state on the east coast of Malaysia.

After operating for 20 years, in 1970, the company was transmitted to Sheikh Muhammad's second generation, Haji Dahlan's parents, Sheikh Mahmud. During the 1980s, Elok Co. produced more than just a soy sauce and had expanded to sell chilli and tomato sauce. R&D activities were conducted with the assistance and support from the Malaysian Agricultural Research and Development Institute (MARDI). This time, the company started expanding its market outside Kota Bharu such as Pasir Puteh, Tanah Merah, and Machang. This market expansion had increased the sales and at the same times the 'Sedapnya' sauce had spread by the customers' words of mouth.

Over the years, the business went well but market penetration was still limited to Kelantan. After 49 years of operation, in 1999, Haji Dahlan, the third generation of Sheikh Muhammad's family, took over the management of Elok Co. from his father. He managed the company with the collaboration from his cousin, Roslan, who has been very close to him since childhood. Both of them pursued their Diploma of Accountancy at the Polytechnic of Ungku Omar in Ipoh, Perak.

# • Family Business – A Business Opportunity

Haji Dahlan has been actively engaged in the construction sector for several years after finished his studies. Due to the Asian financial crisis in 1997-1998, his business slowed down. As Haji Dahlan had never been employed anywhere else, he kept searching for a business opportunity. One day, while having lunch in a restaurant, he thought of opening his own food business company. However, his father's family business was on his mind, and from that moment, he decided to take over the family business.

Everyone has to eat every day. Even during war people have to eat. So, I think food business will be the best option and is secured, especially during the economic crisis. Before this I was busy with my construction business and forgot about my family soy sauce business. But during the economic crisis, many projects were cancelled or postponed. Well, on the other hand, when you were in a difficulty, you will try your best to find a solution. And as for myself, I found the solution in front of my eyes. So, now, here I am, managing my family business.

There are push and pull factors which drive an entrepreneur to pursue a business. In this case, Haji Dahlan found that during the economic crisis, his previous business was not successful. This push factor alerted him to be opportunistic during the uncertain economic conditions, in particular during the late 1990s economic crisis which then provided him with an opportunity to 'take over' his family business.

I did not take over my family business because of responsibility or obligation towards my family. Business is about making money. If you are doing business because you feel responsible then it would not last long. You have to love it. It is just like a marriage. You would not get happy if your parents forced you to marry somebody that you don't love. Do you agree with me?

Haji Dahlan emphasised the importance of passion in pursuing business to ensure the long-lasting success of the business (Bradley, 2010).

# • Strategizing the Business

The first step that Haji Dahlan and his cousin, Roslan took after seized over his family business was to make planning to market Elok's products throughout the country. Their first step was to rebrand Elok's name. According to Haji Dahlan, they made the decision to rebrand the product layout since it was outdated.

The first thing I did after I took over the company management was rebranding the company name as well as the brand of the product. We came into decision to rebranding our family business brand name since it had been used for almost five decades. We thought that if we wanted to go for a modern market,

specifically to enter hypermarket such as Carrefour, Tesco, and Giant, we have to do rebranding. Before this my father concentrated on traditional retailers. So, we sat together, me and my partner, and we called upon our big clients and discussed about this idea of rebranding.

We conducted market survey as well. After several brainstorming to get the best name, we shortlisted a couple of suitable names and finally we came out with a new name; Mesti Best. The rebranding process took around three to four months. But I think it is worth it. Now we have a new brand name to attract new customers.

As asserted by Haji Dahlan, the company's name was changed to Mesti Best Co. and the brand was changed to Mesti Best. The rebranding of the company had opened many eyes to the company's products. Currently, the family business operate on a larger geographic scale. Haji Dahlan is an entrepreneur who sees long-term planning as an essential element for business growth. Haji Dahlan saw his collaboration with his cousin, Roslan, as an opportunity to realise business growth (Lee & Tsang, 2001).

They divided the responsibilities and shares into two major divisions - Mesti Best Manufacturing and Mesti Best Marketing. Mesti Best Manufacturing is under Roslan's management. The division focused on productions which to maintain and retain the product's quality. On the other hand, Haji Dahlan manage the Mesti Best Marketing. He concentrated on marketing such as product expansion and networking development.

Whilst the company's production is still in Kelantan, Haji Dahlan moved the marketing division to Kuala Lumpur. The decision to move was made due to the strategic location of Kuala Lumpur as the capital city of Malaysia. In Kuala Lumpur, he managed to widen his network contacts as this activity will have a positive impact on venture growth (Tsang, 1998; Lee & Tsang, 2001). Haji Dahlan further asserted that the division of the two main functions has been fruitful and made his company profitable.

In terms of employment, Haji Dahlan currently employs 15 people who work in his office. In 2006, he employed almost 30 people. However, due to the strategic change that he made, the company retrenched some employees. Previously, Mesti Best utilised retailers to distribute their products, such as going to small shops throughout the country. However, they came across many problems such as accrued debts and also high turnover due to the job environment. Thus, Haji Dahlan decided to distribute his products through large hypermarkets such as Mydin, Carrefour and Giant. This marketing strategy resulted with reducing the number of employees in his company as well as the operating costs.

Besides manufacturing the core product which is soy sauce, in 2006 Haji Dahlan introduced tapioca chips, the local root vegetable, which is packed with anti-oxidants. MARDI has helped Haji Dahlan with R&D on tapioca because they noticed the growth potential of tapioca chips. Haji Dahlan further asserted that the nutritional value of tapioca is well-known in Western markets.

We have taken tapioca for granted, but the Westerners had already knew about its nutritional value and are consuming them more. At first they might have mistakenly thought the tapioca chips for potato chips. Do not get surprise if you were served with tapioca chips during Christmas.

A recent growth strategy employed by Haji Dahlan is exporting his products overseas. He wanted to convince the local people, especially the Malays, that he can sell his products overseas. To date, the Mesti Best product has penetrated the United Kingdom, Canada, Ireland, China, Brunei, Singapore, Cambodia, Vietnam, Morocco, and Iran. This internationalisation process require collaboration among several small and medium enterprises, known as *Konsortium Usahawan Makanan dan Industri Asas Tani* (KOMITA), a consortium of agriculture-based industries and food entrepreneurs. Studies of entrepreneurial networks have supported the view that entrepreneurs' networks may play a significant role in giving advice, providing resources, and access to expertise, etc. (for example see Aldrich, 1999; Hansen, 1995, 1999).

Incorporated in 2006, KOMITA was initiated by a group of food producers in a climate of fast changing biotech and agriculture-based industries. Being the first of its kind in Malaysia, it has not only established networking for the industry, but also changed the direction of the local agrobased industries' venturing international markets. KOMITA, whose corporate culture is "strength through unity," to date has grown into a group of over 60 fully certified companies, and boasts more than 250 products of international standard.

Haji Dahlan is the Executive Chairman of KOMITA and he is fully dedicated to make his dreams come true. He believed that the corporate culture will create positive attitudes among KOMITA's members and thus promote business growth. He also believed that when a local product is acceptable overseas, it will change the misperception among consumers of Muslim products. This is a psychological war that he has had to face and it is hard for him to solve alone. Therefore, the internationalisation process by collaboration among the SMEs is hoped to be a way to counter-attack the problem.

# • Obstacles and Challenges to Business Growth

There is no business without challenges. When he began his business, Haji Dahlan had to make Mesti Best products globally profitable. He asserted that his intention was to make Mesti Best Co. like Nestle Company.

Wherever Malaysian food goes, Mesti Best follows.

Haji Dahlan's vision is to ensure that Mesti Best products are accepted by consumers worldwide. He wanted to change consumers' assumptions of *halal* food products. For him, every *halal* product must be certified not only as *halal* but also as a high quality product. He did not want people to treat Malay products as a second class ones. Furthermore, Haji Dahlan stressed that the hardest challenge he has ever faced is to change the mentality of his potential buyers.

The problem that I am facing now is the Malay consumers since they themselves resist buying and supporting the products manufactured by the Malay manufacturer. I am wondering why this scenario is happening. Sixty per cent of the total population in Malaysia is Malay but why is the majority of the Malay still in the middle class? I believe that this is because 70 per cent of consumers are Malay but they are not buying Malay products. They always keep in mind that Malay products are low quality. That is why we go abroad to convince the local customers that we have succeeded in penetrating overseas market. I know it is hard to change the mentality of my community.

What I have observed was that as there are many promotions done by the government, there shows more failure among the Malay businesses. Why? Because the government promoted the slogan of "Entrepreneur Assisted by FAMA or MARA"... why don't they change to "Entrepreneur Selected by FAMA or MARA". I am sure that people will get attracted to this slogan. It is more convincing that the entrepreneur is selected by the government agency, not only being assisted. So, for me, this is more a psychological war.

The issue raised by Haji Dahlan concerned consumer mentality. He asserted that Malay consumers did not have a genuine identity and this hinder them in appreciating products manufactured by Malays. He further noted how Chinese businesses can survive in the Malaysian market.

The government did provide grants to purchase machinery but they forget to put allocation for promotion purposes. Because the promotion cost is as high as the cost to purchase machinery and other equipments. So, we are in a dilemma. Promotion needs money. However, the Chinese businessmen do not have to do much promotion because the Chinese consumers are buying their own products. I have been in situations where many Malay customers rejected my product. I am so curious why this is happening. When I compared my products to the Chinese products, I think mine is better in packaging and pricing, and even good in taste.

Haji Dahlan has suggested that one way to solve market problems is by marketing his products overseas. He hoped that local consumers will be impressed with his products being successful on the international market. He also believed that education can help if the government nurtures a patriotic spirit in everyone to buy Malaysian products.

Besides these marketing issues, Haji Dahlan has emphasised government assistance to Malay entrepreneurs. He argued that although the government provide grants and funding for business growth, some bureaucrats do not have much integrity and this slow down the grants approval process.

Don't be surprised if I tell you that bribery is so common among the bank officers. We have to allocate five per cent of commissions for the officer to approve our application. It happened to my vendor himself. The bribery index among Malays is very high.

Haji Dahlan's argument underscore the Corruption Perception Index (CPI) in 2010 which was 4.4. Bribery and corruption in Malaysia were high and deteriorating. This can be seen from the Corruption Perception Index for 2010, where Malaysia was ranked at number 56, similar as in 2009 (Transparency International, 2010). Whilst in 2008, Malaysia has been ranked at number 47. It demonstrated that corruption among Malaysians is worsening.

#### • Growth Orientation

Mesti Best's growth has seen the company expand from a small traditional family business to an established exporting company. Haji Dahlan, the third generation family member who during his management has eyed his company's market penetration becoming much larger. His long-term projects are intended to help other Muslimpreneurs.

We targeted for long-term benefits. First, we try to get market penetration, then we move forward by getting the right distributor and might be forming trading house at certain countries. Secondly, we have developed "Anchor Model Program" in Pengkalan Chepa, Kelantan to help small Malay businesses to market their products under MB. The government will allocate RM 13.5 million grants so that we will be able to develop new products and get HACCP and GMP to explore the US market.

Haji Dahlan's current plan is to enter the Morocco and Iran markets and to reach 70 per cent in export turnover. Haji Dahlan wanted to educate Malay consumers by emphasising a *halal* campaign. He believed that Malay brands can become global once consumers are convinced of his products' quality and only on the basis of *halal* logo certification. Furthermore, Haji Dahlan believed that as a Muslim, he has to work hard in life to survive because there is no such thing as luck in life. He emphasised his view of life.

There is no luck in life. We have to be committed in work. Today's failure is a postponed success for tomorrow. This is my principle. We would not succeed by counting the stars in the sky.

#### 4. CONCLUSION: LESSONS AND IMPLICATIONS

From the outset, it might be concluded that a number of issues arise from this study that could equally be drawn from an investigation into a successful Muslimpreneur. Haji Dahlan is very passionate about business and thus he strategically plan and manage the company to ensure the sustainability of his family business. Prophet S.A.W. stressed that, "Allah likes that when someone does anything, it must be done perfectly well." As such, planning in business must be deliberately prepared for a better outcome and in this case, for the family business sustainability.

The following are several lessons that could be learned from the case of Haji Dahlan:-

# • Specialisation

An efficient company management style is essential for business growth (Brush et al., 2009; Merz et al, 1994). Decentralisation and specialisation have been empirically researched and their explanatory richness established within the small firm's domain (for example, see Miller, 1987; Miller & Toulouse, 1986a, Miller & Toulose, 1986b). In this case, Haji Dahlan specialised the family business into two major divisions and these are production and marketing, which are controlled by him and his cousin. The production division can concentrate on product quality assurance whilst the marketing division can concentrate on channelling the products into more markets. According to Haji Dahlan, people often assume marketing is easy but in reality it needs strategy and time to ensure products are marketable. This specialisation has proved to be successful.

#### • Business consortium networks

Although Mesti Sedap Co. has been operating for almost 60 years, the company really took off when Haji Dahlan took over its management. His good networking with government agencies has led him to chair KOMITA, a business consortium which supports many Malay entrepreneurs. This consortium is a platform for them to take on potential overseas markets. Their collaboration is essential to ensure everyone benefits by it. For example, Vietnamese businesspeople bought five product ranges in one container and this cost RM 50,000. As asserted by Haji Dahlan, "united we stand, divided we fall." According to a longitudinal study by Bergh et al. (2009), when entrepreneurs build trust with one another, they can experience cognitive, emotional, and social changes by participating in a network. This kind of business consortium and social networks may have positive potential outcomes for Malay entrepreneurs especially in terms of marketing strategy (Harris & Rae, 2009). Indeed, a recent study conducted by Franco and Haase (2010) find that one of factors that contribute to SME failure is because of lack of co-operation and networking.

On the other hand, the following *Quran* verse mentions globalisation, multiculturalism, international trade and business, groups and team work.

O mankind! We have created you from a male and a female, and made you into nations and tribes, that you may know each other (Al-Hujurat: 13).

Haji Dahlan initiated the business consortium that could provide a platform for small business entrepreneurs to market their products globally. His enthusiasm for business is also because he does not want people to have bad impression of the Islamic brand:

I wanted to make Muslims products not only as halal product, but also clean and high quality. All products should be produced better than HACCP standard. I want to make it a global brand. I don't want people to see the Muslim brand as a second class brand.

# Market saturation as an opportunity

As noted in his case, Haji Dahlan noted the challenges in penetrating the local market as most of his potential consumers, particularly Malays, did not want MB products. He argues that the market is dominated by Chinese businesses. Therefore, one way to get out of this situation is to concentrate on exporting products overseas. He sees this market imbalance as an opportunity to explore the international market. Furthermore, with just 27 million people in Malaysia, the local market is limited. Therefore, searching for markets abroad would be the best alternative for Malay entrepreneurs (Moha-Asri, 2002; Sieh, 2000).

Apparently, the issue of opportunity recognition and exploitation for future family business can take a variety of forms and will be subject to different external influences. Prospective Muslimpreneurs must be able to proactively identify and address opportunities, and case histories such as Haji Dahlan's provide a learning vehicle for this to take place.

The case study also offers avenues for future research. Research could be undertaken into the training requirements of Muslimpreneurs firms. This is vital for the government in encouraging more Muslimpreneurs to independently grow and develop their business.

It is also useful as an educational vehicle to further investigate characteristics associated with entrepreneurs from various ethnic communities, e.g. the generation of ownership, previous experience, sector operating, etc. Stories from successful entrepreneurs can be shared at national level that can be disseminated to various regions. It is also recommended to offer more effective ways and provide solutions of barriers to family business growth, which is, based on the particular ethnic composition of communities.

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## EXPLORING MALAYSIAN MUSLIM WOMEN CLOTHING CONSUMPTION

Syadiyah Abdul Shukor<sup>1</sup>

#### **ABSTRACT**

Studies have shown that women purchasing behaviour differ from men. In emerging market such as in Malaysia, women tend to spend extra money on clothing as compared to women in developed market. Given that clothing is useful in providing information to others and it can make a statement about an individual's personal and social identities, understanding clothing consumption among women in Malaysia is essential in targeting this market. This paper is based on an on-going research which intends to explore Malaysian Muslim women clothing consumption. The research aims to examine Malaysian Muslim women important criteria in purchasing clothes, the role of religion on clothing consumption and influences of social factors (reference groups and media) on purchasing of clothing. This paper will provide a review on existing studies concerning consumer clothing choice, the concept of modesty in clothing and reference group influences on consumer clothing choice. The study employs library and archive research to achieve the objective of the paper.

**Keywords:** Clothing consumption, Malaysia, Religion, Reference group influences

#### 1. INTRODUCTION

Previous studies have shown that women purchasing behaviour differ from men (Schiffman and Kanuk, 2007, Solomon et al., 1999). In Malaysia, women represent 49.24% of the total Malaysian population (Trading Economics, 2012) and the discretionary spending by women is expected to grow to US\$5 billion (RM18.45 billion) in 2014 from under US\$3 billion (RM11.07 billion) (Hamid, 2006). According to a report by AC Nielsen (2011), female respondents in emerging markets such as in Malaysia were found to spend extra money on clothing as compared to women in developed market. Malaysian tourists were also reported to spend on luxury brand and designer clothes and accessories while they were on vacation (Shop West End, 2011). According to Levy (1959), consumers may adopt or purchase certain clothing for its symbolic meaning. Clothing is useful in providing information to others (Kefgen and Touchie-Specht, 1986) and it can make a statement about an individual's personal and social identities to others (Chattalas and Harper, 2007). Given the importance of spending on clothing by Malaysian women and purchasing clothing may give different meaning to the wearer, this research intends to explore Malaysian Muslim women clothing consumption. Specifically, this paper will provide a review on existing studies concerning consumer clothing choice, the concept of modesty in clothing and reference group influences on consumer clothing choice.

Clothing Choice: Studies have shown that consumers make clothing purchase decisions based on several criteria (Kawabata and Rabolt, 1999, Hsu and Burns, 2002, Eckman et al., 1990, Zhang et al., 2002). The studies show that consumers placed different importance on several attributes when purchasing clothes. For instance, study by Shim, Morris, & Morgan (1989) found that United States non-employed women placed more importance on suitability of the clothes to the individual, good fit, attractiveness, appropriateness for occasion and quality of construction in selecting clothing. In another research,

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Chinese consumers placed importance on function (warmness, permeability, fabric softness, thickness, fiber content, easy care, durability and comfort), price and appearance (fit, style, colour and workmanship) when purchase casual wear (Zhang et al., 2002). Kawabata and Rabolt (1999) study showed that the United States consumers placed more importance on i) colour, style/design, quality, good fit, price and fashion; ii) care/maintenance, durability, and fibre content; iii) brand or designer name and iv) country of origin while the Japanese are more concern on preference and suitability, care and durability, brand and country of origin in purchasing clothing. The same findings were also found in studies involving Taiwanese and United States college women (Hsu and Burns, 2002), Korean and United States respondents (Lee and Burns, 1993) and Russia (Elena et al., 2007).

As been suggested by Levy (1959), "people buy things not only for what they can do, but also for what they mean". As such, people purchase a particular product to cater different needs beyond the functional use. These needs can be derived from utilitarian benefits and hedonic/experiential benefits (Engel et al., 1995). Utilitarian benefits are objective and related to the functional product attributes. On the other hand, hedonic/experiential benefits encompass subjective responses, sensory pleasures, daydreams, and aesthetic considerations (Engel et al., 1995). In the context of buying clothes, aesthetic considerations refer to the prettiness or aesthetic experience that the apparel item can bring about, whether on a sensory level (e.g. whether the fabric's colour is pleasing to the wearer or that the fabric feels soft against the skin), emotional (evoking specific feelings for the wearer), or cognitive (in that it has a certain symbolic significance for the wearer) (De Klerk and Tselepis, 2007, De Klerk and Lubbe, 2008). Previous studies indicate that people wear clothes not only to be modest (Horn and Gurel, 1981), but clothes are able to express the wearer's identity (Elliott and Wattanasuwan, 1998, Horn and Gurel, 1981), act as a mechanism of conformity (Piacentini and Mailer, 2004), communicate one's self concept (Sirgy et al., 1997, Goldsmith et al., 1996) and express an individuals' affiliation to a particular social group as well as differentiation from peers (Piacentini and Mailer, 2004, Elliott and Wattanasuwan, 1998). The findings from these studies are significant as clothing is high in visual display and it is widely recognised as product which 'communicates' about a person (Holman, 1980). While a substantial amount of research has studied the clothing choice among various different consumer groups, no studies have examined the clothing consumption among the Malaysian Muslim women. In view of this deficiency, the current study explores Malaysian Muslim women clothing consumption, particularly investigating the important criteria considered when purchasing clothes.

Modesty in Clothing from the Islamic Perspective: Clothing for the purpose of modesty is the fundamental basis for all clothing (Horn and Gurel, 1981). Modesty theory suggests that people wear clothing to conceal the private parts of their body (Solomon and Rabolt, 2009). In other words, modesty revolves around the idea that certain body parts are indecent or shameful and should be covered so that they cannot be seen (Barnard, 1996). It has been argued that modesty differs from culture to culture (Horn and Gurel, 1981). What is covered or left uncovered varies among societies (Horn and Gurel, 1981).

In the context of this study, modesty in clothing among Muslims means that dress must cover the whole body except for the areas specifically exempted (Badawi, 1980). Although modesty has not been identified as the most important underlying motives in women's choice of dress (Barr, 1934, cited in Horn and Gurel, 1981), it is expected that modesty would be very much important in this study because individuals who place great emphasis on religious values will place importance on modesty (Creekmore, 1963, cited in Horn and Gurel, 1981). Modesty in clothing is expected to be an important criteria considered in purchasing clothing among Malaysian Muslim women because the importance of religion in Malaysian consumer's lives (Alam et al., 2011).

The foundations regarding Islamic clothing are mentioned in the Quran (the divinely – revealed Scripture of Islam) and through the Prophet Muhammad's teachings and practices:

"Say to the believing of men and women that they should lower their gaze and guard their modesty: that will make for greater purity for them: and Allah is well acquainted with all that they do." [24:30].

"And say to the believing women that they should lower their gaze and guard their modesty that they should not display their beauty and ornaments except what must ordinarily appear thereof; that they should draw their veils over their bosoms and not display their beauty to their husbands...." [24:31].

"O Prophet! Tell thy wives and thy daughters and the women of the believers to draw their cloaks close round them. That will be better, so that they may be recognised and not harassed. Allah (SWT) is ever Forgiving, Merciful." [33:59].

The above three verses require Muslims to dress according to the Islamic requirement whereby they are expected to dress modestly. Modesty in clothing includes several aspects. Firstly, clothing should not be worn for the purposes of attracting attention or to show off. It should not be a dress of fame, pride, and vanity. Such fame may be sought by wearing an excessively fancy dress as a status symbol or by wearing an excessively ragged dress in order to gain others' admiration of one's own selflessness. Both motives are improper by Islamic standards (Badawi, 1980). The Prophet Muhammad says:

"Whoever wears a dress of fame in this world, Allah will clothe him with a dress of humiliation in the day of resurrection, then set it afire".

Secondly, for women, clothing must cover the entire body; only the hands and face may remain visible for women (Badawi, 1980). In addition, the dress must be loose enough so as not to describe the shape of a woman's body. This is consistent with the intent of the verses cited above (24: 30-31). These verses require women to cover the whole body except for the areas specifically exempted.

Thirdly, in terms of the material, it should not be so thin that one can see through it. This requirement can be seen from the intention of the verses cited above (24: 30-31) whereby the dress should be thick enough so as not to show the colour of the skin it covers or the shape of the body which it is supposed to hide. Other than that, women's clothing must not resemble men's clothing, nor should the men's clothing resemble the women's. Ibn' Abbas narrated this point:

"The Prophet cursed the men who act like women and the women who act like men."

In addition, a Muslim should not wear clothing to look like a non-Muslim because the Prophet Muhammad was against Muslims copying these styles. Moreover, the design must not consist of bold designs which attract attention (Badawi, 1980).

In summary, modesty in clothing from the Islamic perspectives includes the following; a) clothing should not be worn for the purposes of attracting attention or to show off; b) clothing must be loose and cover the entire body, only the hands and face may remain visible for women; c) material used to cover the body parts should be thick so that no one can see through it; d) women's clothing must not resemble men's clothing, nor should the men's clothing resemble women's; and, e) Muslims should not wear clothing to look like a non-Muslim.

Based on the Islamic requirement on clothing, Muslims are not constrained to wear a particular form of dress and they are free to improve on or invent new types of dresses as long as it meets the Islamic guidelines and requirements. Therefore, it is expected that Muslim consumers are particular in terms of their clothing choice because they are required to observe the dress requirements as laid down in the Quran (the divinely – revealed Scripture of Islam) and Sunnah (the practice of the prophet, consisting of

what he himself did, recommended or approved of in others). Although modesty in clothing may reflect the fundamental basis for all clothing (Horn and Gurel, 1981), wearing modest clothing among Muslims may symbolise the wearer's commitment to his or her religion. In this sense, modesty in clothing should be considered as one of the important clothing criteria among Muslims. Hence, this study intends to investigate the influence of religion on Malaysian Muslim women consumers.

Reference group influence: Reference group is a person or group of people that significantly influences an individual's behaviour (Bearden and Etzel, 1982). Numerous researchers have examined reference groups as an influence to clothing choice and buying behaviour (Childers and Rao, 1992) and young consumers are more influenced by the reference groups (Park and Lessig, 1977). Numerous researchers have examined reference groups as an influence to clothing choices and buying behaviour (Childers and Rao, 1992, Shim and Bickle, 1994). Muslim, and more specifically Malaysian Muslim women consumers, are underrepresented in this literature. Therefore, the influence of reference groups on Malaysian Muslim women consumers should be explored.

## 2. METHODOLOGY

This study will employ a qualitative research method as it aims to explore clothing consumption among Malaysian women. Focus groups and in depth interviews will be conducted to achieve the study objectives. These two techniques will be used as the primary data collection tool, because it focuses on the participants' own expression of experience (Denzin and Lincoln, 1994).

Participants will be selected among women aged between 18 and 30 years old to reflect the median age of Malaysian women. Participants will be asked on several topics concerning their clothing consumption which include the role of religion on their clothing consumption, influences of social factors (reference groups and media) on purchasing clothing, and important criteria in purchasing clothes. In this study the analysis of the focus group discussions and interviews were based on the methods suggested by Casey (1998). All of the focus groups discussions and interviews will be audio taped and transcribed. After the focus groups discussions and interviews have been carefully typed, the transcripts will be reviewed so that the researcher could become familiar with the flow of the dialogue. All transcripts will be merged and then all of the answers to question one from all the groups and interviews will be moved to the same master document. This will be done for each topic and question. From this master document (which contains all of the relevant responses) the patterns, trends or themes across all of the responses will be examined.

#### 3. CONCLUSION

This paper is based on an on-going research which intends to explore Malaysian Muslim women clothing consumption. The study aims to make practical contributions by discussing implications for marketing mix developed by the retailers and manufacturers of clothing in Malaysia. In this sense, retailers and manufacturers of clothing may develop an effective marketing programme which consists of 'product', 'price', 'promotion' and 'place' that blends to target the Malaysian Muslim women.

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# RELATIONSHIP BETWEEN RELIGIOSITY AND CONTROVERSIAL PRODUCTS AND OFFENSIVE NATURE OF ADVERTISING APPEALS

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#### **ABSTRACT**

Studies have shown that religiosity is an important variable in determining consumer behaviours. This research paper attempts to investigate the relationship between religiosity and controversial products and offensive nature of advertising appeals. A survey of 278 undergraduate students was conducted at a local university located in the South of Peninsular Malaysia. Descriptive analysis and correlations analysis were performed to analyse the data. Results showed that religiosity is positively related to controversial products and offensive nature of advertising appeals. Limitations and directions for future research are discussed towards the end of this paper.

Keywords: Religiosity, Offensive advertising, Consumer

#### 1. INTRODUCTION

Religiosity is defined as the degree to which a person adheres to his or her religious values, beliefs, and practices and uses them in daily life (Worthington Jr. et al., 2003). In consumer behaviour field, researchers have used religiosity construct to determine a number of consumer behaviour. This paper aims to investigate the relationship between religiosity and controversial products and offensive nature of advertising appeals. The paper begins by providing literature related to the role of religion in determining consumer behaviour. Then, the methodology section provides the data collection procedure along with measures adopted followed by a presentation of results. A final section discusses limitations and directions for future research.

Religiosity and Consumer Behaviour. A number of studies support the application of religiosity construct in consumer research (e.g. Sood and Nasu, 1995, Delener, 1994, Delener, 1990). For instance, Sood and Nasu (1995) examine the effect of religiosity on shopping behaviour between Japanese and American consumers. They found that there is no difference in consumer shopping behaviour between devout and casually religious Japanese individuals. Sood and Nasu (1995) attributed this to the fact that religion is not an important element in the overall Japanese culture. On the other hand, in the USA devout Protestants were found to be: more economic, they bought products on sale, shopped in stores with lower prices, were open to buying foreign made goods, believed that there was little relationship

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between price and quality, tended not to believe advertising claims while preferring subtle and informative advertisements.

The significant role of religiosity on perceived risk in purchase decision has been explored by Gentry et al. (1988) whose study reported that residents in areas with higher levels of religiosity perceive higher levels of risk with new products. Their findings are corroborated by Delener's (1994, 1990) two studies which indicate that pro religious consumers tended to perceive higher risks than non-religious consumers. Delener (1994) concluded that marketers should emphasise the decision maker's religiousness in decision making process.

Siguaw and Simpson (1997) examined the effects of religiosity among Catholic, Protestant, Fundamentalist and others on two important shopping characteristics: Sunday shopping and outshopping. The results of their study verify that religiosity has a significant effect on outshopping behaviour and attitudes as well as on Sunday shopping behaviour and beliefs. Individuals scoring high on the spiritual and devotional dimensions spent significantly fewer of their retail dollars outshopping than their less religious counterparts. Similarly, McDaniel and Burnett (1990) suggest that religiosity may be significant in predicting the importance individuals place on certain store evaluative criteria. The results from their study show that consumers with a high degree of cognitive religious commitment viewed the friendliness of sales personnel, shopping efficiency, and product quality as being of greater importance in selecting a retail store than did those low in cognitive religious commitment. Study by Choi et al. (2010), on the other hand, investigates how the consumer's use of various product information sources can differ depending on their levels of religiosity (i.e. high, low, and none). Highly religious Korean consumers are more likely to choose members of their same religious group when they look for product information than those consumers who are less religious. This finding indicates that when consumers are more religiously devoted, they are more likely to hear opinions or thoughts about products from those who believe and practise the same religion.

Vitell et al. (2005) investigate the role of religiosity in determining consumer attitudes and beliefs in various situations regarding questionable consumer practices. Two dimensions of religiosity were studied, which are: intrinsic and extrinsic religiousness. Their results indicate that an intrinsic religiousness was a significant determinant of consumer ethical belief while extrinsic religiousness was not related to those beliefs.

Religiosity and Advertising. The influence of religiosity on consumer behaviour has also been investigated in the aspect of consumer attitudes toward advertising (Fam et al., 2004, De Run et al., 2010, Michell and Al-Mossawi, 1995, Rice and Al-Mossawi, 2002). For instance, Michell and Al-Mossawi (1995) investigated the religiosity effect on consumer attitudes toward advertising messages among Christians and Muslims. They found that both Christian and Muslim respondents with higher levels of religiosity had significantly less favourable attitudes towards a contentious message, and conservative Muslims had much lower recall scores than liberal Muslims. In another study which used four main religious groups as samples, namely: Buddhism, Islam, Christian and non-religious believers (mainly Taoists and Confucians), Fam et al. (2004) found that Muslims and religiously devout respondents found the advertising of gender or sex related products (e.g. female and male underwear) more offensive relative to other religions. De Run et al.'s (2010) study of Malay Muslims in Malaysia found similar results. In this case the authors found that the more religious groups will react more intensely if the products advertisements contain nudity, sexist images, violence, or subject matter that is too personal. More recently, Akhter (2011) found that level of offensiveness towards advertisements of controversial products was found to be significantly associated with religious perceptions and nature of advertising appeals. Nudity and sexist images as advertising appeals were found to have significant association with the level of offensiveness of the consumers. Based on the previous findings, this study investigates the relationship between religiosity and controversial products and offensive nature of advertising appeals.

#### 2. METHODOLOGY

The present study employed quantitative (i.e. survey questionnaire) method in the collection of the primary data. The data collection process was conducted over a period of six weeks. For the purpose of this study, survey questionnaires were distributed to students aged between 18 and 25 year old studying at a local university in the South of Peninsular of Malaysia. Students studying at this university come from all over Malaysia. A total of 278 survey questionnaires were received and accepted to be analysed.

The survey questionnaire was divided into 3 main sections. First section contained a list of controversial products, second section contained a list of five advertising appeals used in advertisements to attract customers and third section contained measuring the level of religiosity. Items for these sections were based on previous studies (De Run et al., 2010, Abdul Shukor and Jamal, 2013, Akhter et al., 2011). All items were measured by asking respondents questions in the form of a five point Likert scale ranging from '1' (strongly disagree or not offensively at all) to '5' (strongly agree or extremely offensive). SPSS software was used to analyse the data. Descriptive statistics, correlation and t-tests were applied to analyse the data. Reliability of the data was measured and the value of Cronbach's Alpha was 0.869 which above the recommended value of 0.7 (Hair et al., 2010).

#### 3. FINDINGS AND DISCUSSION

### Descriptive Analysis

This section will report on the frequency for all items related to all constructs in this study. As depicted in Table 1, among the lists of controversial products, it was found that alcohol, cigarettes, condoms and gambling were deemed as offensive by the respondents as evidenced by more than 60% of the respondents answering "offensive" and "extremely offensive". Alcohol was found to be the most offensive among all these controversial products. On the other end, products such as charities, pharmaceuticals, funeral services, weight loss programs and sexual diseases were deemed by the respondents to be not offensive. In terms of advertising appeals for controversial products, sexist images was found to be on top of the list of being the most offensive advertising appeal, with 69.5% of the respondents claimed that sexist images were "offensive" and "extremely offensive" as summarised in Table 2. Another advertising appeal that was found to be controversial was nudity as shown by 61.9% of the respondents answered "offensive" and "extremely offensive". The other advertising appeals such as indecent language, western or US images, and anti-social behaviour were not deemed to be offensive. The descriptive analysis for religiosity shown in Table 3 showed that the majority of the respondents agreed or strongly agreed that religion was important.

Table 1: Descriptive Analysis for Offensiveness towards Controversial Products

Item Name	Not offensive at all	Not offensive	Neutral	Offensive	Extremely offensive	Average
Alcohol	50	13	15	44	123	3.86
Charities	118	32	44	33	15	2.21
Cigarettes	43	10	32	60	97	3.75
Condoms	50	17	19	37	118	3.72
Female contraceptives	29	28	89	42	45	3.16
Female hygiene products	34	35	97	46	26	3.00

Female underwear	31	31	73	56	48	3.29
Funeral services	52	41	103	26	14	2.61
Gambling	45	12	15	30	135	3.85
Guns and armaments	43	16	56	58	63	3.35
Male underwear	43	25	76	45	48	3.14
Pharmaceuticals	68	43	83	30	14	2.51
Political parties	28	26	113	51	20	3.06
Racially extremist groups	26	25	61	61	66	3.53
Religious denominations	24	29	99	53	31	3.16
Sexual diseases (AIDS, STD						
prevention)	57	24	65	37	51	2.98
Weight loss programs	54	26	106	33	19	2.76

(1=Not offensive at all, 5 = Extremely offensive)

Table 2: Descriptive Analysis for Advertising appeals for Controversial products

Table 2: Descriptive rinarysis for rice testing appears for Controversial products									
Item Name	Not offensive	Not offensive	Neutral	Offensive	Extremely	Average			
Item Name	all				offensive				
Anti-social behaviour	28	34	98	50	28	3.09			
Indecent language	23	20	71	43	80	3.59			
Nudity	36	16	38	20	126	3.78			
Sexist images	39	13	20	34	130	3.86			
Western / US Images	30	17	68	69	53	3.43			

(1=Not offensive at all, 5 = Extremely offensive)

**Table 3: Descriptive Analysis for Religiosity** 

Item Name	Strongly	Disagree	Neutral	Agree	Strongly	Average
Tem Name	disagree				agree	
I believe in Allah	0	0	0	3	233	4.99
I avoid shameful acts	3	1	13	60	159	4.57
I always perform my duty as a Muslim	0	0	5	43	188	4.78
(e.g., pray five times a day, fasting						
during the month of Ramadhan,						
pilgrimage to Mecca) to Allah						
My religion is not very important to me	218	5	1	2	10	1.22
(negative statement)						
It is important for me to follow Allah's	5	0	3	17	210	4.80
Commandments conscientiously						
It is not important for me to do good	162	42	8	10	12	1.57
deeds for others (negative statement)						
It is important for me to show good	3	6	15	45	167	4.56
manners to everyone						
It is my duty to respect the rights of	3	1	7	51	173	4.64
everyone						
Religious beliefs influence all my	4	1	18	62	151	4.50
dealings with others						
In general, I consider myself as a	2	0	17	64	153	4.55
devoted Muslim						

(1=Strongly agree, 5 = Strongly disagree)

# Correlation and t-test Analsysis

Table 4 showed the results of correlation analysis between religiosity and controversial products. For the correlation between religious perception and the controversial products, the results showed that there were significant associations between religiosity and the following controversial products namely cigarettes (r=0.139, p=0.05), condoms (r=0.133, p=0.05), guns and armaments (r=0.132, p=0.05), and male underwear (r=0.172, p=0.01). Table 5 shows the results of correlation analysis between religiosity and advertising appeals for controversial products. Results showed that there is a significant positive association between religiosity and anti-social behaviour (r=0.132, p=0.05). Although there were positive correlation between religious perception and other advertising appeals such as indecent language, nudity, sexist images and western/US images, the correlations between each pair was not significant.

Table 4: Association between religiosity and controversial products

		Alcohol	Charities	Cigarettes	Condoms	Female contraceptives	Female hygiene products	Female underwear	Funeral services	Gambling	Guns and armaments	Male underwear	Pharmaceuticals
Alcohol	Pearson Correlation	1	401**	.816**	.868**	.593**	001	.337**	.072	.859**	.669**	.521**	
Charities	Pearson Correlation	401**	1	312**	414**	146*	.212**	120	.259**	447**	316**	209**	
Cigarettes	Pearson Correlation	.816**	312**	1	.777**	.537**	.003	.225**	.022	.788**	.527**	.418**	
Condoms	Pearson Correlation	.868**	414**	.777**	1	.630**	.034	.419**	.154*	.823**	.666**	.586**	
Female contraceptives	Pearson Correlation	.593**	146 <sup>*</sup>	.537**	.630**	1	.351**	.520**	.287**	.534**	.500**	.510**	
Female hygiene products	Pearson Correlation	001	.212**	.003	.034	.351**	1	.431**	.342**	002	.049	.237**	
Female underwear	Pearson Correlation	.337**	120	.225**	.419**	.520**	.431**	1	.330**	.310**	.345**	.694**	
Funeral services	Pearson Correlation	.072	.259**	.022	.154*	.287**	.342**	.330**	1	.092	.240**	.299**	
Gambling	Pearson Correlation	.859**	447**	.788**	.823**	.534**	002	.310**	.092	1	.692**	.500**	
Guns and armaments	Pearson Correlation	.669**	316**	.527**	.666**	.500**	.049	.345**	.240**	.692**	1	.507**	
Male underwear	Pearson Correlation	.521**	209**	.418**	.586**	.510**	.237**	.694**	.299**	.500**	.507**	1	
Pharmaceuticals	Pearson Correlation	308**	.473**	217**	275**	077	.173**	061	.309**	312**	189**	093	
Political parties	Pearson Correlation	.130*	.152*	.162*	.153*	.223**	.195**	.256**	.417**	.181**	.256**	.314**	
Racially extremist groups	Pearson Correlation	.576**	263**	.517**	.545**	.438**	.062	.256**	.165*	.641**	.532**	.332**	
Religious denominations	Pearson Correlation	.102	.163*	.103	.160*	.208**	.169**	.219**	.340**	.118	.233**	.222**	
Sexual diseases	Pearson Correlation	.097	.131*	.160*	.182**	.249**	.185**	.009	.257**	.139*	.150*	.047	
Weight loss programs	Pearson Correlation	217**	.374**	120	133*	.084	.259**	.082	.346**	243**	063	.068	
OverallR	Pearson Correlation	.108	073	.139*	.133*	.117	022	.048	012	.107	.132*	.172**	_

<sup>\*\*.</sup> Correlation is significant at the 0.01 level (2-tailed).

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

Table 5: Association between religiosity and advertising appeals for controversial products

	Correlations										
	Anti-social behaviour	Indecent language	Nudity	Sexist images	Western/ US image	OverallR					
Anti-social behaviour	1										
Indecent language	.407**										
Nudity	.269**	.676**	1								
Sexist images	.254**	.627**	.885**	1							
Western/ US image	.238**	.541**	.700**	.757**	1						
OverallR	.132*	.085	.099	.075	.122	1					

<sup>\*\*.</sup> Correlation is significant at the 0.01 level (2-tailed).

Results in Table 6 showed that there was a significant difference in the score of sexist images for male (M=3.4, SD=1.63) and female (M=3.95, SD=1.49); t (234) = -2.106, p= 0.036. There was a significant difference in the score of western/US image for male (M=3.0, SD=1.45) and female (M=3.5, SD=1.21); t (235) = -2.288, p= 0.023. Table 7 showed results of gender differences in offensiveness towards controversial products. The results showed that there was a significant difference in the score of cigarettes for male (M=3.08, SD=1.49) and female (M=3.76, SD=1.45); t (240) = -2.742, p= 0.007, female underwear for male (M=2.88, SD=1.38) and female (M=3.32, SD=1.24); t (237) = -2.031, p= 0.043 and sexual diseases for male (M=2.56, SD=1.46) and female (M=3.09, SD=1.44); t (232) = -2.085, p= 0.038.

Table 6: Gender differences in advertising appeals for controversial products

	Male	Female	Sig.	t	df	Sig.	Mean
						(2-	Differe
						tailed)	nce
Anti social	3.0750	3.0657	.168	.047	236	.962	.00934
behaviour			.108	.04/	230	.902	.00934
Indecent	3.4500	3.6041	.690	-	235	.494	15406
language			.090	.685	233	.494	13400
	3.4000	3.8571					
Nudity			.085	1.74	234	.082	45714
				5			
Sexist	3.4000	3.9541		-			
images*			.106	2.10	234	.036	55408
images.				6			
Wastern/	3.0000	3.4975		-			
Western/			.419	2.28	235	.023	49746
US image*				8			

<sup>\*\*.</sup> Significant at the 0.01 level (2-tailed).

<sup>\*.</sup> Correlation is significant at the 0.05 level (2-tailed).

<sup>\*.</sup> Significant at the 0.05 level (2-tailed).

Table 7: Gender differences in offensiveness towards controversial products

	Male	Female	Sig.	t	df	Sig.	Mean
						(2-	Difference
						tailed)	
Alcohol	3.5000	3.7659	.191	964	243	.336	26585
Charities	2.2000	2.1436	.943	.246	240	.806	.05644
Cigarettes*	3.0750	3.7673	.765	2.742	240	.007	69233
Condoms	3.2250	3.7313	.048	1.821	239	.070	50634
Female contraceptives	2.9250	3.2539	.056	1.531	231	.127	32889
Female hygiene products	2.8500	3.0051	.117	768	236	.443	15505
Female underwear*	2.8750	3.3216	.362	2.031	237	.043	44661
Funeral services	2.5500	2.6276	.116	398	234	.691	07755
Gambling	3.5128	3.8990	.104	1.389	235	.166	38617
Guns and armaments	3.3250	3.3520	.836	110	234	.912	02704
Male underwear	2.8000	3.1929	.374	1.684	235	.093	39289
Pharmaceuticals	2.4500	2.5000	.287	241	236	.810	05000
Political parties	2.9000	3.0657	.103	897	236	.371	16566
Racially extremist groups	3.2750	3.5276	.001	1.129	237	.260	25264
Religious denominations	3.1500	3.1633	.028	068	234	.946	01327
Sexual diseases*	2.5641	3.0923	.567	2.085	232	.038	52821
Weight loss programs	2.5000	2.7828	.073	1.376	236	.170	28283

<sup>\*\*.</sup> Significant at the 0.01 level (2-tailed).

## 4. LIMITATIONS AND FUTURE RESEARCH

This study revealed that religiosity is positively related to controversial products and offensive nature of advertising. Findings from this study are consistent with previous studies that show a significant relationship between religiosity and consumer behaviours. The results obtained from this empirical work must be interpreted in the light of the study's limitations. In this study, survey questionnaires were distributed at a religious-based institution; hence its results might reflect only a section of the whole society. Future studies might want to explore the relationship between religiosity and across generations. Studies examining relationship between these two constructs will have important implications for segmentation, targeting and advertising strategy.

<sup>\*.</sup> Significant at the 0.05 level (2-tailed).

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## GOVERNMENT SUPPORT AND ITS EFFECT ON FACTORS OF GROWTH OF SME – PRELIMINARY FINDINGS

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## **ABSTRACT**

The main purpose of this paper is to investigate the influence of government support on factors of growth of small and medium enterprise in Malaysia. This paper also aims to evaluate the relationship between the capability of firms to access to finance and human resources on its ability to growth. Survey method for 58 SMEs in in manufacturing sector in Malaysia who are registered in SME Corp have been undertaken. The data obtained is analyzed using Structural Equation Modeling (SEM) using smartPLS program. This paper found that the government support in finance and human resources have influenced positively and significantly the ability of SMEs to access to finance and human resources which subsequently influence positively and significantly the ability of SMEs to achieve growth.

**Keywords**: firm growth, government support, SMEs, finance, human resources.

#### 1. INTRODUCTION

The SMEs represent an important part of the business system and form a vital component of the economy in Malaysia. The SME sector plays an important role in Malaysian's economic development as 97.3 % of businesses consist of SMEs and they contribute 28.5 % to gross domestic product (Department of Statistics, 2011). The value of gross output and value added generated by SMEs in 2010 was RM507.1 billion and RM213.9 billion respectively. Despite accounting for 97.3 per cent of total businesses in the country, the share of SMEs to gross output was only 28.5 % per cent and the share of SMEs to value added was 30.2 %, DOS(2011). The study carried out by Saleh and Ndubisi (2006) presented that SMEs in Malaysia are facing domestic and global challenges, which could obstruct their flexibility and competitiveness. These challenges include: difficulty in obtaining funds from financial institutions and the government, lack of human resources, a high level of global competition, high level of bureaucracy in government agencies, a low level of research and development and a lack of access to modern technology. To overcome these challenges, the Malaysian Government has implemented numerous strategies and schemes under industrial master plans (IMPs). The IMPs were framed to improve the growth of the manufacturing sector through the whole value chain and cluster-based industrial developments. Hence, this plan provides an integrated approach to the development of industrial areas and opportunities for growth of SMEs (MITI, 2005).

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## 2. LITERATURE REVIEW

## Firm growth

There are several ways to measure the firm growth such as sales, employment, assets, market shares, and profits. Robson and Bennett (2000) argued that the aim of the study being carried out affects the technique to be used in measuring the small firm growth. For government policy scholars, the growth of small firms is typically measured based on the changes in the number of employees, whilst the owner/managers prefer to measure the growth of their firms based on the firms' financial performance rather than changes in the number of employees (Smallbone and Wyer, 2000). Sales and employment are widely used to measure firm growth among other measures (Wiklund, 1998). This is because growth in sales and employment reflect both short-term and long-term changes in a firm. Furthermore, compared to other indicators such as market shares, sales and employment are more objective measures (Delmar, 1997). Sales have been recognized by several researches as the most common measure of growth of small firms (Davidsson and Wiklund,1999). Nevertheless, a shortage of sufficient data on sales and profits, combined with their ability to recording mistakes create the difficulties in using such values in research that are conducted in many developing countries (Wolf, 2004).

## The growth factors

According to the literature, the factors determining firm growth can be classified in four general groups: characteristics of the firm industry-specific factors, factor prices and several exogenous factors that reflect conditions outside the domestic industry. This study will clarify many of the factors that are linked with small firm growth. It will discuss about access to finance, access to market and Government support which is provided by SME Corp.

#### Access to finance

Limited access to and cost of finance from financial institutions and commercial banks may especially constrain firm performance of microenterprises and SMEs because of collateral requirements and inadequate credit histories (Hong and Steve, 2010). The small firms in developing countries do not obtain formal bank loans regularly; so they in common depended on other kinds of credit for example trade credit, overdrafts, and unofficial loans (Bigsten et al., 2003). Smallfirms also receive important foundations from Microfinance institutions, but their services is frequentlyinsufficient and inadequate (Swinnen, 2005). Smallfirmsafter overcome the start-up difficulty; a lack of credit hinders their growth for initial stages (Schiffer&Weder, 2001). Herna'ndez-Trillo et al (2005) argued that the growth can also be hindered by credit constraints that restraint investments in the improvement of technology. Guiso et. al (2004) studied the significances of differences in local financial progress on the firms in developed country and they found that local financial development increases the possibility that an individual starts a firm, increases competition, and enhancing the firm growth.

## Human capital

Human capital represents knowledge, skills and experience. Human capital of the total workforce plays a more determined role when compared to the entrepreneur alone (Chandler & Hanks, 1994). Employees are considered as the most important resource for SMEs. Knowledge of employees plays an essential part in constructing competitive advantage of a firm. Small firms are more likely to engage in innovation activities due to their constraints in available resources, and therefore high quality workforce is very important for such firms. Wiklund and Shepherd (2003) in their investigation of human capital and its influence on small firm growth illustrate a difference between general and specific human capital. They debate that specific human capital relates to the skills and knowledge that support the management of the firm to attain growth. Certain specific human capital namely start-up experience, management experience have been found to be positively connected with the growth of small firm (Wiklund and Shepherd 2003). A study done by Persson (2004) showed that educational level of employees has impacted positively on firm growth, in other words, firms that

recruited employees with university degree will grow faster. The study by Wijewardena and Cooray (1996) in Japan, presented that the firms with more skilled workers in small-scale sector are better in sales growth. Also the consequences of another fragment of the same study declared that the efficiency of management, and the owner's knowledge and experience are to be greatly associated with the growth of small firms. Honjo (2004) provides also evidence on the impact of general human capital on new firm turnover growth in the Japanese manufacturing. Firms where the entrepreneur possesses a technical college or a university degree are found to grow faster than other firms. In addition to the level of education, there is some evidence that the field of education may affect the performance. Chu and Siu (2001), indicatedthat Workforces in a small businesses may be worthybasis of information and ideas, and their productivity can improve, if managementpermit them to share ideas.

## **Government Support**

Support policies for SMEs vary from country to country and from developed countries to less developed countries due to differences in business contexts, culture, and the level of industrialization.Batra and Mahmood (2003) presented that the SMEs in developing countries in East Asia gainsupport from local governments in the form of smallfunding, private sector training, technology improvement, and market information. Based on the policy reforms, and the new support infrastructure in China, Malaysia, Indonesia and Thailand have benefited small businesses (Tambunan, 2005). Some studies in Asian Industrialized Countries have showed the increasing in the significance of SMEs, such as in Korea, Taiwan, Singapore, and Australia. The government in Malaysia has continued to support the SMEs by delivering financial incentive, improve the technologies, support entrepreneurial development, enhancing business management and human resource management, increase the consultancy and marketing services (Abdullah, 2002). According to the study done by Gregory (2002) in Korea, the government has applied many programs to boost the growth of SMEs to make them more competitive in face of global competition. This was done by ensuring access to finance, supporting human resource development program, developing technology and scientific achievements so that business can develop extensive relationship with global market. In Vietnam, policy supports including financial aids have played a critical role to SMEs' growth (Harvie, 2001). Zhou and Wang (2002) review the influence of local financial improvement on economic growth, employing a district data over the period 1978-2000, and noticed that local financial development is significantly connected with economic growth. In the study of the factors that influence e-commerce adoption levels among SMEs in Malaysia found that external support is significant across all e-commerce adoption levels among SMEs in Malaysia. These results recommend that upcoming strategy to inspire e-commerce application in Malaysia should focus on providing support to facilitate e-commerce adoption efforts. The findings also show that owners or CEOs of SMEs who are less experienced, high-school leavers, and who used computer less frequently, ought to be targeted in future e-commerce initiatives (Thi, Lim, 2011).

## Finally four hypotheses are developed for this study.

Hypothesis 1: Government support in finance impact the access of firm to finance.

Hypothesis 2: Government support in human resources impact the access of firm to human resources.

Hypothesis 3: The access to finance influence the growth of firm.

Hypothesis 4: The accesses to human resource influence the growth of firm.

## 3. RESEARCH METHODOLOGY

This study used closed ended questionnaires survey to obtain data to measure the growth of SMEs. The constructs of the questionnaires were designed based on the further information from literature review, 300 sets of self-administered questionnaires were distributed among micro-sized SMEs registered with SME Corp. The researchers received 62 responses and 58 were suitable for analysis. The data was collected on a Likerttype scale, where 1 indicated minimum agreement and 5 indicated

maximum agreement. The data analysis is conducted by employing Structure Equation Modeling (SEM) using SmartPLS program. Since the sample size used for the study was small the researchers were not sure whether the respondent data will be normally distributed. Hence, SmartPLS is suitable for small size sample and for non-normally distributed data; the model testing method was adopted for this study. In SEM process, model and structure measurement were conducted as validity and reliability test also significant relationships for hypothesis. Both the measurement model and structural models were evaluated simultaneously through SmartPLS.

## 4. ANALYSIS OF RESULTS

#### Measurement model

The hypotheses were tested using a partial least squares (PLS) structural equation model. PLS provides a latent variable structure similar to LISREL structural models, but it is based on components instead of the covariance matrix, which makes it more flexible for small sample sizes (Tuten& Ashley, 2011). Partial Least Squares (PLS) model analyzes and interprets in two stages. In the first stage measurement modelevaluates and in the second stage structural model evaluates. The measurement model evaluates the relations between observed items and latent variables. The measurement model examines through assessment of validity and reliability of the construct measures in the model. This ensured that only reliable and valid constructs' measures were used for assessing the nature of relationships in the overall model (Hulland, 1999). Structural model specifies relations between latent constructs. Estimating and analyzing the path coefficients between the constructs test the structural model. The PLS model for this study was analyzed using SmartPLS version 2.0 M3. First, the measurement model was tested to ensure the measures used to capture the constructs are valid and reliable.

## **Reliability Test**

The method used to assess reliability is Cronbach's alpha (Table 1). The construct can be identified as of good reliability if its value more than 0.70. In Table 1, shown each construct contains a good reliability because it is more than 0.70, indicating that the constructs are internally consistent and hence reliable. In addition to Cronbach's (1951) alpha, reliability of each variable was assessed through Fornell and Larcker's (1981) measure of composite reliability. This measure is preferred over Cronbach's alpha because it offers a better estimate of variance shared by the respective indicators (Hair et al., 2006). In this study the composite factor reliability coefficients of the constructs exceeded 0.80 (see Table 1), which met the standard of  $\geq$  0.80 as suggested by Fornell and Larcker (1981).

Table 1: Factor loading, Cronbach's alpha, Compisate reliability and AVE

	factor loading	cronbach's alpha	compisate reliability	AVE
Government suppo	rt in finance	0.925	0.941	0.7614
GSF1	0.8282			
GSF2	0.859			
GSF3	0.7943			
GSF4	0.8634			
GSF5	0.8836			
Government suppo	rt in human	0.906	0.9307	0.7293
GSH1	0.8976			
GSH2	0.8927			
GSH3	0.8906			

GSH4	0.7732			
GSH5	0.8081			
Finance		0.9126	0.9322	0.6963
F1	0.8885			
F2	0.8162			
F3	0.8429			
F4	0.8247			
F5	0.8113			
F6	0.8205			
Human resource		0.8917	0.9202	0.6974
H1	0.848			
H2	0.8326			
Н3	0.8276			
H4	0.8378			
H5	0.8295			
Growth		0.928	0.9417	0.6978
growth 1	0.8067			
growth 2	0.8081			
growth 3	0.8282			
growth 4	0.859			
growth 5	0.7943			
growth 6	0.8634			
growth 7	0.8836			

## Validity test

## Convergent validity

Convergent validity refers to the degree of agreement in two or more measures of the same construct (Camines and Zeller, 1979). To examine the convergent validity of this study, can be realized from the correlation between the score of the indicator with its constructs. Individual indicators were considered valid a correlation value above 0.70. However, for loading from 0.50 to 0.60 are still acceptable. In this study, researchers took loading value 0.70. The results of PLS output after a revised have met convergent validity because the entire loading factor is above 0.70 (cross loading Table 1).

#### Discriminant validity

Discriminant validity is the degree to which any single construct is different from the other constructs in the model (Carmines and Zeller, 1979). Discriminant validity is to compare the Square Root of Average (AVE) for each construct and as the correlations between constructs with other constructs in the research model. The model has sufficient discriminant validity if the root of AVE for each construct is greater than the correlation between the constructs and other constructs in the model. If the value is the root of AVE is higher than the correlations between other constructs, so it can be inferred that constructs have a good level of validity. Therefore, it can be concluded that each construct has a high validity. It can be seen from the root of AVE is higher than the value of the correlation between other constructs (Table 2).

Table 2: Correlation Matrix of Latent Variables, (Square Root of AVE in Diagonal)

	AVE	GSF	GSH	finance	growth	human
GSF	0.761	0.872				
GSH	0.729	0.238	0.853			
Finance	0.696	0.771	0.185	0.834		
Growth	0.697	0.456	0.073	0.407	0.835	
Human	0.697	0.185	0.772	0.078	0.222	0.835

## Structural model

Once the reliability and the validity of the measures are assured, path coefficients can be reported based on the results of a PLS structural model. The structural measurement shows in Table 3.

The relationship between government support in finance and access to finance was significant with = 0.7717 and t = 45.365 (table value is 1.96 at 0.05) indicating that the government support in finance has direct positive significant influence on the access to finance. The access to finance changes in direct proportion to government support in finance with a coefficient of 0.772. This clearly indicates that a 100 points change in government support in finance will bring 77.2 points change in the access to finance.

The relationship between government support in human resource and access to human resource was significant with = 0.773 and t = 37.85 (table value is 1.96 at 0.05) indicating that the government support in human resource has direct positive significant influence on the access to human resource. The access to human resource changes in direct proportion to government support in human resource with a coefficient of 0.773. This clearly indicates that a 100 points change in government support in human resource will bring 77.3 points change in the access to human resource.

The relationship between access to finance and growth was significant with = 0.393 and t = 8.628 (table value is 1.96 at 0.05) indicating that the access to finance has direct positive significant influence on the growth. The growth changes in direct proportion to access to finance with a coefficient of 0.393. This clearly indicates that a 100 points change in access to finance will bring 39.9 points change in the growth of firm.

The relationship between access to human resource and growth was significant with = 0.192 and t = 3.45 (table value is 1.96 at 0.05) indicating that the access to human resource has direct positive significant influence on the growth. The growth changes in direct proportion to access to human resource with a coefficient of 0.192. This clearly indicates that a 100 points change in access to human resource will bring 19.2 points change in the growth of firm.

**Table 3: Structural Measurement and Hypothesis Testing** 

Hypothesis	observed t-level	
Government support in finance Access to finance	45.365	Supported
Government support in human resources Human	37.85	Supported
resources		
Access to finance growth	8.628	Supported
Human resources prowth	3.45	Supported

## 5. CONCLUSION

This study examined the influence of government support on the growth's factors of firm and examined the influence of growth's factors on the growth of firm. The results ofthis paper supported the hypothesis which are that the government support in finance and human resources have effected

positively and significantly the capability of SMEs to access to finance and human resources which impact positively and significantly the capacity of SMEs to growth in Malaysian circumstance.

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## LAKARAN PERJALANAN SEBUAH SYARIKAT KONTRAKTOR BUMIPUTERA

Intan Fatimah Anwar<sup>1</sup> Suzana Samsudi<sup>2</sup> Sumaiyah Abd Aziz<sup>3</sup>

#### **ABSTRAK**

Kes ini merupakan sebahagian daripada dapatan awal kajian mengenai faktor kritikal kejayaan (*critical success factor*) kontraktor Bumiputera di Malaysia. Penulisan kajian kes ini adalah berdasarkan proses temubual yang telah dijalankan bersama pemilik syarikat dan juga data sekunder yang telah diperolehi daripada syarikat dan laman sesawang. Kes ini berkisarkan kepada persoalan kajian iaitu apakah faktorfaktor yang kritikal dalam menentukan kejayaan kontraktor Bumiputera di Malaysia. Kes ini diketengahkan berdasarkan kisah sebenar dari titik mula sehinggalah kepada permasalahan yang timbul. Hasil kajian mendapati beberapa kekuatan yang menjadi teras kepada kejayaan syarikat kontraktor Bumiputera adalah seperti hubungan erat antara pengurus, tidak menanggung kos pinjaman bagi modal permulaan, penjanaan pendapatan melalui kepelbagaian bidang perniagaan, hubungan yang baik dengan pembekal dan mutu kerja yang berkualiti. Kesimpulan yang dapat dibuat ialah kontraktor Bumiputera mampu memberi saingan yang sengit dalam industri pembinaan negara dan seterusnya menjadi penjana kepada kekukuhan ekonomi Malaysia sekiranya mendapat peluang dan galakan yang sewajarnya.

Kata kunci: Kajian kes, kontraktor Bumiputera, industri pembinaan, faktor kritikal kejayaan

## 1. PENGENALAN: INDUSTRI PEMBINAAN DI MALAYSIA

Selaras dengan visi Malaysia untuk menjadi sebuah negara berpendapatan tinggi, Program Transformasi Ekonomi (ETP) telah diperkenalkan pada tahun 2010. Program ini mensasarkan peningkatan Pendapatan Kasar Negara (GNI) sebanyak tiga kali ganda, iaitu daripada RM660 bilion pada tahun 2009 kepada RM1.7 trilion pada tahun 2020. Melalui program ini, 131 projek dan 60 cabang perniagaan meliputi pelbagai bidang termasuklah infrastruktur dan *Greater Kuala Lumpur* mampu memberi peluang kepada para kontraktor untuk mengembangkan perniagaan dan menambahkan pendapatan di dalam bidang pembinaan. Selain itu, Program Rumah 1Malaysia (PR1MA) yang diperkenalkan untuk menyediakan kemudahan perumahan kepada golongan pertengahan turut menyumbang kepada para kontraktor umumnya, dan kontraktor Bumiputera khasnya, untuk menceburi bidang pembinaan.

Pusat Perkhidmatan Kontraktor (PKK) merupakan agensi kerajaan pertama yang telah diwujudkan bagi tujuan melaraskan khidmat pelanggan untuk sektor pembinaan. Melalui sistem PKK, kontraktor berdaftar dapat bernaung di bawah satu agensi yang akan melaksanakan polisi dari semasa ke semasa untuk meningkatkan imej perniagaan serta menjaga kebajikan berkaitan perniagaan pembinaan mereka. Namun begitu, bermula pada 15 Oktober 2012, kerajaan telah mengumumkan sistem pendaftaran yang mengeluarkan Lesen Kontraktor yang selama ini di bawah seliaan PKK telah dibatalkan dan digantikan

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Sijil Perolehan Kerja Kerajaan (SPKK) yang dikeluarkan oleh Lembaga Pembangunan Industri Pembinaan Malaysia (CIDB). Walau bagaimanapun, PKK masih lagi mengawal Sijil Taraf Bumiputera. CIDB diwujudkan untuk membantu proses pengawasan dan koordinasi aktiviti-aktiviti syarikat pembinaan. Usahawan pembinaan yang berhasrat untuk mengambil peluang meraih tender dan projek pembinaan perlu mendaftarkan syarikat mereka dengan CIDB di bawah klasifikasi kerja pembinaan, kerja kejuruteraan atau kerja mekanikal dan elektrik. CIDB juga telah menstruktur semula pengkelasan kontraktor. Pengkelasan yang sebelum ini mempunyai tujuh kumpulan telah digantikan dengan tujuh gred.

Selain daripada itu, sebagai sebuah negara berbilang kaum, Malaysia juga telah memperkenalkan beberapa polisi ekonomi untuk mengurangkan jurang ekonomi di antara golongan Bumiputera dan bukan Bumiputera. Untuk memastikan kesamarataan agihan kekayaan ekonomi di antara semua kaum, Dasar Ekonomi Baru (DEB) misalnya, telah digubal dengan meletakkan sasaran untuk mencapai 30 peratus pegangan ekuiti Bumiputera. Bagi sektor pembinaan pula, pihak kerajaan telah memberikan insentif untuk kontraktor Bumiputera melalui sistem kuota. Sebagai contoh, gred G1 hanya terbuka kepada kontraktor Bumiputera.

Walaupun pelbagai usaha dan polisi kerajaan telah dibuat untuk membantu dan meningkatkan daya persaingan kontraktor Bumiputera, masih terdapat persepsi bahawa kontraktor Bumiputera masih kurang berupaya untuk bertahan di dalam cabang perniagaan di bawah sektor pembinaan. Di antara masalah yang dikenal pasti adalah kurang kepakaran dan pengalaman, pembidaan tender yang terlalu optimistik, kenaikan harga bahan binaan, masalah kewangan, masalah jaringan pembekal, kekangan tenaga buruh mahir, kekurangan bahan binaan dan jentera peralatan, perancangan dan pengurusan yang tidak cekap dan efisien serta masalah komunikasi (Othman, 2010).

Justeru kajian yang lebih mendalam dan berterusan perlu dilakukan bagi mengenalpasti punca sebenar masalah-masalah yang wujud di kalangan kontraktor Bumiputera. Ini bagi memastikan polisi-polisi yang berkaitan dapat dibentuk untuk mengatasi kelemahan dan memberi kekuatan kepada kelompok usahawan ini dan seterusnya memberi kesinambungan terhadap perniagaan mereka.

Untuk memenuhi keperluan kajian berkenaan daya kompetitif kontraktor Bumiputera, kertas kerja ini telah ditulis berdasarkan kes kajian salah sebuah syarikat kontraktor Bumiputera gred G1 di Malaysia. Segala kejayaan dan cabaran yang dilalui oleh syarikat Taming Services telah dikongsikan bersama oleh pengurus syarikat berkenaan. Seterusnya, hasil kajian dan penemuan telah dibincang di antara para penyelidik dan disertakan di bahagian akhir kertas kerja ini.

## 2. METODOLOGI KAJIAN

Kajian ini dijalankan menggunakan kaedah kajian kes bagi mendapatkan maklumat menyeluruh (*indepth*) mengenai faktor kritikal kejayaan (*critical success factor*) kontraktor Bumiputera di Malaysia (Yin, 2009). Bagi tujuan penulisan kertas kerja ini, penyelidik menfokuskan kepada persoalan kajian iaitu apakah faktor-faktor yang kritikal dalam menentukan kejayaan kontraktor Bumiputera di Malaysia. Data primer diperolehi melalui sesi temubual yang dijalankan bersama pemilik syarikat. Di samping itu, data sekunder seperti rekod syarikat dan laman sesawang dari agensi yang berkenaan turut digunakan bagi pembinaan kes ini.

Hasil daripada sesi temubual dan juga dokumen sokongan sedia ada yang telah diberikan oleh pihak syarikat, penyelidik menggunakan pendekatan kitaran lima-fasa (*five-phased cycle*) oleh Yin (2011) untuk menganalisis data kualitatif iaitu (1) *compiling*; (2) *disassembling*; (3) *reassembling* (and arraying); (4) *interpreting* and (5) *concluding*.

## 3. LATARBELAKANG SYARIKAT

Taming Services (bukan nama sebenar) telah ditubuhkan pada tanggal 9 Februari 2000 yang mana ianya merupakan sebuah syarikat pemilikan perkongsian Bumiputera sepenuhnya. Aktiviti utama syarikat ini adalah menjalankan kerja-kerja kejuruteraan awam atau pembinaan dan kerja-kerja pembekalan am. Syarikat ini mempunyai lesen kontraktor Kelas F (kini dikenali sebagai gred G1), berdaftar dengan Kementerian Kewangan Malaysia dan mempunyai taraf Bumiputera.

Pada awal penubuhan, syarikat ini menjalankan kerja-kerja pembinaan sub-kontrak daripada syarikat-syarikat lain. Namun begitu, bermula pada tahun 2004, syarikat ini mula menjalankan kerja-kerja yang ditawarkan dari sektor kerajaan mahupun sektor swasta.

Misi syarikat adalah seperti berikut:

- 1. Berusaha untuk memenuhi kehendak pelanggan dengan menawarkan perkhidmatan dan kerja yang berkualiti dan kompetitif.
- 2. Bertanggungjawab ke atas kebajikan kakitangan syarikat.
- 3. Memberi bantuan kepada masyarakat sekeliling.
- 4. Berusaha untuk meningkatkan perkhidmatan ke tahap yang paling optimum.

Taming Services juga berwawasan dalam usaha berikut:

- 1. Untuk menjadi syarikat yang maju dan berdaya saing.
- 2. Meningkatkan pulangan kepada syarikat melalui aktiviti pembangunan.
- 3. Menguatkan kedudukan dengan memberi hasil kerja yang terbaik kepada para pelanggan.

Taming Services menjalankan dua aktiviti utama iaitu dalam bidang kejuruteraan awam dan pembekalan am. Secara ringkasnya, kerja-kerja kejuruteraan awam yang dijalankan adalah seperti pengubahsuaian pejabat, rumah, hiasan dalaman (perabot dan kelengkapan), permaidani, ambar dan lain-lain. Di samping itu, syarikat turut menjalankan aktiviti kerja-kerja am seperti penyelenggaraan bangunan — membina longkang, membaiki atap bocor dan mencuci bangunan dan juga kerja-kerja kejuruteraan besi — *stainless steel*, mengecat dan menggilat jeriji besi.

Bagi pembekalan am pula, syarikat terlibat selaku pembekal barangan keperluan pejabat (alat tulis) seperti *rubber stamp*, pen, kertas, fail-fail dan sebagainya, pembekalan mesin pejabat seperti mesin fotostat, mesin *laminate* dan mesin perakam waktu, dan pembekalan perabot pejabat seperti kerusi, meja mesyuarat, almari, rak buku dan rak majalah. Syarikat turut melibatkan diri selaku pembekal cenderamata dan hadiah seperti pen bercetak, kemeja-T, payung, beg seminar, kalendar dan sebagainya serta membekal peralatan dan pakaian sukan. Dari tahun 2008 sehingga 2012, syarikat telah berjaya menyelesaikan sebanyak 51 projek berkadar sederhana dan ke atas yang telah diamanahkan kepada mereka

## 4. LATARBELAKANG PENGURUS SYARIKAT

Sebagai salah sebuah syarikat berasakan perkongsian, Taming Services dinaungi oleh dua bersaudara selaku rakan kongsi iaitu Encik Tuah (bukan nama sebenar) dan Encik Jebat (bukan nama sebenar). Taming Services turut dibantu oleh seorang eksekutif pentadbiran, seorang eksekutif perakaunan, dua orang pengurus projek, seorang pembantu am, seorang penyelia tapak dan seorang pembantu penyelia tapak. Carta organisasi syarikat adalah seperti di Lampiran 1.

#### **Encik Tuah**

Encik Tuah merupakan rakan kongsi yang bertindak selaku pengurus syarikat dan pengurus kewangan Taming Services. Beliau berkelulusan Ijazah Sarjana Muda Perakaunan dari Universiti Utara Malaysia (UUM) dan merupakan pemegang Diploma Akauntansi dari Politeknik Ungku Omar. Sebelum terlibat secara serius dengan syarikat sendiri, Encik Tuah pernah menimba pengalaman bekerja di syarikat audit dan perakaunan, menjadi pengurus kafe siber serta menjadi akauntan kepada sebuah syarikat kontraktor Kelas D. Pengalaman sebagai akauntan di syarikat kontraktor banyak memberikan ilmu pengetahuan yang diaplikasikan dalam syarikat yang ditubuhkan ini.

#### **Encik Jebat**

Encik Jebat pula merupakan rakan kongsi yang bertindak selaku pengurus projek dan pengurus operasi Taming Services. Beliau berkelulusan Sijil Kontraktor Binaan dari Fakulti Kejuruteraan Awam, Universiti Putra Malaysia (UPM). Beliau juga banyak menghadiri kursus-kursus berasaskan pembinaan seperti kursus binaan jalan dan jambatan. Sebelum bergiat secara aktif di Taming Services, beliau terlebih dahulu menimba pengalaman selama empat tahun sebagai penyelia tapak di sebuah syarikat pembinaan dan pernah juga bekerja sebagai juruteknik di Mint Hotel, Sungai Besi, Selangor.

#### 5. LAKARAN PERJALANAN TAMING SERVICES

## Semangat Titik Permulaan

Meskipun syarikat sudah berdaftar pada tahun 2000, namun pengoperasian sebenar hanya bermula pada tahun 2004. Penglibatan besar Taming Services adalah lebih tertumpu kepada kerja-kerja pembekalan am manakala sebahagian kecil iaitu dalam 20 peratus sahaja bagi kerja-kerja perkhidmatan yang melibatkan kejuruteraan awam dan penyelenggaraan. Encik Tuah dan rakan kongsi iaitu Encik Jebat yang mana adalah adik beliau sendiri perlu memikirkan strategi yang berkesan bagi memastikan dan membuktikan tahap serius dan komitmen mereka kepada Taming Services. Adalah menjadi impian si abang untuk memajukan Taming Services sebagai syarikat kontraktor Bumiputera yang disegani seperti Kamal Bina, Lebar Daun dan beberapa nama hebat di arena pembinaan Malaysia. Persoalannya, bagaimanakah pengurusan kontraktor kelas G1 yang seperti kais pagi makan pagi ini boleh pergi lebih jauh?

Encik Tuah sedar untuk pergi lebih jauh dalam perniagaan ini, mereka perlu membuat jualan berdasarkan projek. Sesebuah projek untuk beroperasi pula memerlukan modal yang besar. Memikirkan tentang modal, beliau tidak mahu meminjam daripada bank. Apatah lagi bank tidak mudah memberi pinjaman kepada syarikat yang baru setahun jagung dan belum melakar pengalaman yang memberangsangkan. Maka, beliau menebalkan muka meminta pinjaman daripada ahli keluarga dan saudara-mara lain. Berkat ringan mulutnya, sebanyak RM50,000 berjaya dikumpulkan bagi memulakan projek berkadar sederhana untuk gred G1 yang mempunyai had projek yang tidak melebihi RM200,000.

Tidak terhenti di situ, beliau mendapati amat sukar untuk bergerak pantas seiring dengan kehendak klien dan keperluan projek sekiranya hanya beliau dan adiknya sahaja yang perlu membuat keseluruhan kerja meliputi proses merancang, mendapat dan menjaga projek sehinggalah kepada kerja-kerja buruh. Selain itu, mengupah tenaga luar memerlukan mereka mengeluarkan sejumlah modal yang besar. Encik Tuah pantas teringatkan akan dua adik lelakinya yang sedang berkhidmat sebagai juruteknik di syarikat swasta. Di fikirannya, terfikir sayang kiranya pengetahuan dan kemahiran yang dimiliki adik-adiknya tidak digunakan untuk membangunkan Taming Services. Mengimbau zaman kanak-kanak mereka yang hidup di kampung serba kekurangan mengharapkan gaji hanya dari ayah yang bekerja sebagai askar,

membuatkan hati Encik Tuah nekad untuk menjadikan Taming Services sebagai lambang kejayaan dan kemegahan keluarga yang pasti membuatkan orang tua di kampung tersenyum puas. Lamaran beliau disambut baik oleh adik-adiknya dengan menjalankan tugas sebagai pengurus projek dan turut mendapatkan projek di agensi-agensi yang belum ditembusi Taming Services. Selang dua tahun kemudian, Encik Lekir dan Encik Lekiu turut dinamakan sebagai rakan kongsi memandangkan operasi syarikat sudah melangkaui gred G4 iaitu tidak melebihi RM500,000. Semangat saling bantu-membantu dan berbincang tentang sesuatu permasalahan projek menjadikan mereka lebih maju, padu dan mempunyai ukhwah yang tiada tolok bandingnya. Kasih sayang abang dizahirkan dalam bentuk perniagaan yang dirancang bersama. Mereka berkongsi sama rata dari segi gaji, bonus dan elaun-elaun yang telah dipersetujui.

## Meraih Kegemilangan

Tahun 2004 telah menyaksikan dengan modal RM50,000, mereka mendapat projek perkhidmatan awam dan membekalkan hampir apa sahaja yang diminta oleh agensi-agensi kerajaan mahupun swasta. Di antaranya ialah kerja pengubahsuaian pejabat di Lembaga Getah sebanyak RM160,000, kerja pembekalan dan perkhidmatan awam di Jabatan Perkhidmatan Awam (JPA), Universiti Malaya, Jabatan Perdana Menteri dan beberapa agensi besar kerajaan di sekitar Lembah Klang dan Putrajaya. Nama Taming Services semakin dikenali dan reputasinya semakin meningkat. Ini kerana mereka berjaya mengekalkan momentum persembahan mutu kerja yang baik dalam hampir setiap projek dan menyebabkan syarikat Taming Services sendiri telah disyorkan oleh JPA kepada Jabatan Kerja Raya (JKR) sebagai kontraktor yang mempunyai rekod yang baik dalam menjalankan kerja-kerja pengubahsuaian.

Sayap yang sudah ada kini perlu terbang lebih tinggi untuk mencapai matlamat. Mereka adik-beradik sedar perlu ada perancangan lebih kemas dan kreatif bagi meredah persaingan yang sengit. Mereka membuat analisa harga projek untuk memenangi tender dan menghantar sebut harga. Antara keputusan yang rumit adalah membuat pilihan keuntungan atau mendapatkan kerja. Maka dengan itu, teori ekonomi digunapakai dengan menentukan margin keuntungan siling dan lantai bagi setiap jenis projek agar keuntungan yang dibuat adalah munasabah dan tidak mendatangkan kerugian kepada syarikat. Kesemua pengurus iaitu empat beradik itu melengkapkan diri dengan pelbagai jenis kursus untuk meningkatkan tahap kemahiran dan pengetahuan. Sehinggakan Encik Tuah sendiri yang berkelulusan sarjana muda perakaunan mahir melukis plan dan hiasan dalaman mengunakan perisian 3D dan AutoCad. Ini telah menjadi faktor-X Taming Services bila mana kertas cadangan yang dihantar bukan sahaja mengandungi harga dan preskripsi barang tetapi turut memuatkan lukisan-lukisan 3D yang boleh dilihat oleh klien.

Taming Services turut mengamalkan hubungan yang baik dengan para pembekal seperti kedai perkakasan, pembekal karpet, perabot dan lain-lain. Berdasarkan pengalaman dan rekod bayaran yang baik, Taming Services mudah mendapat khidmat kredit daripada pembekal-pembekal yang mana ini telah mengurangkan keperluan modal bagi sesuatu projek. Pembayaran kepada pembekal diselesaikan terus sebaik sahaja mendapat tuntutan berperingkat daripada agensi-agensi terbabit. Seiring dengan perkembangan projek, modal turut diperlukan. Antaranya Taming Services telah mendapatkan pembiayaan Al-Tijari daripada Bank Rakyat bagi projek di bawah RM200,000, iaitu pembiayaan 70 peratus daripada harga projek kerajaan yang diperolehi. Di samping itu juga, Taming Services membuat pinjaman dengan Amanah Faktor bagi kerja-kerja yang telah selesai tetapi belum mendapat bayaran kerana karenah prosedur dan birokrasi. Namun semakin lama di kancah permainan ini, Taming Services sudah bijak menguruskan modal dan dana yang diperolehi, maka selagi boleh mereka akan mengelakkan mengambil pinjaman daripada bank kerana tidak mahu membayar faedah yang tinggi. Pada tahun ketiga pengoperasian, Taming Services sudah boleh bermegah dengan hasil jualan sebanyak RM3 juta setahun dan hasil ini digunakan sebahagiannya untuk mengembangkan lagi perniagaan mereka. Kebanyakan hasil jualan yang diterima pada waktu ini dilakukan oleh Encik Tuah.

Tahun 2007 menyaksikan Taming Services mengambil langkah berani dengan menambah satu lagi bidang perniagaan dalam kejuruteraan besi dengan mengupah beberapa orang tenaga buruh dari Indonesia. Ini membolehkan kerja-kerja yang berkaitan dengan besi dapat dilaksanakan dengan cepat pada harga yang murah. Kerja-kerja besi yang Taming Services jalankan termasuklah kerja memasang jeriji rumah atau pejabat, memasang bumbung bangunan, penutup longkang dan apa jua kerja berkaitan dengan kerja besi. Ternyata keputusan itu tepat sehinggakan tempahan yang diterima daripada projek dan individu sudah tidak menang tangan. Kini Taming Services mempunyai 14 orang tenaga kerja dan lapan daripadanya adalah tenaga buruh rakyat Bangladesh dan Indonesia manakala bakinya adalah pekerja tempatan di bahagian pentadbiran dan operasi. Setahun selepas itu, Encik Jebat mula menunjukkan taringya dan sudah pantas bergerak seiring dengan Encik Tuah sehinggakan hasil jualan beliau pula melangkaui apa yang pernah dicapai oleh abang kandungnya. Ini akhirnya menyebabkan Encik Tuah menyerahkan urusan kewangan syarikat kepada Encik Jebat.

## Konflik dan Kepincangan

Menjelang awal tahun 2013, Encik Tuah mendapat panggilan telefon daripada Encik Jebat yang memaklumkan syarikat Taming Services tidak dapat membayar gaji pengurus-pengurus yang seramai empat orang. Duit yang ada di dalam syarikat perlu digunakan untuk membayar gaji pekerja dan para pembekal yang telah memberi mereka fasiliti kredit. Berita ini bukanlah kali pertama tetapi telah berlaku hampir setahun. Setelah lama termenung, Encik Tuah membuat satu pesanan ringkas kepada rakan-rakan kongsinya untuk duduk semeja bagi mencari jalan penyelesaian. Baginya perkara ini tidak boleh dibiarkan. Banyak benda yang perlu dibayar bukan setakat gaji mereka sahaja.

Perjumpaan diatur dan masing-masing datang untuk memberi pendapat dan idea bagi menyelesaikan masalah. Encik Tuah berpendapat, mungkin sudah tiba masanya pekerja-pekerja asing ditamatkan perkhidmatannya kerana keperluan mereka adalah dalam kerja-kerja penyelenggaraan dan kerja-kerja tersebut pula mendapat bayaran yang sangat lambat daripada sesebuah agensi kerajaan atau badan berkanun. Permasalahan ini lebih rumit kerana salah seorang rakan kongsi mahu terus-terusan mengambil kerja daripada agensi tersebut meskipun tahu pembayaran lambat dan boleh membantutkan pembayaran hutang kepada pembekal yang suatu ketika dahulu sangat mempercayai mereka.

Lebih mengusutkan keadaan apabila rakan-rakan kongsi yang lain termasuk Encik Tuah sendiri tidak dapat mengambil projek lain kerana masalah kewangan yang ketat. Ada juga yang menyalahkan sesama sendiri kerana mudah membenarkan pengaliran wang untuk pembelian harta-harta persendirian dan membuat pelaburan yang tidak bijak seperti pembelian kebun di kampung yang kini payah untuk diusahakan dan dipantau. Pekerja pentadbiran juga silih berganti menyebabkan kecekapan syarikat sering terganggu kerana terpaksa memberi tunjuk ajar semula kepada pekerja baru. Encik Tuah sendiri menyedari yang sudah lama pekerjanya tidak diraikan walaupun dengan jamuan berbuka puasa di restoran seperti yang dilakukan pada awal permulaan perniagaan mereka. Gaji pekerja juga tidak diberikan kenaikan pada kadar yang sepatutnya. Encik Tuah runsing dan tidak tahu di mana silapnya dan hanya ingat sudah lama dia tidak mengambil tahu tentang kewangan syarikat. Kewangan syarikat sudah lama diserahkan kepada rakan kongsinya, Encik Jebat. Apakah rakan kongsinya itu silap perhitungan atau dia yang gagal mengenalpasti punca masalah? Keengganan rakan-rakan kongsi terutamanya Encik Jebat dalam mengambil langkah yang dicadangkan olehnya turut dikesali. Di pihak Encik Tuah masih ada lagi agensi-agensi dan badan berkanun yang ingin menawarkan kerja dan projek tetapi bagaimana dia mahu menerima sekiranya modal yang diperlukan tidak mencukupi? Mesyuarat pada hari itu hanya mencapai kata sepakat bahawa setiap rakan kongsi perlu mengeluarkan sejumlah wang sebagai modal semula bagi pembiayaan projek dan kerja-kerja yang tertangguh. Bukan sekadar gaji sahaja tidak diperolehi, bahkan mereka terpaksa pula mengeluarkan sejumlah wang untuk menjana semula kewangan syarikat. Mereka

amat terdesak dan merasakan mungkin itulah langkah terbaik untuk menyelamatkan Taming Services buat masa ini.

#### 6. HASIL PENEMUAN DAN PERBINCANGAN

Berdasarkan maklumat yang diperolehi seperti di atas, para penyelidik berbincang dan menganalisa hasil dapatan penyelidikan menggunakan kaedah analisis SWOT. Jadual berikut merupakan hasil penemuan penyelidik yang diringkaskan kepada faktor dalaman (kekuatan dan kelemahan) dan juga faktor luaran (peluang dan ancaman).

## **KEKUATAN (STRENGTH)**

- 1. Hubungan erat antara pengurus-pengurus
- 2. Tidak menanggung kos pinjaman bagi modal permulaan
- 3. Penjanaan pendapatan melalui kepelbagaian bidang perniagaan
- 4. Hubungan yang baik dengan pembekal
- 5. Kualiti kerja membuatkan syarikat sentiasa menjadi pilihan klien

## **KELEMAHAN (WEAKNESS)**

- 1. Pengurusan aliran tunai
- 2. Pengabaian kebajikan staf
- 3. Kekangan modal
- 4. Percanggahan kepentingan

## **PELUANG (OPPORTUNITY)**

- 1. Insentif kewangan daripada kerajaan bagi kontraktor Bumiputera
- 2. Kuota projek bagi kontrak gred G1 hanya untuk kontraktor Bumiputera
- 3. Kestabilan ekonomi negara

## **ANCAMAN (THREAT)**

- 1. Kebergantungan terhadap harga semasa bahan binaan
- 2. Persaingan harga yang kompetitif dalam pemberian tender
- 3. Lambakan kontraktor dalam gred yang sama terutamanya G1

Kekuatan yang ada pada syarikat Taming Services adalah faktor utama yang mendorong kepada pengukuhan nama syarikat dan menyumbang kepada kejayaan yang dicapai dari awal penubuhan syarikat sehinggalah kini. Memandangkan para pengurus adalah adik-beradik, hubungan mereka sangat erat dan ini memudahkan mereka mencapai kata sepakat dalam menyelesaikan semua isu yang timbul. Di samping itu juga, hubungan yang baik dengan pembekal adalah sangat penting kepada syarikat. Ini adalah kerana kemudahan fasiliti kredit yang diberikan pembekal kepada syarikat amatlah penting untuk menyiapkan sesuatu projek yang diterima. Kemudahan kredit daripada pembekal juga penting sebagai salah satu cara mengurangkan keperluan modal awal bagi sesuatu projek. Taming Services juga sentiasa memastikan hasil kerja mereka amat baik dan memenuhi spesifikasi klien yang mana ini membuatkan syarikat sentiasa menjadi pilihan klien. Cadangan dari agensi ke agensi turut member impak positif kepada reputasi syarikat. Ini adalah sangat baik untuk jangka masa panjang sesebuah syarikat.

Namun begitu, tidak dinafikan juga bahawa terdapat beberapa kelemahan syarikat yang dapat dikenalpasti. Kelemahan yang ada pada syarikat sedikit sebanyak akan merencatkan perjalanan operasi syarikat. Kelemahan utama Taming Services adalah dari segi pengurusan aliran wang tunai, yang mana apabila projek semakin berkembang, pengagihan kewangan tidak dapat diuruskan secara berhemah. Kebajikan staf juga agak terabai dan ini jelas digambarkan melalui beberapa insiden yang berlaku seperti

kenaikan gaji pada kadar yang tidak sepatutnya serta staf sudah agak lama tidak diraikan walaupun untuk majlis kecil seperti majlis berbuka puasa. Pengabaian ini seterusnya telah mengakibatkan pekerja tidak memberi kesetiaan untuk bekerja dengan lebih lama di syarikat. Ini juga bertentangan dengan apa yang dinyatakan dalam misi syarikat iaitu "bertanggungjawab ke atas kebajikan kakitangan syarikat".

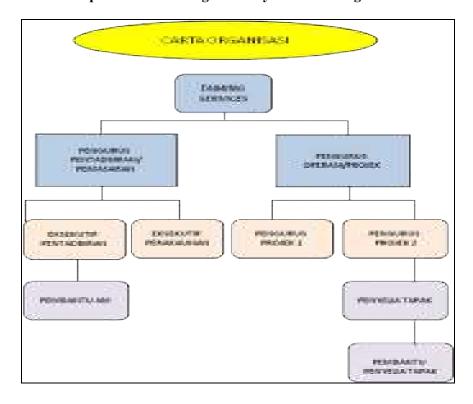
Dari segi peluang, banyak insentif yang disediakan oleh kerajaan seperti insentif kewangan yang telah disediakan. Tambahan pula, gred G1 dikhususkan buat kontraktor Bumiputera sahaja. Melihat kepada perkembangan negara yang agak stabil, ditambah dengan bilangan projek yang pesat dibangunkan seperti Projek Koridor Raya Multimedia Cyberjaya, dapat membuka peluang kepada kontraktor-kontraktor untuk terlibat aktif dalam projek-projek seperti ini.

Walau bagaimanapun, terdapat juga ancaman bagi syarikat ini. Ancaman yang utama ialah kebergantungan syarikat pembinaan terhadap harga semasa bahan binaan seperti simen dan besi. Di samping itu juga, dalam usaha merebut tender, syarikat perlu membida tender dengan harga yang rendah dalam persaingan yang kompetitif. Ianya juga disebabkan oleh lambakan kontraktor dalam gred yang sama terutamanya G1.

## 7. KESIMPULAN

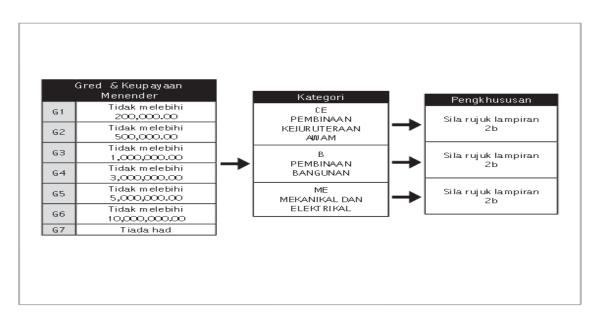
Dalam mengukuhkan industri pembinaan di Malaysia, banyak pihak perlu memainkan peranan antaranya kerajaan yang perlu menyediakan insentif-insentif dalam bentuk kewangan dan bukan kewangan bagi meneruskan kelangsungan sesebuah syarikat kontraktor. Kerajaan juga boleh membantu dalam pengawalan harga bahan mentah sekiranya diperlukan. Ini bertujuan untuk mengelakkan kos sesebuah projek menjadi terlalu tinggi disebabkan oleh harga bahan mentah yang mahal. Selain itu, pihak pembekal perlu lebih fleksibel dalam memberi dan menyediakan fasiliti-fasiliti yang diperlukan oleh kontraktor seperti fasiliti kredit, pengangkutan dan penghantaran. Klien yang mana terdiri daripada agensi-agensi kerajaan dan swasta perlulah memastikan kurangnya karenah birokrasi dan prosedur terutamanya dalam pembayaran sesebuah projek. Sungguhpun isu rasuah tidak dibangkitkan di dalam kes ini, namun semua pihak di atas termasuklah kontraktor sendiri perlu mengambil berat dalam memastikan pertumbuhan yang baik dan bersih bagi industri pembinaan di Malaysia. Jika tidak dibendung, rasuah mampu menjadi faktor utama yang mengganggu gugat bukan sahaja perkembangan industri pembinaan tetapi ekonomi Malaysia secara keseluruhannya.

Berdasarkan kajian kes di atas, boleh disimpulkan masalah kewangan dan kebergantungan modal boleh merencatkan sesebuah syarikat pembinaan. Kekangan ini boleh mengakibatkan ramai kontraktor Bumiputera menjadi muflis. Persepsi orang awam juga seringkali melabelkan bahawa kontraktor Bumiputera tidak mampu menghasilkan mutu kerja yang baik, tidak efisien dan tidak pandai mengurus sumber kewangan yang diperolehi. Namun begitu, dapatan awal penyelidik ke atas beberapa syarikat kontraktor Bumiputera (termasuk kes ini) amatlah mengejutkan. Ini kerana syarikat-syarikat kontraktor Bumiputera amatlah kompetitif dan berusaha keras untuk meningkatkan taraf ekonomi mereka. Ini sekaligus telah memotivasikan kontraktor-kontraktor Bumiputera dalam menambah ilmu pengetahuan, kemahiran dan pengalaman untuk menjadi syarikat yang berjaya dan ternama.



Lampiran 1: Carta Organisasi Syarikat Taming Services

Lampiran 2: Pengelasan Gred Kontraktor



Sumber: Lembaga Pembangunan Pembinaan Industri Malaysia (CIDB)

Lampiran 3: Jumlah Kontraktor Berdaftar di Malaysia

A, min 5, 220 5, 220 5, 220 5, 200 6, 200 6, 200 1, 187 5, 304 6, 301 6, 301 6, 301 7, 700	3,000 2,000 2,200 3,100	113 100 100 101 104 100 100 100 100	10,417 1,340	2,445 2,445 223 227 109 109 119 119 119 119 119 119 119 119	100 100 100 100 100 100 100 100 100 100	134 629 440 327 47 57 63 83 83 81 81 81	25 274 381 101
A, Hills 3,494 3,220 3,245 6,200 1,045 4,292 1,187 5,304 0,311 10,000 1,000 1,000	3,000 2,000 2,200 3,109 3,000 2,179 2,500 0,77 1,210 3,472 1,449 1,449	900 503 314 360 400 400 500 500 500 500 500 500 500 50	1,340 246 365 403 547 500 607 644 438 2,007	110 110 77 100 07 168 129 17 132 140 140	300 100 120 120 115 104 174 28 226 216 176	13n 40 40 37 47 57 52 8 8 93 41	275 229 239 249 251 211 212 274 274 274 274
3,464 0,290 0,000 0,000 1,000 4,392 1,167 3,304 0,361 1,000 1,000	2,000 2,200 3,129 3,129 2,500 027 1,210 3,472 1,380 4,300	\$23 314 260 4(8) 400 500 500 500 500 101 1,360	360 363 403 563 563 560 667 564 667 564 667	113 77 109 07 168 130 17 132 140 140	230 220 220 225 235 244 274 236 226 226 277	63 40 37 47 57 63 8 8 8 40 41	275 229 3,08 82 121 123 23 250 381
3,290 3,245 4,309 4,392 1,167 3,304 0,391 1,009 1,009	2,200 3,129 3,039 3,179 2,538 3,279 1,318 3,472 1,449 1,449 1,449	314 366 496 496 536 367 537 1,044 511 1,240	285 362 493 547 550 85 657 944 428 2,007	77 109 97 168 159 17 132 140 140	123 125 135 146 174 178 226 226 178	40 37 47 57 43 43 43 41 41	276 229 308 82 121 129 229 240 240 241
2,245 8,369 1,062 4,292 1,167 3,364 0,361 1,007 10,000	2,200 5,129 3,139 2,533 107 1,538 5,447 1,449 1,449 4,300	214 300 430 430 500 500 500 500 500 500 500 500 500 5	362 423 542 550 86 657 544 428 2,007	109 67 168 158 17 122 140 131	627 125 104 274 28 226 226 178	37 47 57 63 8 8 8 93 41,	129 138 82 121 129 21 251 264 864
\$,369 hj963 4,292 1,197 3,364 0,361 10,009 10,000 1,300	3,68 3,179 2,58 87 1,718 3,47 1,48 4,30	300 480 554 96 302 1,044 811 1,280	610 547 550 88 687 944 428 5,047	87 168 (38 17 132 140 431	125 194 274 78 236 236 178	9 97 63 1 40 41 41 47	82 121 129 23 279 364 884
0,809 1,083 4,292 1,187 3,304 0,91 1,007 10,000 1,100	A.08 2,179 2,533 92 1,318 2,472 1,439 4,389	496 498 596 90 592 1,694 183 1,380	632 547 590 88 687 944 428 5,047	168 128 17 132 148 121	106 674 78 228 226 176	57 63 8 85 41 87	82 121 129 21 294 284
4,702 1,187 3,304 8,981 8,007 10,000 8,500	2,533 812 1,318 5,472 1,439 4,300	460 556 562 569 1,644 1,360	547 599 89 617 944 428 5,047	(%) 17 132 149 131	274 29 226 226 176	80 8 80 81 87	121 129 23 294 281
4,392 1,197 3,364 9,361 8,007 10,000 4,360	2,533 917 1,718 3,472 1,429 4,300	506 502 504 511 1,340	500 88 657 944 428 5,047	179 177 132 140 131	236 226 276 278	8 00 11 47	219 2294 284 284
1,187 3,304 0,911 10007 100000 1,500	1,318 3,413 1,329 4,300	90 502 1,044 183 1,241	86 657 944 428 2,017	17 132 140 131	226 226 220 178	85 61 47	25 274 381 101
0.961 5.007 10,000 3,500	3,473 1,339 4,301	1,004 833 1,262	944 428 2,047	140 £10	220 176	41. 47	364 101
10,000 10,000 1,000	3,412 1,329 4,399	1,260	944 429 2,047	List	220 176	47	284
1,007 10,000 1,300	1,10	1,383	2,017	131	176	47	351
10,000	4,389	1,340		794		200	
3,300					262	1	998
1,791		-964	174	14/	200	76	1.79
	1,479	776	3,041	128	1,816	150	1,809
	13,861	3,700	11,681	2)765	1,800	1,494	4,771
16,794	3,339	1,676	1,314	300	300	133.	.00
1/504	3,138	2.07	in	(11)	134	43.	136
3,246	2,343	314	196	.7%	107	50	137
1.292	1,116	376	392	129	526	-0	139
1,362	2,100	400	429	94	1/6	52	
3,774	2,090	500	58.2	168	252	59	138
4,983	2,677	634	041	179	1/4	70.	130
1,135	929	762	90	12	27		29
3,387	1,400	605	174	141	-238	91	387
6,736	5,773	3,540	995	149	216	78	100
3,161	1,-04	456	434	141	084	89	167
18,743	4,336	1,377	2,811	179	tie	381	1,864
1,107	2.200	111	194	147	206	Pér	160
	\$2744 4,362 \$130 3,867 8,736 \$1,64 \$0,742	\$250 \$2,100 \$2,774 \$2,500 \$4,500 \$2,600 \$1,0	\$1.90 \$1.00 \$60 \$1.74 \$2.500 \$100 \$1.74 \$2.500 \$100 \$100 \$1.75 \$100 \$100 \$100 \$1.75 \$100 \$100 \$100 \$100 \$100 \$100 \$100 \$10	1,162   2,106   496   439   3,774   2,590   900   537   4,657   654   641   1,155   645   641   645	1,042   1,100   400   4,00   64   6,00   6	1,002   3,100   400   4,00   64   1,16   3,774   2,597   590   557   168   252   4,005   2,577   1,00   1	1,002   3,100   400   400   040   150   50  3,774   2,597   500   502   160   252   59  4,595   2,577   634   041   170   170   170   171  4,105   187   180   60   22   17   0  3,007   1,400   60   174   141   230   180  6,736   5,777   1,100   900   140   2,10   70  4,104   1,400   1,100   140   141

Sumber: Lembaga Pembangunan Pembinaan Industri Malaysia (CIDB)

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## ROLE OF ISLAMIC BANKING SECTOR IN TRANSMITTING THE MONETARY POLICY TO THE REAL ECONOMY: EVIDENCES FROM MALAYSIA

Omar Alaeddin<sup>1</sup> Ginanjar Dewandaru<sup>2</sup>

#### **ABSTRACT**

This paper aims to show the magnificence of Islamic banks in the monetary transferring process within the Malaysian economy. Particularly, the paper tests the significances of deposit and financing by Islamic banks in controlling how the monetary policy affects the real economy. The paper depends on various methods in the analyses process such as variance decomposition analysis, co-integration test and impulse response functions that concentrate on the period from January 1999 to September 2011. The results show that Islamic banks' financing take a big part in the monetary transmission process in the Malaysian economy. Statistically, Islamic deposit and financing are showing an essential relation between the monetary policy indicator and the real output. The results suggest that the monetary authority in Malaysia have to take into account the Islamic banks within the implementation of monetary policy. As well as, the results are entailing that the stability of Islamic financial institutions is vital like the conventional financial institutions, for the purpose of achieving a valuable transmission of monetary policy in the Malaysian economy.

**Keywords:** Monetary policy, Financing, Malaysia, Islamic Banks, Islam Economics

#### 1. INTRODUCTION

The effects of monetary policy on the real economy take place through several main channels, which include exchange rate channel, credit, asset price and interest rate. The impact of each channel on the transmission process theoretically relies on the structural characteristics of the economy. For example, when a country depends highly on bank credit to finance its economic activities, the credit channel will serve as a key driver to control the monetary policy transmission. In Malaysia, the credit channel dominates the overall economy, particularly within the context of financial intermediary development where the composition of credit market vis-à-vis capital market is 70% and 30% respectively (BNM, 2007), thereby suggesting the important role of banks in monetary policy transmission. In addition, with regard to the importance of Malaysia as one of the most potential emerging country that has experienced its transformation from being a raw material producer to a multi sector economy, the monetary policy will serve as an essential mechanism to promote further growth as well as maintain its stability and resiliency.

Focusing on the micro-sector of the financial infrastructure, Malaysian government has made a substantial contribution in developing Islamic banking with the main aim to make Islamic finance having a major role in the economy. The target of 40% market share for Islamic banks in the year 2020 seems aggressive yet achievable due to the strong commitment from the government. With a high development of Islamic banking's products and innovations, supported by a strong demand from public and private entities, the role of Islamic banks therefore should considerably be taken into account the macro-framework related

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policy, especially dealing with monetary mechanism and transmission. Even though there have been a substantial researched pertaining to the performance of Islamic banks, to the best of our knowledge, there are only few prior studies which focuses on the contribution of Islamic banks to monetary policy.

Therefore, this article attempts to address the issue by using a more-robust methodology as an added value. Specifically, the objectives of this paper are to: (i) determine the importance of the Islamic banks in the monetary transmission process in the Malaysian economy, and (ii) analyses the relevance of Islamic banks' financing and deposit in channelling the monetary policy effects to the real economy. The length of observations will be monthly data from January 1999 to September 2011, where our analysis will cover cointegrated-VAR, vector-error correction model, VDCs, IRF and persistence profile in order to observe the long-run equilibrium relationships as well as short-run dynamic between variables, thereby providing useful interpretation with regards to policy implication. The research is structured as follows: Section 2 outlines the literature review on the subject; Section 3 describes the data and methodology used in the analysis; Section 4 presents the main findings and analysis. Lastly, we conclude and make some recommendations for future research.

## 2. LITERATURE REVIEW

As to a short-brief history of Islamic banks in Malaysia, the government has made a substantial contribution in developing Islamic banking with the main aim to make Islamic finance having a major role in the economy. The institution of Pilgrims Management and Fund Board (PMFB) was the first step in the Malaysian history with Islamic banking and finance industry. This institution acts as the major interest-free financial institution in Malaysia (Ariff, 1989). In August 1969 the PMFP was established. The core behind this institution is to collect and manage the reserve from the people who plan to leave for pilgrim (hajj) in Mecca. Accordingly, from the beginning of 1980s, the Malaysian Muslims have been constantly asking for Islamic banking. In other world Shariah-compliant products and services that supply an option to the conventional banking services.

In 1982, the Malaysian government answered for these desires through the establishment of a particular board to study them. This process has ended by the new Islamic banking Act (IBA) during 1983. Bank Islam Malaysia Berhad (BIMB) was the first Islamic bank to be settled and started operating at the first of July 1, 1983. For making sure that BIMB was operating within the shariah rules and principles, during that time, the Shariah advisory council (SAC) of Bank Negara Malaysia (BNM) was taking care of the monitoring process.

As to the linkage between banking sector and monetary mechanism, several studies have been done mainly focusing on conventional banks. Specifically, prior studies have empirically justified the importance of banking sector in transferring the influence of monetary policy, for example, Tang (2000, 2002), Vaithilingam et al. (2003), Azali (2003) and Ibrahim (2005). The study related to the dual-banking system adopted by Malaysia has been done by Kassim and Abdul Majid (2008), which suggest the role of Islamic banks in monetary policy. Due to only few studies that have concerned on the context of Islamic banks, our study attempt to empirically address this issue, and fill the gap, specific to the contribution of Islamic banks in monetary policy.

## 3. DATA AND METHODOLOGY

#### 3.1. Data and theoretical foundation

To investigate the importance of the Islamic banks in the transmission process of monetary policy, we take the theoretical relationship derived from major studies on the monetary transmission mechanism such as Bernanke and Blinder (1988), Garretsen and Swank (1998), Gertler and Gilchrist (1993) and Suzuki (2001). The studies analyse a model comprising of variables representing the real economy and monetary policy, and focus variables being considered as possible channels of monetary policy.

In view of this, the following model is being considered:

$$IPI = f_{c}(FIN; DEP; INT; CPI)$$

where IPI is industrial production index, FIN is Islamic financing, DEP is Islamic deposits, INT is the 3 months interest rate and CPI is consumer production index as a proxy of the inflation. In this model, the IPI is being used as a proxy for economic output, FIN and DEP are the Islamic banks' two major balance sheet items being Islamic financing and Islamic deposit, respectively, and INT is the indicator for the monetary policy interest rate.

In terms of data frequency, the study employs monthly data series for the period from January 1999 to September 2011. All data are sourced from the various issues of the Bank Negara Malaysia's (1999-2011) Monthly Statistical Bulletin and the DataStream for the IPI and CPI.

No Name of the variable Level Form INDUSTRIAL PRODUCTION INDEX 1 IPI 2 MALAYSIA INTERBANK THREE MONTHS INT RATE ISLAMIC BANK FINANCING FIN 3 4 ISLAMIC BANK DEPOSIT **DEP** CUNSUMER PRODUCTION INDEX **CPI** 

Table 1.1 List of the variables

## 3.2. METHODOLOGY

## 3.2.1. Econometrics modelling

Traditionally, multivariate regression analysis has been widely used to examine the relationship between variables, which has serious limitations because of non-stationarity nature of most of the macroeconomic and financial variables. With the non-stationary variables traditional regression provides either spurious relationship (ifthe original ''level'' form of the variables was non-stationary) or a short run relationship (if the variables were ''differenced'' to make the original variables stationary) (Masih, Al-Sahlawi, & Mello, 2010). This study, because of the damaging shortcomings of multivariate regression analysis, employs the Johansen multivariate cointegration approach to examine the cointegration among the Islamic equity index prices with a view to check the long run theoretical relationship of the Islamic indices.

After checking cointegration, this study applies vector error correction model (VECM) to determine the speed of the short-run adjustment towards long term equilibrium by the size of the error correction coefficient. VECM also helps to identify the endogenous and exogenous indices. Endogenous equity index is a dependent variable, the movement of which depends on the changes in the exogenous equity indices, which are independent variables. In addition, this study uses the impulse response and error variance decomposition technique to examine the relative exogeneity/endogeneity of the selected Islamic equity indices. Furthermore, this study employs persistence profile (PF) test to find out the time horizon required for the cointegrating relation to move back to equilibrium point following an economy wide shock. Finally, This study employs Multivariate Beveridge-Nelson decomposition technique in a cointegrating framework in order to decompose the price trends of Islamic equity indices into their permanent and transitory parts. Charting of the permanent and transitory parts of the trend would be very much conducive to track the price movement style of the indices due to the performance (fundamentals) of the firms in the indices and the temporary shocks in the economy.

## 3.2.2. Johansen Cointegration and other related tests

The Augmented Dickey-Fuller (ADF) and Philips-Perron (PP) tests are used to check the stationarity of the variables as a starting point of the Johansen cointegration test. The lag length for the time series analysis is determined by choosing the lag length given by the minimum Akaike Information Criteria (AIC) and Schwarz Information Criteria (SBC). The Augmented Dickey-Fuller (ADF) (1979, 1981) test involves the estimation of the following general specification:

$$\Delta X_{t} = \alpha_{0} + \alpha_{1}T + \beta X_{t-1} + \sum_{I=1}^{p} \delta_{I} \Delta X_{t-I} + \varepsilon_{t}$$
(1)

The Phillips-Perron (PP) (1988) test suggests a non-parametric method of controlling for higher order autocorrelation in a time series and is based on the following equation:

$$\Delta X_{t} = \alpha_{0} + \beta T + \beta_{1} X_{t-1} + \sum_{J=1}^{p} \delta_{J} \Delta X_{t-J} + \varepsilon_{t}$$
(2)

In both ADF and PP equations,  $\Delta$  represents the difference operator,  $\alpha$ ,  $\beta$ , and  $\delta$  are coefficients to be estimated. X stands for the variable whose stationarity should be checked and  $\epsilon$  is the residual term. The critical values for the Phillips-Perron test are the same as those for the Dickey-Fuller test (DF) and depend on whether the DF regression contains an intercept term or a time trend.

After testing the stationarity of the variables, Johansen cointegration technique is employed to examine the cointegration of the concerned Islamic equity indices. Johansen (1988) and Johansen and Juselius (1990) suggested considering the vector autoregressive (VAR) model of the following form:

$$\Delta Y_t = C + \sum_{i=1}^k \Gamma_i \, \Delta Y_{t-1} + \Pi Y_{t-1} + \varepsilon_t \tag{3}$$

Where,  $Y_t$  is a vector of non-stationary variables and C is a constant term. The matrix  $\Gamma_i$  consists of the short run adjustment parameters and matrix  $\Pi$  contains long run equilibrium relationship information between the Y variables. The  $\Pi$  could be decomposed into the product of two  $n \times r$  matrix  $\alpha$  and  $\beta$  so that  $\Pi = \alpha \beta$ , where  $\beta$  matrix contains r number of conintegration and  $\alpha$  represents the speed of adjustment parameters. Johansen (1988) and Johansen & Juselius (1990) developed two statistics for identifying the number of cointegrating vectors, which are Trace statistic ( $\lambda_{Trace}$ ) and the maximum Eigenvalue statistic ( $\lambda_{Max}$ ). These two statistics can be expressed as follows:

$$\lambda_{Trace} = -T \sum_{i=r+1}^{N} \ln(1 - \hat{\lambda}_i) \tag{4}$$

and,
$$\lambda_{Max} = -T \ln(1 - \hat{\lambda}_{r+1}) \tag{5}$$

Where,  $\lambda_i$  is the estimated value of the ith characteristics root obtained from the estimated parameter matrix  $\Pi$  and T is the number of usable observations. The  $\lambda_{Max}$  statistic tests the null hypothesis that there are at least r cointegrating vectors as against the alternative of (r+1) cointegrating vectors.

Presence of cointegration indicates that there exists a theoretical relationship among the variables and they are in equilibrium in the long run in spite of short-run deviation from each other. Masih et al (2010) stated that a test of cointegration can also be considered as a test of the extent of the level of arbitrage activity in the long-term. Cointegration implies that these variables are interdependent and highly integrated (as if they are constituents of one integrated market). Cointegration also implies that each variable contains information for the prediction of other variables. Moreover, the evidence of cointegration has implications for portfolio diversification by the investors. The possibility of abnormal gain through portfolio diversification is limited in the long run in a cointegrated market.

Presence of cointegration, however, cannot express the direction of Granger causality between the variables as to which variable is leading and which variable is lagging (i.e., which variable is exogenous and which variable is endogenous) (Masih, et al, 2010). The Vector Error Correction Model (VECM) is applied to determine the endogeneity/exogeneity of the variables. The error correction term (ECT) stands for the long term relations among the variables. At least one of the ECT terms should be significant for the validity of the cointegrating relationship among the variables in the long term. If the error correction term is insignificant, the corresponding dependent variable is 'exogenous'. On the contrary, if the error correction term is significant, the corresponding dependent variable is 'endogenous'. This study estimates Vector Error Correction Model (VECM) following finding cointegration among the indices. The VECM implies that changes in the dependent variable are a function of the level of disequilibrium in the cointegrating relationship i.e., the departure from the long-run equilibrium as well as changes in other explanatory variables. Considering the variables of this study, the VECM can be represented as follows:

$$\Delta Y_t = C + \Pi Y_{t-k} + \Gamma_1 \Delta Y_{t-1} \dots \dots \dots + \Gamma_{k-1} \Delta Y_{t-(k-1)} + \varepsilon_t (6)$$

In equation (6),  $\Pi = \left(\sum_{i=1}^k \beta_i\right) - I_g$  is the long run coefficient matrix of the lagged  $Y_t$  and  $\Gamma_i = \left(\sum_{j=1}^i \beta_j\right) - I_g$  is a coefficient matrix of k-1 lagged difference variables,  $\Delta Y_t$ .

For intensive analysis, the generalized (reduced) form of VECM is derived as follows:  $\Delta Y_{t} = C + \Pi Y_{t-k} + \sum_{i=1}^{k-1} \Gamma_{i} \Delta Y_{t-i} + \varepsilon_{t}$ (7)

In equation (7),  $\Delta Y_r$  is the vector of first differences of the variables. The long run parameter matrix,  $\Pi$  with r cointegrating vectors ( $1 \le r \le 5$ ),  $\Pi$  has a rank of r and can be decomposed as  $\Pi = \alpha \beta$ , both  $\alpha$  and  $\beta$  are  $5 \times r$  matrices.  $\beta$  matrix contains the parameters in the cointegrating relationships and  $\alpha$  matrix contains the adjustment coefficients which measure the strength of the cointegrating vectors in the VECM. Following estimation of VECM, this study performs variance decomposition technique to break down the variance of the forecast error for each variable into proportions attributable to each variable in the model including its own. The variable which is explained mostly by its own past is the most leading

variable. The graphical representation of variance decomposition is called impulse response. This approach is to determine how each endogenous variable responds over time to a shock in that variable and in every other endogenous variable. The impulse response function traces the response of the endogenous variables to such shocks.

#### 4. EMPIRICAL RESULTS

Our study will perform several empirical tests that include unit root, cointegration, vector-error correction model, variance-decomposition analysis, impulse response function and persistence profile as follows.

## 4.1. Unit root test and order of VAR

The stationary of variable should be checked before proceeding to the cointegration test. This study applied Augmented Dicky Fuller (ADF) unit root tests to check the stationarity of the variables at level and difference form. The requirement is that the level-form variable should follow unit root (non-stationary) while the difference form has to be stationary. The ADF basically tests the null hypothesis  $\rho = 0$  given by the t-ratio of the coefficient of xt-1. If the t-ratio of the coefficient is not statistically significant, we can accept the null that  $\rho = 0$ . Then, the variable is non-stationary and is a random walk which has a long term memory. The advantage of ADF test is that it takes care the autocorrelation which means that it will test with free of autocorrelation problem. Table 2 summarizes the unit root test results.

Table 2.1: ADF test for level-form variables

#	Variable	Statistical value	Critical value	Null Hypothesis, Ho
1	LIPI	-2.5673	-3.4409	Accepted
2	LINT	-2.3294	-3.4409	Accepted
3	LFIN	-1.6948	-3.4409	Accepted
4	LDEP	-1.4800	-3.4409	Accepted
5	LCPI	-2.1883	-3.4409	Accepted

Table 2.2. ADF test for difference variables

#	variable	Statistical value	Critical value	Null Hypothesis, Ho
1	DLIPI	-4.9968	-2.8812	Rejected
2	DLINT	-4.9868	-2.8812	Rejected
3	DLFIN	-4.4700	-2.8812	Rejected
4	DLDEP	-7.3294	-2.8812	Rejected
5	DLCPI	-5.7770	-2.8812	Rejected

Both tests assume null hypothesis of non-stationarity against the alternative hypothesis of stationarity. Stationarity of the variables necessitates in accurate and efficient prediction in future. The above test results conclude that all variables are non-stationary at level and stationary at first difference, implying that the variables are integrated of order one, that is, I(1).

As to the order of VAR, the test will include AIC and SBC that determine how many lags of each variable we should take for our model. The result shows the best optimum lags of 2 based on AIC (1614.7).

## 4.2. Johansen cointegration test and Long Run Structural Modeling (LRSM)

The study applied the standard Johansen Cointegration test in order to check the cointegration among the variables with a VAR order of 2. The VAR order was determined by the appropriate lag length criteria of AIC

Table 4. Johansen Cointegration Test Cointegration LR Test Based on Maximum Eigenvalue

	_	omittegi merom zart	Tost Buseu on Humani Bigen	,
Null	Alternative	Statistic	95% Critical Value	90%Critical Value
R=0	R=1	67.8614	37.8600	35.0400
R=1	R=2	23.2869	31.7900	29.1300

Cointegration LR Test Based on Trace Stochastic Matrix

		<b>7</b>		
Null	Alternative	Statistic	95% Critical Value	90%Critical
				Value
R=0	R=1	128.7124	87.1700	82.8800
R=1	R=2	60.8510	63.0000	59.1600

Both maximum eigenvalue test statistic and trace test statistic indicate presence of one cointegrating relationship among the I(1) variables. Results show that calculated eigenvalue statistic null hypothesis (H0): r = 0 against alternative hypothesis (H1): r = 1 is 67.8614 >37.8600 (95% critical value), which implies rejection of H0 and acceptance of H1, and we conclude that there exists one statistically significant cointegrating relationship among the I(1) variables (theoretically cointegration does exist if both Trace and Maximum Eigenvalue statistic or either of the two measures shows the presence of cointegration). Trace statistic also shows presence of one cointegrating relationship among the concerned variables. Relationship among the variables is not spurious when they are cointegrated. This implies that there is a theoretical relationship among the variables and they are in equilibrium in the long run even though their movement may deviate from each other in the short run. Intuitively, our variables (IPI, INT, CPI, DEP, FIN) theoretically move together in the long run, as well as each variable contains information to predict another variable when they are cointegrated. Therefore, it helps the policy makers to recognize this relationship in their decision as each variable serve as its indicator in our study (real economy growth, monetary policy, inflation, banking sector). An evidence of cointegrating relationship also implies that there exists a common force that brings each variable to equilibrium in the long term.

## 4.3. Vector Error Correction Model (VECM)

Presence of cointegration, however, does not indicate the direction of Granger causality between the variables as to which variable is leading and which variable is lagging, i.e. which variable is exogenous and which variables is endogenous. This study applied vector error correction modeling technique in order to precisely identify the exogenous (independent) and endogenous (dependant) variables. If the coefficient of the lagged ECT in any equation is insignificant, it means that the corresponding dependent variable of that equation is exogenous. This variable does not depend on the deviations of other variables. It also means that this variable is a leading variable and initially receives the exogenous shocks which results in deviations from equilibrium and transmits the shocks to other variables. On the other hand, if the coefficient of the lagged ECT is significant, it implies that the corresponding dependent variable of that equation is endogenous. It depends on the deviations of other variables. This dependent variable also bears the brunt of short-run adjustment to bring about the long term equilibrium among the co-integrating variables. At least one of the ECT terms should be significant for the validity of the co-integration relationship among the variables in the long term. Table 5 summarizes the results of vector error correction modeling.

Table 5. VECM

Variable	ECM(-1) t-ratio p-value	At 5% significance level
DLIPI	-4.5086[.000]	Variable is endogenous (follower)
DLINT	5.1285[.000]	Variable is endogenous (follower)
DLCPI	.82860[.409]	Variable is exogenous (leader)
DLFIN	1.9457[.054]	Variable is exogenous (leader)
DLDEP	-4.0472[.000]	Variable is endogenous (follower)

From the above results, we found the exogenous variables (leader) are the CPI (consumer production index) and LFIN (Islamic bank Financing) at the 95% level, while the other variables namely (IPI, DEP, INT) are endogenous (followers). Intuitively, when there is a shock to the (CPI or FIN) they will deviate from the equilibrium and transmit the shock to other variables, whereas if the shock occurs to the IPI, INT, and DEP, the long run combination will correct it through the short run adjustment to the equilibrium. However, before deriving any useful information, we need to evaluate the response of each variable to the shock in order to observe the relative exo/endogeneity amongst variables.

## 4.4. Variance Decompositions (VDCs)

Error correction models, although tend to indicate the endogeneity/exogeneity, are unable to distinguish the relative degree of endogeneity or exogeneity of the variables. This study applies variance decomposition technique in order to figure out the relative degree of endogeneity or exogeneity. The relative endogeneity or exogeneity of a variable can be recognized by the proportion of the variance explained by its own past. We recognize the most exogenous or endogenous variable by looking at the proportion of the variable explained by its own past. The variable that is explained mostly by its own past, as compared to other variables, is supposed to be the most exogenous or endogenous variable.

In this study, we will not use Orthogonalized Variance Decomposition Analysis. The orthogonalized VDCs are not unique and depend on the particular ordering in the VAR. It also assumes that when a particular variable is shocked, all other variables in the system are switched off. Therefore, we use the Generalized Variance Decomposition.

Table 6. Generalized VDCs (40 months-forecast errors)

	LIPI	LINT	LCPI	LFIN	LDEP
LIPI	17.43%	43.11%	0.71%	6.42%	32.33%
LINT	12.70%	61.00%	0.27%	5.38%	20.65%
LCPI	48.87%	24.11%	15.96%	6.72%	4.34%
LFIN	8.42%	9.62%	1.28%	72.71%	7.98%
LDEP	22.93%	5.44%	0.93%	6.06%	64.64%

The empirical result is quite interesting as Islamic financing (LFIN) turns out to be the most exogenous since it depends mostly on its own past (72.7%). It is in line with the economic theories which ensure the importance role of financing in leading the other economic and financial indicators.

On the other hand, we can find inconsistency between VECM and VDCs as CPI turns out to be the most endogenous, which is understandable as the short-run adjustment to the equilibrium for inflation should be highly sensitive in response to any shock both in the real economic growth and financial sector development.

The ranking of exo/endogeneity will follow: LFIN 72%, LDEP 64%, LINT 61%, LIPI 17%, and LCPI (15%). Therefore, policy maker should recognize the importance of the Islamic financing playing a vital role in influencing the economic growth. Overall, this result is quite in line with the theories which study the significance of the financing and the lending channel in the monetary transmission process in Malaysia due to the critical role that the banking sectors plays in financing economic activities in the economy.

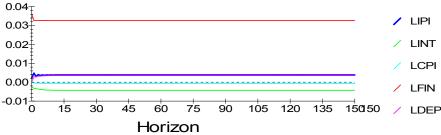
## 4.5. Impulse Response Functions (IRFs) and Persistence Profile (PP)

IRFs portray the dynamic response path of a variable due to one standard deviation shock to another variable. The IRFs are normalized such that zero represents the steady-state value of the response variable. In other words, IRFs map the dynamic response path of all variables owing to a shock to a particular variable. The IRFs trace out the effects of a variable-specific shock on the long-run relations.

The following figure 1 reports graphs of the impulse response functions, where we focus on the shock of Islamic financing and observe the impacts on other concerned variables.

Figure 1. IRF

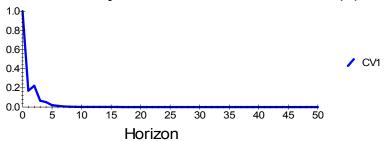
Generalized Impulse Response(s) to one S.E. shock in the equation for LFIN



The figure indicates the deviation of our concerned variables when there is a positive shock to the Islamic financing. We can observe the deviation of each variable with the positive/negative relationship in line with the established theory.

Moreover, we proceed with persistence profile test that indicate the time horizon required for all variables to get back to equilibrium when a system-wide shock occurs. The main difference between the persistence profiles and IRFs is that the persistence profiles trace out the effects of a system-wide shock on the long-run relations. On the other hand, the IRFs trace out the effects of a variable-specific shock on the long run relations. In the persistence profiles, we shock our whole equation whereby this shock comes from external factor outside our equation or our system.

## Persistence Profile of the effect of a system-wide shock to CV'(s)



When there is an external shock, the result shows that all variables will deviate from the equilibrium, meaning that each of variables will move differently in the short run. In other words, they are temporarily not co-integrated. However, all variables in the equation will require approximately 6 periods (months) for them to co-integrate again and return to the long-run equilibrium, thereby signifying their long-run equilibrium relationship.

#### 5. CONCLUSION AND POLICY IMPLICATION

This paper attempts to find out the impact of the Islamic banks on the Malaysian economy throughout the monetary transmission process. The paper is taking into concern how monetary policy affects to the real economy by analysing the consequence of Islamic banks' financing and deposit.

Theoretically, banks' lending means are surviving when the policy is assigned in line with the bank deposit and the real economy as well. Particularly in Malaysia where the dual banking system prevails, the study stresses whether Islamic institutions react in a similar as their conventional parts once a specific monetary policy is implemented by the central bank. Therefore, the purpose of this study stresses on policy implementation where a dual banking system is existed.

The results suggest that Islamic banks play a vital role in the monetary process transmission in Malaysia. Hence, it is essential for the Malaysian policymakers to consider the Islamic banks in their implementation of a specified monetary policy. Furthermore, the efficiency of the monetary policy transmission is affected by both Islamic and conventional banks.

Additionally, results also show the high degree of reliance on Islamic deposit within the Islamic financial institutions. This may attributes adversely to the field providing the existence of commercial risk and short-term period deposits by customers.

Accordingly, Islamic banks should attempt to raise funds in a certain way rather than deposits. One of the proposed solutions is the development of an Islamic money market in order to achieve a healthy alternative source of fund.

This study suggests that other empirical studies within different markets are worth pursuing. The interpretation within the economy may help policymakers to make an accurate decisions aligned with the intended monetary policy. Limitations attached to this study such as the theoretical foundation leave something to be desired or otherwise such a study may be considered as a statistical data mining.

The underlying theory within the Islamic financial sector would appear to be challenging due to the fact that Islamic financial institutions are in the development stage and therefore directed efforts are required.

As a human effort relies on the limited knowledge and experience, I hereby admit my weaknesses and imperfection in this humble work, which includes the errors, misrepresented and flaws in argument. Allah knows best and only ALLAH has the perfection.

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# IS ISLAMIC FINANCING AN EFFECTIVE MONETARY POLICY TRANSMISSION CHANNEL? EVIDENCE FROM MALAYSIA

Salina H. Kassim<sup>1</sup> Zamrah Hasin<sup>2</sup>

#### **ABSTRACT**

This paper aims to empirically determine if Islamic financing is an effective channel for monetary policy transmission by focusing on the case of Malaysia. The paper adopts the autoregressive distributed lag (ARDL) bound testing and innovation accounting approaches on quarterly data spanning from 1999:Q1 to 2010:Q4. The co-integration results indicate a long-run relationship among the variables, while the ARDL model clearly shows that the interest rate has a significant negative impact on the Islamic financing. The impulse response functions and variance decompositions also point towards the same findings. The results provide the support for the importance of the Islamic financing channel in the monetary transmission process in the case of Malaysia. This implies that in designing monetary policy, t he central bank may consider Islamic financing as an alternative or complement channel for monetary transmission since this channel is just as active as conventional lending channel.

**Keywords**: Islamic banking, bank lending channel, monetary transmission, ARDL, innovation accounting

## 1. INTRODUCTION

The monetary policy conducted by central banks targets to influence the overall performance of the economy in order to achieve its objectives i.e. sustainable economic growth, stable price, full employment, and exchange rate stability. Meanwhile, the channel of monetary transmission in affecting economic activities is also important and much relevant to the effectiveness of monetary policy.

The bank lending is one of conduits through which monetary policy can be transmitted. In boom period with high inflation, a central bank might implement tight monetary policy by increasing the statutory reserve requirement (SRR) in order to reduce inflation. Upon this regulation, bank reserve decreases, causing fewer bank loans to be made available. Thus, investment spending declines, because of which fewer number of investors will be getting loans. Consequently, aggregate demand decreases, affecting output to decline. Hence, in this channel, banks play an important role as financial intermediary that have specialized knowledge in making credit which cost them less than other sources. In market imperfection, there are some borrowers who depend on loans of banks. In other words, loans are perceived as imperfect substitution for other types of credit, i.e., raising money in

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capital market. Hence, the reduction of loans leads to the decline in investment spending, and consequently, output decreases.

The bank lending channel has captured the attention of many economists and researchers. There is substantial literature in this area for developed countries, such as those by Bernanke and Blinder (1992), Gertler and Gilchrist (1993), Kashyap and Stein (1997), and Brissmis et al. (2001). Many studies documented evidences supporting the existence of the bank lending channel in many countries. Altunbas et al. (2002), for example, have found the bank lending channel in Europe. Also, many aspects of the bank lending channel have been analyzed, among them are: the issue of sensitiveness of bank lending with different size, capital strength and liquidity on monetary policy (Brissmis et al., 2001; Gambacorta, 2005; Worm, 2001), and also the issue of sectoral effects of monetary policy (Dale and Haldane, 1995; Dedola and Lippi, 2001; Arnold and Vrugt, 2002).

Furthermore, many studies on monetary transmission for developing countries were also conducted by those such as Arena et al. (2006), Agung (1998) and Ramlogan (2004). Various channels of monetary transmission are investigated in those countries. The results vary from one country to another, yet all of these studies seem to suggest the existence of credit channel (Ramlogan, 2004; Huang and Pfau, 2008; Ahmad, 2008). Some studies also document on the factors affecting the activeness of the bank lending channel, i.e. size, liquidity and origin of banks (Arena et al., 2006; Agung, 1998). However, these studies mainly focus on bank lending from conventional banking system only.

Unlike other countries, Malaysia is operating under the dual banking system, namely conventional and Islamic banking systems. This makes Malaysian banking system unique. Therefore, the bank lending channel in Malaysia can be viewed in two aspects. The first aspect is traditional lending channel through conventional banks, while the second one is financing channel through Islamic banks. But there are very limited researches on Malaysia.

In this light, both bank lending and Islamic financing channels are investigated. In term of bank lending channel, existing studies show that monetary transmission through the bank lending channel is active, for example Goh and Yong (2007), Kassim and Majid (2009), Kassim (2006) and Sayuti (2009). With regard to the Islamic financing channel, hardly there are any studies. This may be due to the recentness of the establishment and improvement of Islamic banking system in Malaysia. The limited existing studies, however, investigate mainly to prove the existence of Islamic financing channel for monetary transmission in Malaysia (Said and Ismail, 2007; Sukmana and Kassim, 2010; Sayuti, 2009). Some researchers employ methodologies such VAR model, structural VAR model in producing empirical results (Sayuti, 2009; Said and Ismail, 2007; Kassim, Majid and Yusof, 2009). Then, there are few studies which analyze the causality between interest rate and Islamic financing by using Toda-yamamoto approach. The results show strong causality between the interest rate and Islamic financing (Ibrahim and Sukmana, 2011).

The remainder of this paper is organized as follows: the next section provides some background information of Islamic banking in Malaysia. Then the paper elaborates data and empirical approaches used in this paper. Subsequently, empirical results and analysis are presented. Lastly, the paper ends with the conclusion and some implication of the findings.

#### 2. BACKGROUND INFORMATION

The financial system in Malaysia is operating under two systems namely, conventional and Islamic financial systems. Both are moving in parallel that make Malaysia being in dual banking environment. The Islamic financial system in Malaysia consists of Islamic banking system, Islamic money market, Islamic capital market, Islamic insurance, and the special financial institutions that provide sources of financing. However the backbone of the Islamic financial system is the Islamic banking system (BNM, 2003).

The early stage of Islamic banking in Malaysia started from the establishment of Pilgrimage Fund Corporation or known as "Tabung Haji" in 1963. The main objective of this fund was to encourage people to save for their pilgrimage since it is one of their ritual obligations. In addition, the establishment also served the need of people for institutions free from interest rate and for channeling their deposits in permissible activities. Therefore, the main activities of Tabung Haji are depository, investing accumulated funds, and monitoring the investment and serving for pilgrimage. Following the success of Tabung Haji, the first full fledge Islamic Bank was established in 1983. It was Bank Islam Malaysia Berhad.

In order to increase the players in the Islamic banking industry, in 1993, the Malaysian government allowed the conventional banks to offer Islamic products. This concept was known as Islamic banking window. This move was launched by BNM under the scheme known as "Skim Perbankan Tanpa Faedah" (SPTF/ interest-free banking scheme). Encouraging from its expansion and success, in 1999, Bank Muamalat Malaysia Berhad (BMMB) was established as the second full fledge Islamic bank (Ladin, 2008).

In term of regulation framework, the Islamic banks are regulated under the Islamic Banking Act 1983 (IBA) while the conventional banks which involve in the Islamic Banking Scheme are regulated under the Banking and Financial Institutions Act 1989 (BAFIA). In addition, both the Islamic and conventional banks are supervised by the BNM.

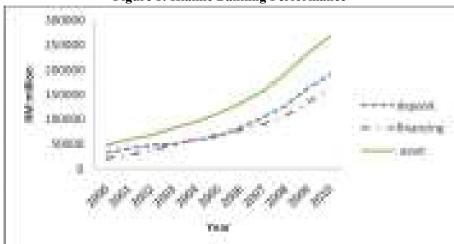


Figure 1: Islamic Banking Performance

Source: BNM monthly statistical Bulletin, various issues.

To evaluate the Islamic banking system, Figure 1 presents the performance of the system. Three Islamic banking measures are depicted in the Figure 1, namely total deposits, total financing and total asset spanning from 2000 to 2010. All the three have exhibited an upward trend over time. The total deposit had increased more than 6 times when it was only RM32,107 million in 2000 and shot up to RM190,483 million in 2010. Meanwhile, total financing had increased approximately by 8-fold. In 2000, it registered about RM21,050 million, while it rose to RM162,110 million in 2010. The volume of the total asset is also very remarkable. The total asset was RM47,068 million in 2000 and was reported to have RM267,632 million in 2010. These figures could clearly reflect the rapid development in the Islamic banking industry in Malaysia.

#### 3. DATA AND EMPIRICAL APPROACH

#### 3.1 Data

This paper focuses on Malaysia. We only take the data period spanning from 1999Q1 to 2010Q4. This is due to some inconsistency in the data and also to avoid the cyclical impact of crisis 1997 on the analysis. The study uses five main variables namely (1) overnight interest rate, (2) total Islamic financing, (3) Gross domestic product (GDP), (4) Consumer price index (CPI), and (5) real effective exchange rate. Overnight interest rate as a proxy for monetary policy was chosen in line with many other studies (Kassim and Sukmana, 2010; Kassim, 2006; Sayuti, 2009). The total Islamic financing and GDP is used as a proxy for the Islamic financing and economic growth respectively. CPI as a proxy for the inflation rate is included in the set of variables in order to reflect eventual effects of monetary policy (Karim et al., 2006) and also to control variable to account for the impact of the macroeconomic environment on banking credit (Lupious et al., 2001). The index uses 2005 as the base-year. Lastly, the exchange rate variable is selected to reflect the open nature of Malaysian economy. Except overnight interest rate, all data are expressed in natural logarithm.

## 3.2 Unit root test

As a requirement for the time series analysis, it is necessary to examine the property of time series, i.e., the stationary properties. We employ augmented Dickey-Fuller (ADF) unit root test. Since this approach is well known among researcher, the details are omitted in this study. The next step proceeds to Cointegration test.

## 3.3 Cointegration test

After testing the stationarity of the time series variables, the next step is to conduct cointegration test. The test examines the existence of long-run equilibrium relationship among variables. For this test, we rely on autoregressive distribution lag (ARDL) framework. It was recently developed by Pesaran et al. (2001). There are numerous advantages of the ARDL approach. Firstly, it employs only one single reduced form equation. Secondly, it does not require pre-testing variables. This means that the cointegration test is applicable to underlying regressors regardless of its integration whether purely I(0) or purely I(1) or mixture of both. Thirdly, the ARDL is also applicable for small number of observations. Fourthly, it avoids the larger number of specification made in the conventional cointegration (Duasa, 2007). Lastly, it takes sufficient of lags to capture the data generating process whereby it estimates  $(p + 1)^k$  number of regressions to obtain optimal lag-length for each variable, where p is the maximum lag and k is the number of variables in the equation (Karim and Majid, 2010). Having a small number of observations of 48 as well as considering the advantages of ARDL, it is justified to employ the ARDL approach for cointegration test.

ARDL bound testing approach involves estimating the conditional error correction version of the ARDL model relating to Islamic financing and its dependent variables in our study as stated below:

$$\Delta \text{fnc} = \alpha_0 + \sum_{i=1}^{p} \lambda_{1i} \, \Delta fnc_{t-i} + \sum_{i=1}^{p} \lambda_{2i} \, \Delta int_{t-i} + \sum_{i=1}^{p} \lambda_{3i} \, \Delta rex_{t-i} + \sum_{i=1}^{p} \lambda_{4i} \, \Delta inf_{t-i} + \sum_{i=1}^{p} \lambda_{4i} \, \Delta inf_{t-i} + \sum_{i=1}^{p} \lambda_{5i} \, \Delta gdp_{t-i} + \emptyset_1 \text{fnc}_{t-1} + \emptyset_2 \text{int}_{t-1} + \emptyset_3 \text{rex}_{t-1} + \emptyset_4 \text{inf}_{t-1} + \emptyset_5 \text{gdp}_{t-1} + \varepsilon_t$$
(1)

Where  $\Delta$  is the difference operator, fnc is total Islamic financing, int is overnight interest rate, rex is real exchange rate, inf is consumer prices, gdp is aggregate GDP,  $\varepsilon_t$  is white noise error term.

In order to test the long-run relationship among variables, F test is used. The null hypothesis is that there is no cointegration among variables:  $H_0: \emptyset_1 = \emptyset_2 = \emptyset_3 = \emptyset_4 = \emptyset_5 = 0$ . It is tested against the alternative hypothesis:  $H_1: \emptyset_1 \neq \emptyset_2 \neq \emptyset_3 \neq \emptyset_4 \neq \emptyset_5 \neq 0$ . Given small sample size of this study, the critical value bounds used are obtained from Narayan (2005). The critical value bounds can be applied whether the regressors are purely I(0) or I(1) or mixture of both. If the calculated F-statistics exceed their respective upper critical values, we conclude that there is evidence of long-run relationship which the null hypothesis cannot be accepted, and vice versa.

If the long-run relationship exists among the variables in the system, the long-run model is estimated as followed:

finc<sub>t</sub> = 
$$\alpha_1 + \sum_{i=1}^p \beta_{1i} fnc_{t-i} + \sum_{i=1}^p \gamma_{1i} int_{t-i} + \sum_{i=1}^p \delta_{1i} rex_{t-i} + \sum_{i=1}^p \theta_{1i} inf_{t-i} + \sum_{i=1}^p \sigma_{1i} lgdp_{t-i} + \mu_t$$
 (2)

## 3.4 Innovation accounting approach

Lastly, we turn to the innovation accounting approach. In this paper we employ impulse response functions (IRF) and variance decomposition (VD). The IRF measures the time profile of the effect of shocks at a given point in time on the expected future values of variables in the system (Sukumana and Kassim, 2010). This will permit us to make inferences on the direction of response of the variables (i.e. Islamic financing) to a one standard deviation shock in another variable (i.e. overnight interest rate).

In the same time, variance decomposition analysis indicates the percentage of a variable's forecast error variance attributable to innovations in all variables considered in the system (Ibrahim, 2005). In other word, VD's results allow us to make inferences of the relative strength of innovations in the variables of interest.

#### 4. EMPIRICAL RESULTS AND ANALYSIS

#### 4.1 Unit root test

The results of the Augmented Dickey-Fuller (ADF) unit root tests are presented in Table 1. The variables are tested both in level and in first difference in three different models, namely with intercept, intercept and trend and without intercept.

	Augmented l	Dickey-Fuller	-	<del>-</del>		
Variable	level			1 <sup>st</sup> difference	;	
	Intercept	Trend &	None	Intercept	Trend &	None
		Intercept			Intercept	
Int	-2.321	-2.254	0.038	-10.109***	-9.626***	-10.382***
fnc	-2.501	-2.228	2.696	-3.863***	-4.303***	-2.476**
gdp	-0.793	-2.079	2.787	-4.363***	-4.319***	-3.065***

**Table1: Unit Root Tests Summary Statistics** 

Inf	0.468	-2.489	4.657	-5.415***	-5.416***	-4.069***
rex	-2.226	-1.536	0.350	-5.069***	-5.000***	-5.110***

*Note*: \*,\*\*,\*\*\* denote significance at 10%, 5% and 1% level respectively. Critical values are based on MacKinnon (1996). Lag lengths are based on Schwarz Info Criterion (SIC) with maximum lag of 10.

Table 1 summarizes the results of the ADF unit root test for the data series. All the time series variables are not significant at level, but they are significant at first difference. At level, the null hypothesis of having unit root cannot be rejected at any significance level. However, they are rejected at first difference with at least 5% significance level. In other words, the data series are non-stationary at level, but stationary at first difference.

## 4.2 Cointegration test

Having conducted the unit root tests, the study now proceeds to cointegration tests. The test means to examine the existence of long-run relationship among variables. We adopt bound testing approach and Autoregressive distributed lag (ARDL) model for cointegration test. In Table 2 the computed F-statistics for each lag length are presented. The last column of each table also includes the critical values bounds for unrestricted intercept and no trend, which are obtained from Narayan (2005), for sample size between 30 and 80. If the F-statistics exceed their respective upper critical values at any lag-length, it implies that there exists the long-run relationship among variables and vice versa.

**Table 2:ARDL Cointegration Test** 

Lag	F-statistics	Bound critical values
1	9.121***	(unrestricted intercept and no trend)
2	4.845**	
3	5.209**	k= 4 & n=48
4	4.748**	1%; 4.306-5.874
5	4.841**	5%; 3.136-4.416
6	3.653	10%; 2.614-3.746

Notes: \*,\*\*,\*\*\* denote significance at 10%, 5% and 1% level respectively.

Table 2 shows calculated F-statistics from lag length 1-6. At lag length 1-5 are found to be significant at least at 5% level. This implies that the null hypothesis of no cointegration cannot be accepted at 5% level. Therefore, there is a cointegration relationship among the variable in aggregate system. It implies that the variables tend to move together in the long-run.

Based on ARDL framework, if the variables have the long-run relationship, then the long-run model can be established. Table 3 presents the long-run model using the ARDL approach. By estimating it, the study follows Majid and Yusof (2007), Majid (2007) and Karim and Majid (2010) in identifying the maximum lag order. The lag order of 1 is chosen as it reveals the highest F-statistics value. The ARDL (1,0,0,0,0) is selected based on Schwarz Bayesian Criterion (SBC).

Table 3:Long-run Model

Dependent	Independent variables				
variable	int <sub>t-1</sub>	rex <sub>t-1</sub>	inf <sub>t-1</sub>	$gdp_{t-1}$	
fnc	- 0.041***	0.284**	- 0.294	0.254***	
	(0.009)	(0.105)	(0.194)	(0.086)	

Notes: \*,\*\*,\*\*\* denote significance at 10%, 5% and 1% level respectively. Standard error is in parentheses.

Table 3 presents the long-run model. It seems that overnight interest rate has a negative relationship with Islamic financing. If the interest rate increases by one percent, the Islamic financing will decrease by 0.04 percent. This suggests that interest rate as a proxy of monetary policy can affect Islamic financing and it proves the existence of the active of financing channel for monetary transmission. This result is also consistent with many studies (Said and Ismail, 2007; Sayuti 2009; Sukmana and Kassim, 2010).

The model also indicates positive relationship between the real exchange rate and Islamic financing. One percent increase in real exchange rate will increase Islamic financing by 0.28 percent. The explanation for this could be indirect. When the currency depreciates (i.e. real exchange rate index increases), the domestic good becomes cheaper than foreign goods, thereby causing net export to increase, and hence in aggregate demand (Mishkin, 1996). This, in turn, raises the demand for money thereby increasing Islamic financing. For the GDP, it also shows a positive relationship with Islamic financing. When GDP rises by one percent, Islamic financing will increase by 0.25 percent. When aggregate output increases, it raises the demand for credit thereby causing the financing to increase. This may infer that Islamic financing cannot shun away from the fluctuation in the real economic activities (Ibrahim, 2005).

## 4.3 Impulse response functions

Figure 2: Impulse Response Functions: Aggregate System

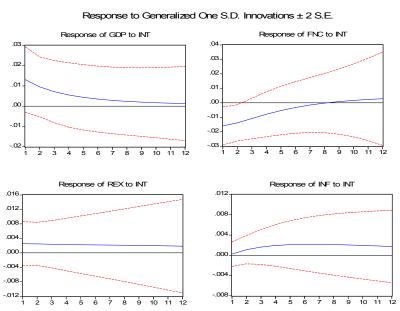


Figure 2 depicts the variable's responses to one-standard deviation shock of overnight interest rate in the aggregate system. It shows that the real output initially increases in response to positive interest rate shock and slowly decreases and dies away after 8 quarters. This result is consistent with the

existing evidence where real output responds to tightening monetary policy shock with some lags. The finding reconfirms the results documented by Ibrahim (2005).

The interest rate shock seems to affect Islamic financing negatively. In response to an increase in interest rate, Islamic financing decreases immediately but quickly bounds back and dissipates at 8 quarter afterwards. This seems to suggest that monetary policy is able to influence Islamic financing. On the other hand, it can be inferred that the Islamic financing channel exists in the case of Malaysia. This finding is also consistent with other studies (Sukmana and Kassim, 2010; Sayuti, 2009; Said and Ismail, 2007). In addition, it may also be observed the behavior of Islamic banking. The results seem to suggest that the operation of Islamic banking, i.e. Islamic financing activities, can be influenced by the interest rate movement same as conventional banking. This implies that the Islamic banking does not shun away from the effect of the interest rate, although its operation claims to be interest-free. Similar studies also support this result (Ibrahim and Sukmana, 2011; Khan, 2010; Chong and Liu, 2009).

In response to the interest rate shock, exchange rate and prices do not seem much to be affected. The response of exchange rate is suggestive for depreciation of the currency at less than one percent, meanwhile the response of prices to interest rate innovation seems to suggest for increase in prices at approximately less than 1 percent above baseline as well. Nevertheless, these two findings seem to contradict the theory and also appear to produce price and exchange rate puzzle. However, in case of price puzzle, Ramaswamy and Sloek (1997) believe that it does not invalidate the conclusion about real effect of monetary policy. The explanation could be that the prices may be set in accordance with cost mark-up strategy. An increase of interest rate indirectly affects the variable costs, i.e. via cost of debt services or via wages, thereby the prices increase at least in the short-run (Dale and Haldane, 1995).

## 4.4 Variance decomposition

Table 4 reports variance decomposition. In case of Islamic financing, more than 14 percent of its variation is attributable to the interest rate shock until 4 quarters and approximately about 7 percent after 12 quarters. Similarly, GDP and exchange rate account for 9 and 3 percent for the fluctuation in Islamic financing until 4 quarter and they decline at 6 and 2 percent respectively in the long-run. In contrast, the inflation shows to have the forecast error variance of Islamic financing about more than 12 percent in long term horizon. These results imply that monetary policy can affect the financing at least in the short-run which supporting the result found in the IRF where financing's responses significantly decrease about 2 quarter to the interest rate shocks.

The forecast error of exchange rate is accounted for 10 and 9 percent of inflation and GDP in the long-run horizon, whereby 4 and less than 1 percent of interest rate and Islamic financing attribute to the fluctuation in exchange rate respectively. The major contributor explaining the forecast error of inflation is GDP, which is about 24 percent after 12 quarter onwards. Besides that, 8 and only 5 percent of Islamic financing and interest rate explain the fluctuation in inflation. Lastly, 22 percent of the variation in GDP is attributed to Islamic financing in the long-run. The result also indicates high fraction of fluctuation in output, where approximately 20 percent is accounted by the inflation shock after 12 quarters. In the same vain, 6 and 8 percent of interest rate and exchange rate contribute to the forecast error variance of output.

#### 5. CONCLUSION

The empirical results seem to suggest that Islamic financing channel for monetary transmission exists in case of Malaysia. The conintegration results indicate that there is long-run relationship among the variables; monetary policy, Islamic financing, GDP, inflation and exchange rate. Based on the ARDL model, it is proved that the interest rate has a significant negative relationship to Islamic financing in the long-run model. To provide more evidences, impulse response functions and variance decompositions also point into the same direction. In response to an increase in interest rate shock, Islamic financing decreases immediately, but rather quickly bounds back and dissipates at eight quarters onwards. Meanwhile, the interest rate shock is accounted for 14 percent in the fluctuation in Islamic financing at four quarters, but then the effect declines in the long-run horizon. In other words, these results indicate that monetary policy is able to affect Islamic financing in such a way that tighten monetary policy could influence Islamic financing to decline.

**Table 4: Variance Decomposition** 

Horizons	INT	REX	FNC	INF	GDP
					-
Variance	Decompositi	ion of INT			
2	76.225	1.282	4.006	0.010	18.477
4	56.247	2.438	8.230	0.325	32.760
6	51.421	2.846	9.840	1.184	34.709
8	49.936	3.052	10.408	2.381	34.223
10	49.091	3.174	10.491	3.570	33.674
12	48.388	3.264	10.392	4.541	33.416
Variance	Decompositi	ion of <i>REX</i>			
2	2.251	96.969	0.000	0.253	0.527
4	2.679	93.640	0.011	1.537	2.132
6	3.115	89.377	0.053	3.522	3.934
8	3.539	84.796	0.102	5.784	5.780
10	3.917	80.451	0.136	7.963	7.534
12	4.226	76.708	0.151	9.840	9.075
Variance	Decompositi	ion of FNC			
2	16.032	3.346	75.995	0.105	4.521
4	13.656	2.905	73.233	1.189	9.017
6	11.074	2.960	74.208	3.538	8.220
8	9.063	2.990	74.570	6.628	6.748
10	7.651	2.873	73.637	9.841	5.999
12	6.693	2.653	71.904	12.808	5.942
Variance	Decompositi	ion of <i>INF</i>			
2	1.149	1.322	0.844	92.663	4.022
4	3.021	0.690	2.701	80.663	12.924
6	4.107	0.464	4.224	72.761	18.444
8	4.678	0.519	5.512	67.768	21.523
10	4.963	0.716	6.679	64.436	23.206
12	5.089	0.964	7.778	62.082	24.088

Variance	e Decompos	ition of GDF	•			
2	8.452	3.527	14.703	16.325	56.993	
4	7.933	5.608	16.176	18.039	52.244	
6	7.484	6.940	17.664	18.935	48.977	
8	7.133	7.672	19.119	19.424	46.652	
10	6.862	8.012	20.493	19.713	44.921	
12	6.649	8.118	21.755	19.903	43.575	

All in all, it could be inferred that monetary transmission through Islamic financing exists in Malaysia. Monetary mechanism runs from tight monetary policy affecting the quantity of Islamic financing to decrease, thereby causing economic activities to decline. Furthermore, the findings also reflect that Islamic banking as operating in dual banking system is not spared from the interest rate and monetary conditions of the country (Ibrahim and Sukmana, 2011). When interest rate increases, it affects Islamic financing to decrease. This clearly shows the behavior of Islamic banking which cannot shun away from the interest rate while its operation delinks from the interest rates.

From the study it could be suggested that in designing monetary policy, the central bank may consider Islamic financing as an alternative or complement channel for monetary transmission since this channel is just as active as conventional lending channel. This means that the BNM can implement monetary policy by influencing Islamic financing to overcome the recession and inflation in the economy (Said and Ismail, 2007). In addition, the findings may also suggest Islamic banking to follow the pricing strategy in competing with the conventional banking since the evidences show that Islamic banking shares the similar risk, i.e. interest rate exposure and monetary condition, with conventional one (Ibrahim and Sukmana, 2011).

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## EXPLORING A NEW CONCEPT OF EMBEDDING GOLD DINAR AS MECHANISM FOR HAJJ TRAVELLING

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#### **ABSTRACT**

Oftentimes consumers are complaining if they have (own) gold dinar, how they can use it to buy things or services. This study is intended to address this issue by introducing a new concept of embedding gold dinar as mechanism for Hajj travelling. It is foreseen that those who keep their money in a form of gold would be able to travel faster (i.e. earlier) than those who keep it in the form of paper money. Therefore, this research is intended to explore whether consumers would be willing to adopt the new concept of using gold dinar as mechanism for travelling. The research framework will be based on Innovation Diffusion Theory (IDT) with two new variables added, namely anxiety, and attitude toward using. It will measure the user acceptance from this theoretical framework i.e. intention to use, relative advantage, compatibility, complexity, trialability, observability, anxiety, and attitude toward using. Questionnaire surveys and interviews will be used for data collection. Structural equation modelling (SEM) will be used to analyse the data. The results will be useful for Hajj travellers, frequent (air) travellers, Tabung Haji, travel agents, local banks, and the public who may be travelling in the future.

Keywords: Inflation, gold dinar, Hajj (pilgrimage), Innovation Diffusion Theory

## 1. INTRODUCTION

Since its first inception in 1971, it has already been a known fact and being reported in many literatures that paper money is highly inflationary in nature (Barisheff, 2006; Lewis, 2007; Turk and Rubino, 2004). Barisheff (2006) has reported that US dollar has lost 82% of its purchasing power, as measured by the Consumer Price Index (CPI) since 1971. Mathematics calculation would reveal even more startling figures about paper money's inflation. Back then in 1971 the price of gold was \$35 per ounce (Lewis, 2007). At its highest price (05 September 2011), one needs to fork out \$1,896 (Kitco Inc., 2011) to buy exactly the same one ounce of gold. Thus, from 1971 to 2011 (in 40 years), in terms of US dollars, the inflation has gone up by 5317% i.e. (1896-35)/35 x 100%. Or equivalently, for the duration of 40 years, the US dollar has lost 5317% of its purchasing power.

Due to the ability of central banks to print paper money practically with "no limit", the existing (paper) money would therefore be subjected to continuous and boundless price inflation. According to Merriam-Webster dictionary (Merriam-Webster, 2012), inflation is defined as "a continuing rise in the general price level usually attributed to an increase in the volume of money and credit relative to available goods and services". The highly inflationary nature of paper money was strongly insisted by Paarlberg (1993) whom had claimed that inflation is the world's greatest robber. He stated that inflation steals from widows, orphans, bondholders, retirees, annuitants, beneficiaries of life insurance, and those on fixed salaries by decreasing the value of their incomes. Furthermore, he had analyzed 15 major inflations throughout the history. He recorded historical prices of important commodities for 30 countries, from year 1937 to 1988, in order to illustrate the disastrous effect of paper money inflation. Jastram (2009) reported that in the last third of the twentieth century, United

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States had experienced increase in price levels by more than five-fold and the U.K. had it by more than eleven-fold. Table 1 below illustrates this point further. For an instance, in the year 2007, U.S. prices were almost 25 times greater than that in the year 1900 (base year) while for the U.K., the prices were almost 90 times greater than that in the year 1900.

**Table 1: Consumer price levels in the twentieth century** 

Indices, 1900 = 100

	1900	1935	1965	2000	2007
USA	100	164	378	2,063	2,484
UK	100	173	635	7,302	8,859

Adapted from Jastram (2009).

Most of the times ordinary people are complaining if they have (own) gold or dinar; how they could use it to buy things or services. This study is intended to address this issue by introducing a new concept of embedding gold dinar as mechanism for Hajj travelling. It is foreseen that if people can keep their money in a form of gold rather than in paper money, they would be able to buy things or services with greater appreciating value (Muhayiddin et al., 2011). As in the case of travelling activities, it is expected that consumers who save their money in gold or dinar would be able to travel faster (i.e. earlier) compared to those who save it in the form of paper money. The research objectives for this proposed study are as follows:

- To explore the perception of consumers with regards to the new concept of gold dinar for travelling.
- 2) To investigate various factors that influence consumers to adopt gold dinar for travelling.
- 3) To investigate the effect of two new added variables on the original Innovation Diffusion Theory.
- 4) To develop a new concept of gold dinar as mechanism for travelling.

## 2. REAL PRICES BASED ON SECONDARY DATA

In order to be as close to a practical situation as possible, this study uses actual data (from real Malaysian market) to show the superior performance of gold's purchasing power when compared to that of Ringgit Malaysia (RM). Prices of a few inflationary items are shown in RM as well as their corresponding prices in dinar (gold). In this case, the price performance (purchasing power) between these two competing currencies can be compared side by side. The readers can therefore make a straight-forward comparison on the performance of purchasing power between fiat currency and that of sound money (dinar).

Tables 2 to 4 below illustrate the performance of dinar as compared to the performance of fiat currency (i.e. RM) for various critical consumer items and services. It is to be noted that dinar is to be used for high-priced items whereas dirham is used for low-priced items. Table 5 shows salary comparison -- paid in dinar versus that paid in Ringgit Malaysia (RM).

Table 2: Fuel price comparison (in RM and Dinar)

Petrol (50 liter)	RM	Dinar
2000	60.00	0.428
2011	95.00	0.146
Price increase/decrease	+ 58%	- 66%

Diesel (50 liter)	RM	Dinar
2000	35.50	0.253
2011	90.00	0.138
Price increase/decrease	+ 154%	- 46%

#### Note:

- Prices of gold are USD270 and USD1592.50 respectively per ounce in Oct. 2000 and July 2011 (London fix spot price).
- Prices of petrol are RM1.20 and RM1.90 respectively per liter in 2000 and 2011.
- ❖ Prices of diesel are RM0.71 and RM1.80 respectively per liter in 2000 and 2011.

Table 3: Electricity price comparison (in RM and Dinar)

Electricity (Domestic, 400kWh)	RM	Dinar
2000	92.52	0.660
2011	160.00	0.245
Price increase/decrease	+ 73%	- 63%

Electricity (Commercial, 1000kWh)	RM	Dinar
2000	288.00	2.054
2011	430.00	0.659
Price increase/decrease	+ 49%	- 68%

## Note:

- ❖ Prices of gold are USD270 and USD1592.50 respectively per ounce in Oct. 2000 and July 2011 (London fix spot price).
- Please refer to <a href="http://www.tnb.com.my">http://www.tnb.com.my</a> for electricity tariff.

Table 4: Construction-related items price comparison (in RM and Dinar)

Cement (4 bags=200 kg)	RM	Dinar
2000	39.60	0.282
2011	74.00	0.113
Price increase/decrease	+ 87%	- 60%
Steel (25 mm, 1 ton)	RM	Dinar
2000	1085.00	7.740
2011	2400.00	3.676
Price increase/decrease	+ 121%	- 53%

## Note:

Prices of gold are USD270 and USD1592.50 respectively per ounce in Oct. 2000 and July 2011 (London fix spot price).

Table 5: Salary comparison in RM and Dinar

Salary Paid (Malaysia)	Dinar	RM
Jan 1992	15.50	1,800*
Jan 2007	15.50	4,968
Feb 2009	15.50	6,975
Oct 2009	15.50	7,838
Jun 2010	15.50	8,560
July 2011 (1 dinar=RM652)	15.50	10,119

#### Note:

- ❖ Price of gold in Jan. 1992 is USD340 per ounce.
- ❖ Price of gold in Jan. 2007 is USD690 per ounce.
- ❖ Price of gold in Feb. 2009 is USD915 per ounce.
- Price of gold in Oct. 2009 is USD1050 per ounce.
- ❖ Price of gold in Jun. 2010 is USD1241 per ounce
- Price of gold in July 2011 is USD1592.50 per ounce.
- \*RM1800 is an average starting salary for a fresh engineer in Malaysia in 1992. (All gold prices are based on London fix spot price)

It is to be noted that oil and electricity prices are two inflationary items whereby any price increase in these two items will subsequently give rise to prices of other daily food items (Barisheff, 2006; Leeb and Strathy, 2006). Similarly, construction items will give subsequent price rise to construction-related markets such as commercial (office) and residential (house) buildings. As for the case of salary, Table 5 clearly shows that dinar preserve the value of salaries over time. Apparently, salaries paid in dinar appreciate over time automatically, even without annual increments.

It should be noticed from the tables above that the performance of dinar is much superior as compared to that of RM (or other fiat money). Apparently in all tables, what appears to be a "price increase (inflation)" in RM is simply a "price decrease" in dinar. It becomes obvious from the above tables that dinar (gold) is able to preserve their "intrinsic value"; whereas the paper (fiat) money just could not do that. All of the tables above (Table 1 to 5), shows the price inflations based on secondary data in Malaysia. Other countries had also experienced very similar situation with price inflations albeit much worst case scenario compared to Malaysia. Paarlberg (1993) had analyzed a total of 15 major inflations throughout history. He had recorded historical prices of important commodities from 1937 to 1988 for 30 countries. Table 6 below depicts the 15 inflations as per reported by Paarlberg (1993).

**Table 6: The Fifteen Inflations** 

		Dates of inflation	Commodity Price Index at End of Upsurge (beginning date = 1)	Annual Percentage Rate of Increase
1.	Ancient Rome	150-301	200.0	5.6
2.	Black Death (most of Europe)	1348-1351	2.4	5.8
3.	Spain	1501-1600	4.2	1.5
4.	John Law (France)	1717-1720	2.0	26.0
5.	American Revolution	1775-1780	32.0	100.0
6.	French Revolution	1790-1796	285.0	157.0
7.	U.S. Civil War, North	1861-1864	2.1	28.0
8.	U.S. Civil War, South	1861-1865	91.0	209.0

9.	Germany	1910-1923	$143 \times 10^{10}$	1174.0
10.	Russia	1913-1924	$171x10^{8}$	752.0
11.	Hungary	1945-1946	$400 \times 10^{25}$	$3x10^{27}$
12.	China	1937-1949	$126 \times 10^{13}$	1451.0
13.	Bolivia	1972-1985	$103x10^{3}$	143.0
14.	Brazil	1937-1988	$800 \text{x} 10^7$	56.0
15.	United States	1933-1987	7.7	3.8

Adapted from Paarlberg (1993)

Based on the presented tables above that the paper money has obvious weaknesses in preserving the true value of money itself. Therefore this study is proposing a new concept to counter that effect of price inflations; by focusing on embedding gold dinar as mechanism for Hajj travelling. Historical prices for cost of Haji for Muassasah and for lowest Package are shown in Table 7 and Table 8 respectively. In Table 7, the price increase in cost of Hajj for Muassasah is not so significant considering a portion of the prices are subsidized by the Malaysian government. However Table 8 reflects the true prices of cost for performing Hajj. From 1989 to 2009 (20 years), the price of performing Hajj had increased by exorbitant rate of 216.8% i.e. (19,990-6,309)/6,309 x 100%. In order to counter this disastrous effect of inflation in paper money, this study is proposing the saving for performing Hajj be kept in gold dinar instead of in paper money. Based on the performance of gold dinar in Table 1 to 5 above -- it is forseen that the price of performing Hajj in terms of gold dinar -- will at least remain constant. Or gold dinar may give even better result i.e. cost of Hajj in terms of gold dinar will be decreasing. This is due to the appreciation of gold dinar's value compared to the value of paper money. Table 9 clearly depicts this superior performance of gold dinar compared to paper money. Referring to Table 9, from 2002 to 2011 (9 years), the cost of Hajj in Ringgit Malaysia has increased by +52%. Ironically, the same cost of Hajj in gold dinar for the same years has decreased by -66%. So no inflation in gold dinar in this particular case.

Table 7: Historical Cost of Hajj\* in RM (Muassasah)

Cost of Hajj (Wang Naik Haji)	RM
1987-1989	5,000
1993-1994	5,930
1995	5,630
1996-1997	6,000
2000-2001	8,585
2002-2003	9,445
2004-2008	8,973
2009-2012	9,980
2013 (first time)	9,980
2013 (second time onwards)	15,555

Source: Tabung Haji (TH) Annual Report.

Note:

In general, the cost to perform Hajj is very similar to the cost of travelling (by air).

Table 8: Historical Cost of Hajj in RM (Package)

Cost of Hajj (Lowest Package)	RM
1989	6,309
1994	8,990
2002	13,500
2007	14,990
2008	16,490
2009	19,990
2010	19,490
2011	20,490
2012	23,490

Source: Tabung Haji (TH) Annual Report.

Note:

All prices are based on the lowest THTS package, except for year 1989 which is operated by Al-Hussam (THTS: TH Travel & Services)

Table 9: Cost of Hajj in RM and Dinar

Cost of Hajj (lowest package THTS)	RM	Dinar
2002	13,500	93.53
2011	20,490	31.39
Price increase/decrease	+ 52%	- 66%

Source: Tabung Haji (TH) Annual Report.

Note:

Prices of gold are USD278 and USD1592.50 respectively per ounce in 2002 and 2011 (based on London fix spot price).

## 3. THEORETICAL FRAMEWORK

An understanding of user acceptance models is very important in order to fully appreciate why one model is chosen over the other. Researchers are always confronted with choosing the most appropriate model for their particular researches. Most of the times, they must "pick and choose" constructs among the various models available. Alternatively, they may choose one "favored model" and largely ignore the possible contributions from other models. Since 1960s, IDT (Rogers, 1995) has been used to study various innovation elements in several fields of studies. Rogers (1995) insisted that each innovation is unique in a sense that some new technologies require only a few years to be successfully adopted whereas others may require much longer time. The element of attributes as perceived by an individual may explain why different innovations require different rate of adoption. Several factors have been identified to have influence over adoption of innovations (Rogers, 1995). Those factors are:

- (1) Relative advantage;
- (2) Complexity;
- (3) Compatibility;
- (4) Triability; and
- (5) Observability

The research framework for this work is adapted from IDT with two additional variables added. This study intends to find out the consumer acceptance of using gold dinar for Hajj travelling based on the

five original constructs of IDT model. Those constructs are relative advantage, complexity, compatibility, trialability, and observability. The two additional variables, anxiety, and attitude toward using, are hypothesized to be very relevant to this study and therefore their influence is expected to be significant in the proposed model. Anxiety is adapted from Compeau and Higgins (1995) as well as Venkatesh et al. (2003). Attitude toward using technology is adapted from Davis et al. (1989), as well as Taylor and Todd (1995). The constructs used in this research framework are explained in Table 10 below.

**Table 10: IDT core constructs** 

<b>Core Constructs</b>	Definitions
Relative Advantage	"the degree of which an innovation is perceived as being better that its precursor" (Moore and Benbasat, 1991, p. 195).
Complexity	"the degree of which an innovation is perceived as being difficult to use" (Moore and Benbasat, 1991, p. 195).
Compatibility	"the degree of which an innovation is perceived as being consistent with the existing values, needs, and past experiences of potential adopters" (Moore and Benbasat, 1991, p. 195).
Trialability	"the tangibility of the results of using the innovation, including their observability and communicability" (Moore and Benbasat, 1991, p. 203).
Observability	The degree of which usage of the system in the organization can be visibly observed by others (Moore and Benbasat, 1991).
Anxiety	"Evoking anxious or emotional reactions when it comes to performing a behavior (e.g., using a computer)" (Venkatesh et al., 2003, p. 432).
Attitude Toward Using	"defined as an individual's overall affective reaction to using a system" (Venkatesh et al., 2003, p. 455).

Therefore, the research framework will be based on IDT with two new variables added, namely anxiety, and attitude toward using. There shall be 8 variables involved, namely intention to use, relative advantage, complexity, compatibility, trialability, observability, anxiety, and attitude toward using. The hypotheses of the study are as follows:

No.	Hypothesis	References
H1	Relative advantage would have positive influence on consumers'	Tan & Teo (2000);
	intention to adopt gold dinar for Hajj travelling.	Venkatesh et al. (2003)
H2	Compatibility would have positive influence on consumers' intention to adopt gold dinar for Hajj travelling.	Tonatzky & Klein (1982)
НЗ	Complexity would have negative influence on consumers' intention to adopt gold dinar for Hajj travelling.	Thompson et al. (1991)
H4	Trialability would have positive influence on consumers' intention to adopt gold dinar for Hajj travelling.	Agarwal & Prasad (1997); Tan & Teo (2000)
Н5	Observability would have positive influence on consumers'	Moore & Benbasat (1991)

intention to adopt gold dinar for Hajj travelling.

H6 Anxiety would have negative influence on consumers' intention to adopt gold dinar for Hajj travelling.

Compeau & Higgins (1995)

H7 Attitude toward using would have positive influence on consumers' intention to adopt gold dinar for Hajj travelling.

Davis et al. (1989); Taylor and Todd (1995)

#### 4. METHODOLOGY

This research focuses on quantitative results whereby an analysis and classification of numerical data will be collected from survey questionnaires. The questionnaires will be developed based on various literature reviews and based on IDT with two new variables added namely anxiety and attitude toward using. All surveys consist of a closed-ended question. Respondents will only choose answers already provided with the questions. Initially, the survey will be distributed to 30 respondents as a form of pilot study. Eventually, after considering various feedbacks from the pilot study, final survey questionnaires will then be developed and distributed to 400 respondents in Klang Valley and Kelantan areas. Klang Valley is chosen because it is expected that the highest number of Hajj travelers are coming from this area. Whereas Kelantan is selected to represent a sample of a rural-state area. 400 samples is decided based on Dillman et al. (2009) which shows that for a population of 1,000,000,000 in number, only 384 sample is needed to represent the population (with  $\pm 5\%$  sampling error). It is to be noted that since this research is still at exploring stage, the convenience sampling method will thus be applied. Section A of the survey consists of questions related to respondents' information such as gender, race, age, monthly income, educational attainment, marital status, employment status, e-commerce usage experience, and average use of e-commerce applications. Other sections contain questions related to 5 variables coming from IDT namely, relative advantage, compatibility, complexity, trialability, and observability. As well as sections which contains questions coming from the anxiety, and attitude toward using variables. Lastly, there will be questions which measure behavioral intention to use gold dinar for travelling.

Qualitatively, an interview questionnaire will be developed (based on IDT) to be used for interviewing Tabung Haji and several travel agents personnel. Their perception on this new concept of gold dinar for travelling would be very important for this research. The questions will include the feasibility of implementing such system, the acceptance of the consumers and other related issues. SPSS Statistical Software Package will be used to carry out descriptive analysis of the collected survey data. AMOS and PLS would be employed to investigate multiple regression analysis.

## 5. CONCLUSION AND LIMITATIONS

This research will propose a new research framework for user acceptance study of gold dinar payment concept in Malaysia, with specific application of using gold dinar for Hajj travelling. The framework for this research is adapted from IDT model with an addition of two new constructs; to suitably explore an 'intention to use' gold dinar for Hajj travelling. The results of descriptive analysis and hypothesis testing will be taken up later in future publications. There appears to be some limitations on this study. Firstly the survey is based on convenience sampling thereby limiting its generalization to the whole population of Malaysian people. Secondly, the choice of physical gold dinar denominations has to be correctly selected such that it shall give the highest returns upon selling it later on for the purpose of Hajj travelling. The more the return of investment (ROI) it accumulates upon the point of sale/purchase; the more significant would be the effect of this concept of embedding gold dinar as mechanism for Hajj travelling.

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## MONETARY POLICY INSTRUMENTS AND INFLATION: AN ISLAMIC PERSPECTIVE

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#### **ABSTRACT**

The efficiency of the monetary management of any government is assessed by its ability to reduce and stabilize the inflation rate. Hence, this latter is the first target of any monetary policy. Although that the term « inflation » is recent, this monetary phenomenon has been observed many centuries ago. In this context, Islamic thinkers described the phenomenon as the cheapness of money. This research discusses the management of money to fight inflation in an Islamic finance framework focusing on the prohibition of interest « RIBA » against the classical monetary policy which concentrates on this factor « interest » as a key channel to reduce inflation. The paper starts with the traditional view to the inflation phenomenon and a comparison between conventional and Islamic finance principles. Then, it discusses the instruments of the Islamic monetary policy and their effectiveness to reduce inflation by providing some recent experiences. Our main findings clearly show that the traditional monetary management is less effective than the one based on Islamic principles, but however such effectiveness depends on the human factor and its ability to apply such monetary instruments.

**Keywords**: Inflation, Money, Monetary policy, Islamic finance, Interest.

## 1. INTRODUCTION

One of the most important challenges of any government is the sustained increase in the price level or the higher inflation rates. Regarding macroeconomic policies, inflation is the first target of any monetary policy and the efficiency of this policy is assessed by its ability to reduce inflation. As it represents a sustained rise in the price level, inflation results in a reduction of the money value. Although that the term « inflation » is recent, this monetary phenomenon has been observed many centuries ago. In the context of Islamic finance, inflation is defined as a cheapness of money.

In the conventional economic system, there exist several direct and indirect instruments of monetary policy to fight the inflation where the interest rate is the key channel. However, the recent financial crises revealed the failure of the conventional monetary system. Alternatively, there is a rapid growth in the practices of Islamic finance in Muslim and non-Muslim countries. Inflation and the monetary management take an important part in Islamic economic framework in which there exists a large literature which provides a set of monetary policy instruments working under the Shari'ah (Islamic law).

This research discusses the management of money to fight inflation in an Islamic finance framework focusing on the prohibition of interest « RIBA » against the classical monetary

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policy which concentrates on this factor « interest » as a key channel to reduce inflation. Our paper is divided into the following sections: the first section tackles the problem of inflation in the different economic theories and Islamic history. The second section provides the Islamic finance principles while the third one explains the monetary policy under these principles. In the forth section we show the practices of Islamic monetary policy in four Muslim countries and assess the inflation trend in those countries.

## 2. THE TRADITIONAL VIEW OF INFLATION

Inflation as a phenomenon is not really new, it has been observed many centuries ago when the price level and money value changed responding to changes in gold and silver available quantities. However, this phenomenon started to take interest since the occurrence of the fiat money. In practice, inflation; the condition of a continually rising price level; has become a major concern of economists and politicians. It is one of the most important monetary policy targets.

## 2.1 Inflation in the quantity theory of money

The quantity theory of money is one of the oldest economic doctrines. It has been developed by the classical economists in the 19th century. Under the assumption that the velocity of money is constant and the level of aggregate output *Y* produced in the economy during normal times would remain at the full-employment level, the theory asserts that an increase in the price level results solely from the increase in the quantity of money. This can be shown clearly by the equation of Irving Fischer (1876-1947):

$$MV = PY \implies \uparrow M = \frac{1}{7} \uparrow P \overline{Y}$$

The equation implies that if M ( the quantity of money) doubles, P (the price level) must also double in the short run because V and Y are constant<sup>2</sup>

## 2.2 Demand-pull theory of inflation

Demand-pull theory focuses on the Keynesian theory of aggregate demand. Keynes and his followers emphasize the increase in aggregate demand as the source of demand-pull inflation. Aggregate demand is composed of consumption, investment and government expenditure.

According to the Keynesian theory, an increase in money incomes will lead to an excess of aggregate demand over aggregate supply at the full employment level<sup>3</sup>. On the other hand, Keynesians argued that even before reaching the full employment production factors, an increase in the aggregate demand can lead to a small rise in prices. This fact is due to the non-ability of producers to respond to the increasing demand. In this case, the policy that is effective to decrease the price level is the increase in taxes which will reduce the pressure demand.

## 2.3 The monetary theory of inflation

Referring to the quantity theory of money, Milton Friedman 1956 developed the monetary theory and argued that only money matters. Friedman held that: inflation is always and everywhere a monetary phenomenon that arises from a more rapid expansion in the quantity of money than in total output.

<sup>2</sup> Mishkin F., « The economics of money, banking and financial markets », Colombia University, Seventh edition, 2004, P519

<sup>&</sup>lt;sup>3</sup> Totonchi J., « Macroeconomic theories of inflation », International conference on economics and finance, Singapore2011, P460

According to Friedman and followers (monetarists), the monetary policy is a more potent instrument than fiscal policy in economic stabilization.

## 2.4 Islamic view of inflation

In an Islamic framework, inflation is the cheapness of money. The phenomenon was experienced in early Islamic history because of the influx of gold and silver and the occurrence of new copper coins known as "Fulus". Indeed, the ratio between the gold and silver coins has declined to 1:12 in the second half of the Ummayad period and to 1:15 in the Abbasid period after being stabilized over the era of the prophet Muhammad (P.B.U.H) and the four caliphs with 1:10<sup>4</sup>.

Al-Makrizi (845/1442) argued that the instability in gold-silver ratio enabled bad coins to drive good coins out of circulation3 and he added that the fact of copper coins (Fulus) abundance worsened the situation. Accordingly, inflation phenomenon is due to the abandonment of gold and silver standard<sup>5</sup>.

The supply and demand analysis to explain the rise of price level has also taken a place in Islamic thought. For instance, Ibn-Khaldun emphasized that both increase in demand or fall in supply leads to a rise in prices. (for more details refer to Chapra 2008).

#### 3. ISLAMIC FINANCE PRINCIPLES

Islamic finance as an important part of Islamic economy, is broadly based on some principles (prohibitions and encouragements) which any institution in the Islamic financial system should take them seriously, referring to the sources of Sharia'ah (Holy Quran and Sunnah):

## 3.1 Avoiding interest (Prohibition of Riba)

In contrast to the conventional system which focuses on the interest rate, the Islamic theory of finance prohibits this factor. The interest factor is called in Sharia'ah "Riba" and means any excess return derived on a loan or debt. It represents the return on transactions involving exchange of money for money, or an addition, on account of delay in payment, to the agreed price on sale debts/debts<sup>6</sup>. The prohibition of interest (Riba) is mentioned in a clear verse in the holy Quran: "Allah has allowed trade and prohibited Riba" 2:275. Hence, lending on interest is alien to Islamic banks and financial institutions.

## 3.2 Avoiding Gharar

The second pillar of Islamic finance is to avoid Gharar. Gharar refers to entering into a contract in absolute risk or uncertainty about the ultimate result of the contract and the nature and/or quality and specifications of the subject matter or the rights and obligations of the parties. In fact, Islamic banks should not enter in any bargain or contract in which the results are hidden. Furthermore, this principle (prohibition of Gharar) requires Islamic banks not to engage in speculative trade in shares, short-selling, discounting of bills and securities or trading in unidentified items. This prohibition is mentioned in the Sunnah "Don't buy fish in the sea, it is Gharar" Cited by Ahmed.

## 3.3 Alternative principles

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<sup>&</sup>lt;sup>4</sup> Chapra M.U., « Monetary management in islamic economy », Islamic economic studies, Vol4 No1, December 1996, p.1.

<sup>&</sup>lt;sup>5</sup> Ben Daas D., « Monetary policy in conventional and islamic systems : comparative study », Dar ELKHALDUNIA, Algeria, 2007, P134. (Arabic version)

<sup>&</sup>lt;sup>6</sup> Ayub M., « Understanding Islamic finance », Wiley and sons, England, 2007, p.73.

In the absence of interest and other prohibited transactions, Islamic financial institutions have several tools and techniques to do their business based on profit sharing and participation principles. Islamic scholars argued that the profit and sharing risk concepts are more efficient. Abdu-Alhamid Alghazali defined the profit as a standard which conducts the use of capital under more logic; socially equal and economically efficient principles<sup>7</sup>.

The different tools available for Islamic banks are defined briefly:<sup>8</sup>

- 1. Mudarabah is a partnership arrangement in which one party provides capital to the partnership while the other party provides entrepreneurial skills. Any loss is borne by the financier; any profit is shared by the partners according to a pre-agreed ratio.
- Musharakah may take the form of a permanent equity investment, a partnership in a specific project having a fixed duration or a diminishing partnership (the bank's share is reimbursed over time by the company acquiring funds), especially for housing and other fixed asset financing that could be leased.
- 3. Murabaha–Mu'ajjal involves acquiring goods upon a customer's demand or otherwise and their credit sale at a profit margin. It results in debt covering the cost plus a profit margin. This debt has to be paid back irrespective of profit or loss to the person or institution that purchased on credit and suffered loss or the wares destroyed in his ownership. To this effect, we come across a very important reference relating to the period of the second Pious Caliph of Islam Umar (Gbpwh). As reported by Ibn-e-Jarir Tabari (d. 310 AH), "Hind bint-e Utbah came to Umar and asked for a loan of 4000 (dinars) from the public exchequer so that she could trade with it and became liable to pay back the same. After getting the amount, she went to the area of Banu Kalb and engaged in trading; but she suffered loss. Umar (Gbpwh) said the loan could not be waived as it was from the public exchequer."
- 4. Salam involves providing funds against the forward purchase of precisely defined goods with prepayments.
- 5. Ijarah involves leasing an asset and receiving rentals; so long as the asset is on lease, the lessor owns the asset and the risk and reward of its ownership.
- 6. Istisna'a involves engaging a person that could also be a financing agent to manufacture or construct and supply an item at some future date for an explicit sum on periodic payment. The agent contracts with a manufacturer to produce the commodity and the customers make payments to cover the production price and the profit margin.
- 7. *Qard Al-hasan* (benevolent loan) are zero-return loans that Muslims are encouraged to make to those who need them. Financial organizations that provide these loans are permitted to charge the borrower a service charge to cover the administrative costs of handling the loan so long as the charge is not related to the amount or the maturity of the loan.

Alghazali Abdulhamid, "Profits and interests between the economic analysis and Islamic law" High institute of research, Jaddah, 1994, P23.(Arabic version)

<sup>&</sup>lt;sup>8</sup> Ayub M., « Understanding Islamic finance », ibid. P.76.

<sup>&</sup>lt;sup>9</sup> Khan M. and Mirakhor A., "Monetary management in an Islamic economy", *J. KAU: Islamic Econ.*, **Vol. 6**, pp. 3-21 (1414 A.H./1994 A.D.).

#### 3.4 Role of ethics

In addition to the main prohibitions (interest and Gharar), Islamic Shari'ah provides a set of ethnical norms that govern the rights and obligations of economic parties and conduct economic and financial transactions. These norms are related to the accountability of human beings and their behaviour between them. Giving people their due right is the cardinal principle of the Islamic system of ethics namely equity and justice. Some encouragements like benevolence, purification of income, proper transparency and disclosures, documentation of transactions leading to precision about the rights and liabilities of the parties and comprehensive ethics requiring care for others are also part of the Islamic framework of business norms<sup>10</sup>.

## 4. ISLAMIC MONETARY POLICY

Inflation has always been a challenge for the economic society particularly for monetary authorities that try to fight it and keep prices stabilized. Unlike the conventional system, Islamic financial system applied in many countries deals with the inflationary phenomenon taking into consideration the principles discussed above. Hence, the Islamic theory of finance gives to central banks a set of monetary instruments to fight inflation and get the other objectives of monetary policy.

## 4.1 Islamic monetary policy instruments

It is the prohibition of interest which makes the difference between Islamic monetary policy instruments and conventional ones:

#### a- Required reserve ratio

This ratio is the percentage of deposits that a commercial bank must hold in a form determined by the central bank<sup>11</sup>. The required reserves preserve the depositors' rights and push them to invest their money in banks. This instrument does not conflict with Shari'ah, it is free from interest. The central bank under Islamic principles can use it to curtail the availability of the loanable funds and money supply so that it can sterilize the uprising prices (inflation):

$$\uparrow RRR \rightarrow \downarrow credits \rightarrow \downarrow MS \rightarrow \downarrow P$$

The Islamic central bank can also use these reserves in the economic activity either by financing some sectors with priority or to give them to governments as "Qard Hassan".

## b- Profit sharing ratio

This instrument is available just for Islamic central banks and it replaces the interest rate as a tool of credit control in the conventional central banking. In an Islamic banking system, the money supply and the level of economic activity will be governed by profit sharing arrangements between the commercial banks and their clients on the one hand, and the banks and their depositors on the other. Thus, the central bank will regulate the "investments' share ratio" and the "depositors' share ratios" has a direct effect on money supply and the central bank can change it according to the economic activity situation. In IFS money creation is backed by increase in production that leads to no

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<sup>&</sup>lt;sup>10</sup> Ayub M., ibid, p.64.

<sup>&</sup>lt;sup>11</sup> ZANGENEH Hamid and SALAM Ahmed, « Central banking in an interest-free banking system", Islamic economics, Vol.5, 1993, P29

<sup>&</sup>lt;sup>12</sup> Ben Daas D., « Monetary policy in conventional and islamic systems : comparative study ", ibid. p.242.

<sup>&</sup>lt;sup>13</sup> ZANGENEH Hamid and SALAM Ahmed, « Central banking in an interest-free banking system", ibid, P31.

inflation, Laliwala (1982). That is, the central bank can raise the investors and depositors share ratios to enhance the investment and production and to absorb the excess money supply from depositors.

## c- Open market operations

Open market operation is the fact of buying and selling government securities, gold and currency reserves by the central bank in order to influence the availability of credits and money supply. Because of the prohibition of Riba, securities with interest rate are not permissible in the open market operations in IFS. Ariff (1982) talked about interest-free bonds, in his side, Siddiqi (1982), visualised that the central bank could buy or sell commercial papers in the open market. It is also permissible for the central bank to deal with stocks since they have profit principle instead of interest rate. However, other Islamic scholars find these tools particularly commercial papers unacceptable because they offer an unlimited scope for wild speculation and all speculations are un-islam (Khan Akram 1982). This divergence in the Islamic views about open market operations implies a very limited scope for open market operations as an instrument of monetary policy in an Islamic economy.

#### d- Refinance ratio

The Refinance Ratio'<sup>14</sup> refers to the offer of the Central Bank to provide additional cash to the commercial banks to the extent of a certain percentage of the interest-free loans granted by them. Raising or lowering this ratio will have the effect of expanding or contracting the supply of short term credit by the commercial banks. For example, in order to encourage *Qard Hasan*, the central bank may lay down that it would refinance, free of charge, to the extent of, say 30 percent, or any other percentage of total loans of that particular type granted by commercial banks to the public.

#### e- Moral suasion

This qualitative instrument does not differ to the one in the conventional system. This method is used to influence and/or persuade member banks to implement the central bank policies in true spirit. This can be a greatly useful instrument of control in an interest-free Islamic system that must depend on collective consensus building for its affairs.

## 4.2 IS-LM analysis under Islamic framework

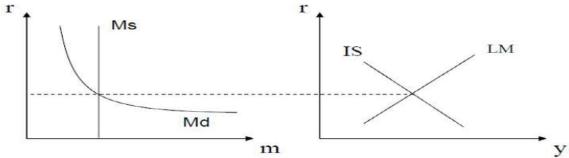
As we have shown in the first section, inflation is always a monetary phenomenon. Majority of Islamic scholars believe that the monetary policy should be executed through stock of money. Although the interest rate is forbidden in Islamic system, but it is possible to use the IS-LM analysis in Islamic perspective by including the profit sharing ratio instead of the interest rate in the conventional system.

In the conventional system, IS-LM model displays the aggregate supply and aggregate demand analysis in which the IS curve shows the combinations of total output and interest rates that ensure goods market equilibrium, and the LM curve shows the combinations of total output and interest rates that ensure money market equilibrium.

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<sup>&</sup>lt;sup>14</sup> Siddiqi M.N. "Islamic Approach to Money, Banking and Monetary Policy - A Review", Arrif book, 1982, p.59.

Figure 1: equilibrium in money market and IS-LM curves



Source: kiaa H., "monetary policy in islamic economic framework: the case of Islamic republic of Iran", P6. The central bank intervenes with its monetary policy to control the inflation by declining the volume of money using monetary instruments. A contractionary monetary policy declines the money supply directly by using aggregate money control instruments<sup>15</sup> or by increasing the interest rate in open market operations which in turn leads to a decrease in money supply because of the negative relationship between interest rates and speculative demand for money. Thus, the LM curve will move to the upward which creates a new equilibrium point of the model.

In an Islamic economics framework, the IS-LM analysis for monetary policy does not totally differ. The Islamic scholars included the concept of profit loss sharing ratio (PLS) in the place of interest rate. Iqbal and Alasaly (1991) modified an IS-LM model for Islamic economy: Equilibrium in the Goods Market – The IS Curve:

$$Y = C + I + G_t + G_Z$$
 
$$C = f(Y_d) \qquad f' > 0 \qquad Y_d = Y - T - Z$$

Z = z.S - - - - [Zakah is on savings.]

$$I = I(P)I' < 0)$$
 - - - P is a PLS ratio

Gt and Gz are tax- and zakah-based government

expenditures, respectively (Exogenously given)

Equilibrium in the Money Market – The LM Curve:

$$M_s = M_d$$

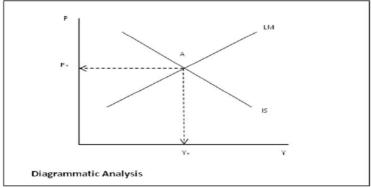
 $M_s = M_0$ 

 $M_d = m(Y,P)$ 

(Zakah-based government is not the interest of our paper, it belongs to the fiscal policy).

<sup>&</sup>lt;sup>15</sup> kiaa H., "monetary policy in islamic economic framework: the case of Islamic republic of Iran", p.10.

Figure 2: IS-LM equilibrium in an interest free system



Source: Igbal Mehdi and Al-Asaly (1991)

As shown in figure 2, the shape of the curves is similar to their shape in a conventional system. The downward slopping of IS curve in the Islamic system is due to the negative link between investment and profit sharing rate of the bank, while the upward slop of LM curve is due to the negative relationship between profit rate and money demand in Shari'ah contracts (speculative demand is forbidden). In this context, when the central bank targets inflation, it can lower the money supply Ms using the monetary instruments cited in the previous section which will increase the profit sharing ratio (PLS) which in turn decrease the investment moving the LM curve to left and leading to a new equilibrium level. We showed that the central bank in a conventional system should control also the interest rate of open market operations, so, is this possible for Islamic system?. The Islamic central bank should be prudent in its open market operations to control inflation and it should keep into consideration the abolition of interest and speculative transactions. The monetary officials use commercial shares or Musharakah certificates as a substitute tool for interest based control and open market operation. Usually the Islamic government issues commercial shares or Musharakah certificates on the base of profit sharing. So, whenever the government wants to decline the volume of money in the economy, it sells these certificates to the public. Here the profit rate of these commercial shares plays the role of interest rate in the monetary policy process and by changing this rate, central bank can persuade people to buy or sell these certificates. The important point is that, central bank should issue all papers and certificates based on some productive economic projects otherwise the profit sharing principle does not work.

# 5. MONETARY POLICY PRACTICES AND INFLATION TREND IN SOME MUSLIM COUNTRIES

Islamic banking and finance field has grown appreciably among Muslim and non-Muslim countries especially after the global financial crisis of 2008 which confirmed the failure of the conventional systems. The use of Islamic rules in banking goes further to macroeconomic policies namely the monetary policy. Many Muslim countries now succeed to manage the money supply and economic stability based on *Shari'ah* rules.

## 5.1 Islamic monetary policy practices

## a- Monetary policy in Iran:

After the Islamic revolution in Iran, at 1979, there were comprehensive attempts by government to use Islamic rules and regulations. At 1983 economic experts and Shari'ah scholars provided the Interest Free Banking System Bill to the parliament that used Islamic contracts as instruments for attracting and allocating money in the banking system. After approving process by parliament, from the 1984, the whole economic and banking system of

country changed to Islamic one. Unlike some Islamic countries which have both Islamic and non-Islamic banking system, there is no bank in Iran that works according to interest rate system.

The central bank in the Islamic republic of Iran uses five important instruments to execute its monetary policy in which Musharakah certificates instrument is the most important:

1-Musharakah certificates; 2-controlling profit rates of commercial banks; 3-legal reserves; 4-special deposits to central bank and 5-credit ceiling.

Table 1: evolution of Musharakah certificates published and sold values and their expected returns

Year <sup>6</sup>	Published Certificate (Billion Dollars)	Sold Certificate (Billion Dollars)	Expected Return (Percent)
2002	2.96	2.78	15-17
2003	3.18	3.09	17
2004	4.49	4.22	17
2005	3.78	3.12	15.5-17
20067	3.92	3.03	15.5

Source: Kiaa Hasan (2007).

## b- Monetary policy in Malaysia

Malaysia now is operating under a dual financial system; conventional and Islamic. The monetary strategy of Bank Negara of Malaysia is currently the interest rate targeting. In the Islamic context, the BNM uses Islamic interbank money instruments to achieve its target: Government Investment Issues; Bank Negara Negotiable Notes; Wadiah Acceptance; Mudharabah; Interbank Investment; Bai Al—Inah Transaction; Rahnu Agreement; Sell and Buy Back Agreement and Sukuk BNM Ijarah<sup>16</sup>

Some of these instruments are summarized in the following table which shows also the challenges facing Islamic instruments in Malaysia although their usefulness.

Table 2: summary of Malaysian monetary policy instruments

Instruments	Description	Challenges	
Wadiah deposit acceptance	Cash funds placed on custody	Hibah is prerogative of	
(January 2002)	basis, with non-guaranteed	custodian and it can not be	
	returns on 'hibah' (gift) basis.	contractual, hence return is	
		uncertain.	
Commodity Murabahah deposit	CMP is a cash deposit product	Incur additional cost, relative to	
(2007)	that utilizes the Crude Palm Oil	Oil Wadiah, in the form of	
	based contracts as the	commodity brokerage.	
	underlying assets.	Inefficient for use to manage	
	short-term liquidity.		
Sukuk BNM Ijarah (Feb- 2006)	Sukuk issuance based on the Al- Issuance is limited to		
	Ijarah or 'sale and lease back'	Ijarah asset; hence it is	
	concept.	ineffective to manage massive	

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<sup>&</sup>lt;sup>16</sup> For more details about these IIMI refer to Salman Ahmad Sheikh "role and functions of central bank in Islamic finance".

		liquidity.
Bank Negara	Issued by Bank Negara	Issuance incurs additional cost
Monetary Note	Malaysia for managing liquidity	(commodity brokerage).
Islamic (BNMN-i)	in the Islamic financial market.	
(2006)		

#### c- Sudan

Sudan started the full application of Islamic modes in finance in the first half of the 1990s. The Islamic monetary instruments used by the central bank of Sudan since 1990<sup>17</sup>: 1-profit and loss sharing ratio; 2- credit ceiling policy stipulated 80 percent of total bank ceiling for priority sectors; 3- reserve requirements policy and other indirect instruments such as margins on letters of credits and foreign exchange transactions.

The economic and financial reform program starting in 1997 in Sudan allowed the BOS (Bank of Sudan) for the modification of some existing instruments and introduction for new ones. In 1998, the BOS opened a liquidity financing window as an overdraft facility that also fulfils its function as a lender of last resort. That is, benevolent loans are available to the commercial banks for up to two weeks and for a maximum of 10% of its current deposits. There has been also an introduction of government and central bank Musharaka certificates (GMCs and CMCs) in 1998 for developing tools of indirect liquidity management in the banking sector.

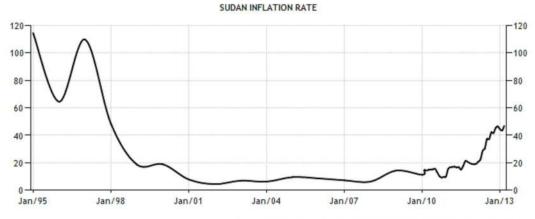
#### d- Saudi Arabia

The monetary policy of Saudi Monetary Agency (SAMA) relies primarily on variations in the reserve ratio requirements, since it is debarred from using the re-discount facility under Islamic law and cannot use open market operations as the Kingdom does not have any public debt in the form of government securities which can be used for such operations. A significant secondary tool is selective credit controls which include regulation of credit ceilings, cash margins, terms and conditions of customer transactions, limits, prohibitions on specific categories of loans, and fixing the assets to be held within the Kingdom by each bank. SAMA also deploys its own accounts and government deposits with commercial banks to regulate the money supply. SAMA uses ORR (Official Repo Rate) for short term liquidity management. Saudi Monetary system also has Government Development Bonds and Treasury Bills for fiscal deficit financing and liquidity management.

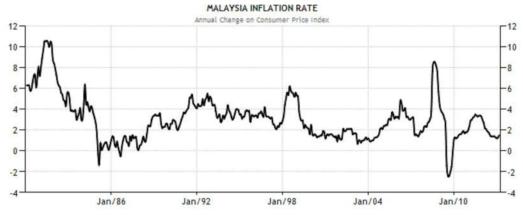
#### 5.2 Inflation trend

In this last section we present the inflationary trend in the countries which applied Islamic monetary policy cited above.

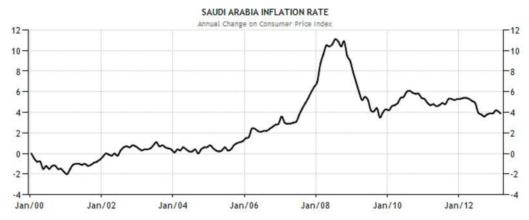
<sup>&</sup>lt;sup>17</sup> Alheraika A.B., « on the design and effects of monetary policy in an Islamic framework: the experience of Sudan", Islamic Development Bank, 2004, p.30.



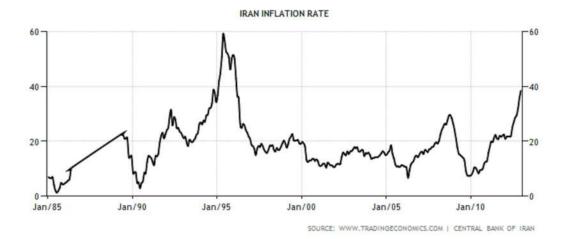
SOURCE: WWW.TRADINGECONOMICS.COM | SUDAN CENTRAL BUREAU OF STATISTICS



SOURCE: WWW.TRADINGECONOMICS.COM | DEPARTMENT OF STATISTICS MALAYSIA



SOURCE: WWW.TRADINGECONOMICS.COM | SAUDI ARABIAN MONETARY AGENCY



From the figures above we notice that the four countries using Islamic monetary instruments could manage their inflation for some periods after starting the application of Islamic financial systems which confirms that the use of Islamic principles is more useful than the conventional ones. However, the periods of crises especially the recent global financial crisis affected these rates. The inflation rate of Malaysia and Saudi Arabia seems to be the lowest (between 2and 6%) except the highest spike during the 2008 crisis. For Sudan, the stability of the inflation rate is very clear in the graph after the Islamization of the monetary system (after 1994), but the rate of inflation started to increase largely after the crisis. The Iranian inflation has more response to the crises where it reached high spikes in addition to its higher rates (above 10%).

The instability in the inflation rates of countries applying Islamic systems does not belong to Islamic principles but for other reasons which are the conditions of the success of Islamic monetary policy:

- -The absence of an appropriate fiscal policy with the monetary one in those countries;
- -The globalization and openness to international financial markets operating under interest rate (Riba) principle; and absence of developed Islamic financial tools which makes Islamic countries more sensible to the global financial crisis;
- -The role of ethics; as we have seen in the second section Islamic economics and law (Shari'ah) focuses on the ethnical aspect as a pillar to achieve social objectives. The fact is that most of Islamic countries record higher ranks of corruption which is against Islam and then it impedes the success of any Islamic policy executed in such countries.

## 6. CONCLUDING REMARKS

This paper discussed the management of money to fight inflation in an Islamic finance framework focusing on the prohibition of interest « RIBA » against the classical monetary policy which concentrates on this factor « interest » as a key channel to reduce inflation. From the four sections we conclude the following remarks:

- The set of the monetary policy instruments working under Islamic law (Shari'ah) approved efficiency from the principles (prohibitions and encouragements) which provide equity and justice.
- The prohibition of "Riba" where there is no interest to be paid can reduce the production costs which in turn will decrease the price level and reactivate the economic cycle and reduce the inflationary gap between money supply and production.

- Unlike the Islamic commercial banking which is spilled over Muslim and non-Muslim countries, the central banking and monetary policy is applied in some Muslim countries that have succeeded to manage their inflation rate. However, the financial interdependence of financial markets, corruption and the large use of conventional systems still impede the success of Islamic policies. Thus, the success of Islamic monetary policy instruments to fight inflation depends on the human factor in applying these instruments and not on the Islamic principles themselves.

## LIST OF ABBREVIATIONS

BNM: Bank Negara of Malaysia

BNMN-i: Bank Negara monetary notes, Islamic

BOS: Bank of Sudan

CMC: central bank Musharakah certificates GMC: Government Musharakah certificates

IFS: Islamic financial institutions

MS: Money supply ORR: Official Repo rate PLS: Profit loss sharing RRR: Required reserves ratio

SAMA: Saudi Arabia monetary agency

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## THE IMPACT OF INTEREST RATE CHANGES ON MALAYSIAN ISLAMIC HOME FINANCING

Nor Haziah Binti Hashim<sup>1</sup> Nursilah Ahmad<sup>2</sup> Safeza Mohd Sapian<sup>3</sup> Norhazlina Ibrahim<sup>4</sup>

#### **ABSTRACT**

**Purpose** – This paper investigate the impact of interest rate changes, specifically the base lending rate (BLR) on the demand for Islamic home financing (BBA) in a dual banking system. Theoretically, when the BLR is low, customers who are driven by profit would substitute BBA for conventional home loans, as the BBA monthly payments is relatively higher. Conversely, when the BLR is high, customers would prefer the BBA financing because of the lower monthly instalment.

**Design/methodology/approach** – Using a 109 monthly data from January 2002 to January 2011, this study employs a time series technique, in particular, cointegration, error correction modelling and variance decomposition, to find empirical evidence of the impact of interest rate on Islamic home financing. A formal unit root test and cointegration test have been conducted to proof the long-term relationship between the variables. Next, the long-run structural modeling (LRSM) has been applied to ensure that the estimation is in line with theoretical expectation. Then, in order to determine the properties of endogeneity and exogeneity of variables, vector error-correction model has been employed followed by generalized variance decompositions, generalized impulse response and persistence profile

**Findings** - The study found that any increase in the BLR would trigger customers to obtain financing from Islamic banks. Conversely, any decrease in the base lending rate would induce customers to shift to the conventional home loans. The paper concludes that because customers are profit motivated, Islamic banks in the dual system, such as in Malaysia are exposed to interest rate risks despite operating on an interest free principle. This finding supports the earlier work done on the topic.

**Keywords**: Islamic financing, Bai-Bithaman Ajil, interest rates, base lending rates (BLR)

## 1. INTRODUCTION

Islamic banking refers to a system of banking that complies with the Islamic law or Shariah. The underlying principles governing the Islamic banking are mutual risk and profit sharing between parties, the assurance of fairness for all and that transactions are based on an underlying business activity or asset. In addition to that, activities that involve interest (riba), gambling (maisir) and speculation (gharar) are prohibited. Islamic banking has played an important role in the overall growth of Islamic finance, with overall growth of 15 to 20 percent per annum globally. With the commendable growth, Islamic banking industry is expected to promote the alternative form of financial intermediation.

Malaysia's Islamic finance industry has been around for over 30 years. The enactment of the Islamic Banking Act 1983 has enabled Malaysia's first Islamic bank to be established and thereafter, with the liberalisation of the Islamic financial system, more Islamic financial institutions have been

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established. The long term objective of the Islamic Bank Act 1983 is that a full-fledged Islamic banking system would operate in parallel with the conventional financial system. Islamic banks in Malaysia can be categorized into four groups. Firstly, the full-fledged local and foreign Islamic banks which include Bank Islam Malaysia Berhad, Bank Muamalat, Kuwait Finance House and Al-Rajhi Bank. Secondly, the Islamic subsidiary banks among which include CIMB Islamic bank, MayBan Islamic bank, RHB Islamic bank and EON Capital Islamic bank. Thirdly, the Islamic windows in foreign conventional banks, such as Citibank, HSBC, Deutch Bank and finally the International Islamic banks, such as the Bank Muamalat Indonesia.

For Islamic banks to be competitive, the initial strategy adopted in Malaysia has been for Islamic banks to offer financial services which match those offered by the conventional banks (Bank Negara Malaysia 2005). In most cases, the Islamic products were repackaged and adapted along features of conventional products with the non-shariah aspects eliminated. Hence, on the asset side, it is found that Islamic financing is dominated by property and asset term financing (Radiah and Yap ,2009).

Table 1: Islamic Financing by Products as of January 2011

Products	RM million	Percentage (%)
Bai Bithman Ajil (BBA)	54,662.2	33.6
Ijara (leasing)	3,999.5	2.4
Ijara Thumma Al-Bai (AITAB)	43,992.2	27.1
Murabaha	23,734.3	14.6
Musharaka	4,104.4	2.5
Mudaraba	273.9	0.16
Istisna	1,613.5	0.9
Others	29,845.4	18.3
Total	162,225.40	100

Source: BNM Monthly Bulletin January 2011

From Table 1, we can see that he most popular financing product is Bai Bithamin Ajil (deferred payment sale) followed by Ijarah Thumma Al-Bai (leasing). Al-Ijarah Thumma Al-Bai (AITAB) on the other hand, is a type of lease contract, which concludes with the purchase of an asset, in which the legal title of the leased asset will be passed to the hirer at the end or at the completion of the rental period.

Bai Bithamin Ajil (BBA), on the other hand is a sales contract whereby the bank purchases the asset required by the customer at the market price and then sells it to the customer at a mark-up price. As required by Shariah, the profit rate and the selling price are fixed throughout the financing period. In addition to that, the repayments paid by the customer to the bank are by instalments. In practice, BBA financing is collateralized which implies that the profit to the bank is almost certain. In this respect, BBA financing is not much different from conventional bank loans (Radiah and Yap, 2009).

Conventional home loans is highly decendent on the market interest rates. So, when the market interest rates increase, the cost of conventional loans will also increase, hence, induces new customers to choose for the relatively cheaper BBA financing because the profit rate is fixed. The reverse occurs when interest rates falls. Such substitution effect implies that Islamic banks are exposed to interest rate risks even though operating on interest-free principles (Radiah and Yap, 2009). Theoretically, a dual banking system provides customers a relative advantage in terms of bank choice. Whilst pious Muslim customers are expected to stay with the Islamic banks, other customers, especially those who are profit-motivated would tend to compare between the cost of Islamic and conventional bank financing. These group of customers would choose the banking scheme that offers the lower financing rate. It is important to understand this phenomenon because a negative consequence if not mitigated, would slower the growth of Islamic financing and eventually affects the competitiveness of Islamic banks in the dual system.

The research question for this study is **whether bank customers in the dual system are influenced by the substitution effect.** This will be done by analysing the **impact of BLR on the Islamic home financing.** If it is proven that the base lending rate (BLR) have an impact on Islamic home financing, then there is a substitution effect. If however, the Islamic home financing is not affected by the changes in BLR, then there is no substitution effect.

This study is significant due to two reasons:

- i. The focus of this paper is the impact of interest rate changes on the demand for Islamic bank financing. It is found that past studies have only concentrated on the impact of interest on Islamic bank deposits (Sudin & Ahmad 2000, Obiyatullah 2004, Rahmatina 2007). Only one past studies by Radiah and Yap (2009) have looked at the impact of interest changes on Islamic bank financing. However, this study covers a longer, more recent time period and a more robust analysis was undertaken. In addition to that, this study specifically look at the impact of interest rate on the Islamic home financing. Hence this paper extends the earlier research.
- ii. The context of this paper is the period after the Asian financial crisis when interest rates are falling or remain low. It is of interest to investigate if the financing behaviour of customers in the dual banking system during such period is consistent with that in theory.

This paper is organised into five sections. Section two provides a review of existing literature. The data and research methodology is presented in section three. The empirical analysis and findings are discussed in section four, while the conclusion and recommendations are given in section five.

## 2. LITERATURE REVIEW

Past studies have only concentrated on the impact of interest rates on Islamic bank deposits (Sudin & Ahmad 2000, Obiyatullah 2004, Rahmatina 2007). Only one past studies by Radiah and Yap (2009) have looked at the impact of interest changes on Islamic bank financing. The study found that the Islamic bank financing is affected by the market interest rate, therefore the substitution effect exist in the scheme. However, this paper covers a longer time period and a more robust analysis was undertaken. Hence this paper extends the earlier research.

Rosly (1999) provides the theoretical explanation of the impact of interest rate changes on Islamic bank performance in the dual system. He emphasized that Islamic banks are exposed to interest rate risks and the root cause of this phenomenon is the overdependence of Islamic banks on Bai Bithaman Ajil (BBA) financing, where the profit rate (financing rate) is fixed. Rosly (1999) also explains that when interest rates are rising, the base lending rate (BLR) and rates of return on deposits of the conventional banks would change accordingly to the changes in the market interest rate. As a result, the profit margin of the conventional banks will not be affected.

On the other hand, the Islamic bank cannot increase the rate of return on its deposits because the BBA profit margin is fixed. As a consequence, the deposit returns given by the Islamic banks are lower. The substitution effect comes into play where depositors prefer the conventional banks. On the asset side, customers may find that the instalments for existing BBA financing are relatively cheaper than the instalments for existing conventional loans during times of rising interest rates. Hence, profit motivated customers would choose BBA financing if they expect interest rates to rise in the future. This will make the demand for BBA financing rising. However, the Islamic bank may not be able to fulfil this increased demand for BBA financing due to the fall in total deposits. The Islamic bank may not be willing to borrow from the Islamic inter-bank money market because the cost of funds in the money market is usually higher than that of bank deposits.

In the case of falling market interest rates, the conventional bank is able to adjust both its deposit and base lending rates downwards, thus, maintaining its profit margin. Islamic bank, on the other hand,

also would reduce the rates of return on deposits in line with conventional deposit rates. Since the profit rate of BBA financing is fixed, it is rational for the Islamic bank to lower the deposit rates, hence, widening its profit margin.

In the case of Islamic financing, because existing BBA profit rates remain fixed, customers would find that existing BBA financing is relatively more costly than existing conventional loans. If customers expect the market interest rate to decline further, they would prefer conventional loans rather than BBA financing. Hence, the demand for conventional loan increases while the demand for BBA financing falls.

The above explanation theoretically shows that any changes in the market interest rate would, on the asset side, lead to a substitution effect between Islamic and conventional bank financing. It is recognised that the root cause of this problem is the weakness of the fixed BBA mechanism. Thus, overdependence on BBA financing by the Islamic bank has limited the bank's ability to compete with the conventional bank in the dual system.

#### 3. DATA AND RESEARCH METHODOLOGY

#### 3.1 Data

To examine the impact of interest rate changes (BLR) on Islamic home financing, data on total monthly residential property of Islamic banks (ISFIN), total monthly housing loans of conventional banks (CVFIN) and the monthly base lending rate (BLR) are used. These are the main variables of this study. Total residential property financing of Islamic banks is chosen because Islamic bank home financing is mainly dealt with the BBA contract. In comparison to this, the level of conventional housing loans is used to represent the conventional bank.

Data for this study is taken from the Monthly Statistical Bulletin, published by Bank Negara Malaysia. The data is spread over monthly observations, from January 2002 to January 2011, a total of 109 monthly observations.

## 3.2 Methodology

This study employs a time series technique, in particular, cointegration, error correction modelling and variance decomposition, in order to find empirical evidence of the impact of interest rate on Islamic home financing, as explained in the introductory section. This method is favoured over the traditional regression method for the following reasons. Firstly, most finance variables (including interest rates as will be evident below) are non-stationary. This means that performing ordinary regression on the variables will render the results misleading, as statistical tests like t-ratios and F statistics are not statistically valid when applied to non-stationary variables. Performing regressions on the differenced form of these variables will solve one problem, at the expense of committing an arguably even bigger mistake. When variables are regressed in their differenced form, the long term trend is effectively removed. Thus, the regression only captures short term, cyclical or seasonal effects. In other words, the regression is not really testing long term (theoretical) relationships.

Secondly, in traditional regression, the endogeneity (for dependent variable) and exogeneity (for independent variable) of variables is pre-determined by the researcher based on the underlying theories. However, in this case, as we are discussing a relatively new area, there is notable absence of established theories. Cointegration techniques are advantageous in that it does not presume variable endogeneity and exogeneity. In the final analysis, the data will determine which variables are in fact exogenous, and which are endogenous. In other words, with regression, causality is presumed whereas in cointegration, it is empirically proven with the data.

Thirdly, cointegration techniques embrace the dynamic interaction between variables whereas traditional regression methods, by definition, exclude or discriminate against interaction between variables.

#### 4. EMPIRICAL RESULTS

## 4.1 TESTING STATIONARITY OF VARIABLES

**Unit Root Test:** Time series data are often assumed to be non-stationary and thus it is necessary to perform a pre-test to ensure there is a stationary cointegrating relationship among variables to avoid the problem of spurious regression<sup>2</sup>. Based on the error correction mechanism as indicated by Johansen (1990), it is necessary for the variables to be of the same order of integration.

The tests for stationarity or unit roots employ the augmented Dickey-Fuller (ADF) and Phillips-Peron (PP) test performed on the variables in levels and first differences. The ADF test for testing the unit root is utilised. *ADF tests with null hypothesis of existence of unit root, which implies the variable, is non-stationary*. The results for the level form variables are represented in Table 2.

Table 2: Testing Stationarity of Variables in the Level Form

Variables	Test statistic	95% Critical Value	Implication
LISFIN	-2.3079 (AIC)	-3.4535	Variable is non-stationary
	-2.0603 (SBC)	-3.4535	Variable is non-stationary
LCVFIN	-1.3005	-3.4535	Variable is non-stationary
LBLR	-2.3184	-3.4535	Variable is non-stationary

In the level log form all the variables represent a lower t statistic than the critical value, thus accepting the null hypothesis, that there is unit root. At 5 % significance level all variables are non stationary.

For the differenced form of the log variables, as represented in Table 3, the t statistics are higher than the 5 % significance value and thus the null hypothesis is rejected and the alternate hypothesis of no unit root accepted. For details please refer Appendix 1A to 1F for details.

Table 3: Testing Stationarity of Variables in the Differenced Form

Tuble of Testing Stationarity of Fariables in the Emplement of in					
Variables	Test statistic	95% Critical Value	Implication		
LISFIN	-2.991 (AIC)	-2.8897	Variable is stationary		
	-3.0947 (SBC)	-2.8897	Variable is stationary		
LCVFIN	-7.0769	-2.8897	Variable is stationary		
LBLR	-4.2971	-2.8897	Variable is stationary		

<sup>&</sup>lt;sup>2</sup> A variable is stationary when its mean, variance and covariance are constant over time

Relying primarily on the AIC and SBC criteria, the conclusion that can be made from the above results is that *all the variables we are using for this analysis are I(1)*, and thus we may proceed with testing of cointegration<sup>3</sup>. Note that in determining which test statistic to compare with the 95% critical value for the ADF statistic, we have selected the ADF regression order based on the highest computed value for AIC and SBC.

#### 4.2 DETERMINATION OF ORDER OF THE VAR MODEL

Before proceeding with test of cointegration, we need to first determine the order of the vector auto regression (VAR), that is, the number of lags to be used. As per the table below, results show that AIC recommends order of 2 whereas SBC favours 1 lag (see Appendix 2 for details)<sup>4</sup>.

Table 4: Order of VAR

	Choice Criteria		
	AIC	SBC	
Optimal order	2	1	

Given this apparent conflict between recommendation of AIC and SBC, the paper addresses the problem by choosing the lower order of the VAR between the two criteria, which is the recommendation by the SBC (order of VAR of 1). This is due to the relative small sample size consisting of 120 observations and to avoid the risk of over parameterization and loosing number of degrees of freedom.

## 4.3 TESTING COINTEGRATION

Once we have established that the variables are I(1) and determined the optimal VAR order as 1, we are ready to test for cointegration. Cointegration implies that the relationship among the variables is not spurious, for example there is a theoretical relationship among the variables and that they are in equilibrium in the long run. Employing the Cointegration LR Test based on Maximal Eigenvalue and the Trace of the Stochastic Matrix, the results imply that there exists one cointegrating relationship at 5% significance level (95% critical value) between the variables. (See Appendix 3)

Table 5: Cointegration LR Test based on Maximal Eigenvalue of the Stochastic Matrix

Null Hypothesis	Alternate Hypothesis	Statistic	95% Critical Value	Implication
r = 0	r = 1	97.7382	25.4200	Reject null hypothesis Accept alternate hypothesis Exist one cointegrating vector
r=1	r = 2	3.5007	19.2200	Accept null hypothesis Reject alternate hypothesis No cointegrating vector

Table 6: Cointegration LR Test based on the Trace of the Stochastic Matrix

Null	Alternate	Statistic	95% Critical	Implication
				•

<sup>3</sup> The null hypothesis for the ADF test is that the variable is non-stationary. In all cases of the variable in level form, the test statistic is lower than the critical value and hence we cannot reject the null. Conversely, in all cases of the variable in differenced form, the test statistic is higher than the critical value and thus we can reject the null and conclude that the variable is stationary (in its differenced form).

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<sup>&</sup>lt;sup>4</sup> Based on highest computed values for AIC and SBC, after stipulating an arbitrary relatively high VAR order of 6.

Hypothesis	Hypothesis		Value	
r = 0	r = 1	103.8875	42.3400	Reject null hypothesis Accept alternate hypothesis Exist one cointegrating vector
r=1	r = 2	6.1493	Accept null hypothesis Reject alternate hypothesis No cointegrating vector	

Based on the above result and as well as our intuition, we believe that there is one cointegrating vector or relationship. The economics interpretation would be that the Islamic home financing, the conventional home loans and the interest rate (BLR) are theoretically related, in that they tend to move together in the long terms. Their relationship to one another is nor merely spurious or by chance. This conclusion suggest that although the conventional loand and Islamic financing operated on different principles, being the latter is free from the element of interest (riba free), on the long run, the Islamic financing are also exposed to the interest rate risk

# 4.4 LONG RUN STRUCTURAL MODELLING (LRSM)

In this step, the author attempts to quantify the theoretical relationship among the three variables, proven in the cointegration step. This step is necessary in order to compare the statistical findings with the underlying theory. Arising from the theoretical base, the Islamic home financing value is normalised in the Long Run Structural Modelling (LRSM). Uptil now, the author have run the assumption that all variables are endogenous. With the identifying rescriction of A1 = 1 (A1 is Islamic home financing), the result is expressed in Table 7 below. For detail see Appendix 4A.

Calculating the t-ratios manually, it is found that only one variable, which is the conventional home loan (CV) to be significant. The other variable, which is the base lending rate (interest rate- BLR) is insignificant.

Table 7: Long Run Structural Modelling (LRSM) Normalize Islamic Home Financing

Variable	Coefficient	Standard Error	T Ratio	Implication
ISFIN	-	-	-	-
CVFIN	1.1158	0.22305	5.002	Variable is significant
BLR	0.0046816	0.25289	0.189	Variable is insignificant

From the table it is concluded that the variable for conventional home loan (CVFIN) is significant with a t-ratio of 5.002, showing that it actually affects the normalised variable, the Islamic home financing (ISFIN), thus, we keep this variable in the equation.

However, a huge question arises when the variable of base lending rate (BLR) is proven to be insignificant, with a t-ratio of 0.189. it means that BLR does not affect the normalised Islamic home financing value. Driven by curiosity, the author decided to verify the significance of the variable by subjecting the estimates to over-identifying restrictions. The over-identifying restriction applied is A3=0 (A3 is BLR). We also did this for the conventional home loan (CVFIN). For detail see Appendix 4B-4C

Table 8: Long Run Structural Modelling (LRSM) Over-identifying Restriction: CVFIN and LBLR

Variable	Chi-Sq p-value	Implication
ISFIN	-	-
CVFIN	0.000	Variable is significant
LBLR	0.854	Variable is insignificant

The result depicted in Table 8 confirmed earlier findings that only CVFIN is significant, and LBLR is proven insignificant. Although the statistical result showed that the base lending rate (BLR) is not significant, the author however, is more inclined to include the variable in the equation. This is because firstly, the variable is proven to be cointegrated in step number three above. In addition to that, according to theory, base lending rate is an important variable in determining the demand of loans, specifically the conventional loans. When the BLR is high, the demand for loans generally will fall, as the cost to borrow is higher, conversely, when BLR is relatively low, the demand for loans tend to increase, as the cost of borrowing is cheaper. Thus, for the above reason, the author would still prefer to keep the BLR in the equation, despite the statistical result.

From the above analysis, we arrive at the following cointegrating equation. The numbers in parenthesis are standard error.

## 4.5 VECTOR ERROR CORRECTION MODEL (VECM)

From our analysis thus far, we have established that the Islamic home financing, conventional home loans and the base lending rate are cointegrated to a significant degree. However, the cointegrating equation reveals nothing about causality, that is, which variable is the leader (exogenous) and which is the laggard variable (endogenous).

In light of this, the next part of our analysis involves the Vector Error Correction Model (VECM). The vector error correction model allows us to identify that which variables are exogenous and which are endogenous. The vector error correction model can be employed by the interpreting of the coefficient where if the error-correction term  $(e_{t-1})$  for each variable equation is insignificant, that implies that the corresponding dependent variable of that equation is 'exogenous. We have taken the approach of interpreting the probability numbers and the t-ratio.

The null hypothesis states that all the variables are exogenous and the alternate stating that the variable is endogenous<sup>5</sup>. At a 5 % confidence level, if the probability is higher than 0.05 it means that we would be making a greater error in rejecting the Null hypothesis, and thus we accept the Null Hypothesis. The other way of looking at it is by looking at the t-ratio, where if the t-ratio of a variable is more than 2, it is significant, therefore, the variable is endogenous. On the other hand, if the t-ratio of a variable is less than 2, it is insignificant, therefore, the variable is exogenous.

The resultant probability for the variables is summarized in the Table 8. From the table we are able to interpret that there are two exogenous variables, which are the base lending rate (BLR) and the conventional home loan (CVFIN), hence, leaving the Islamic home financing (ISFIN) as the endogenous variable. We can also make a conclusion that, the three VECM equations can be considered are more or less well-specified, with no serial correlation, no functionality form, no normality and no heteroscedasticity. For details see Appendix 5A to 5C).

Table 8: Vector Error Correction Model (VECM) 6

Variable	ECM(-1) t-ratio p- value	Probability	Conclusion	Implication
ISFIN	-11.8973	0.000	Significant	Variable is endogenous
CVFIN	0.75723	0.451	Insignificant	Variable is exogenous
LBLR	1.7031	0.091	Insignificant	Variable is exogenous

The implication of this result is that, the variable of interest to the borrowing public (customers) and to the loan/financing providers (conventional banks and Islamic banks) would be the base lending rate (BLR). In tandem to the underlying theory, interest rate, specifically the BLR plays an important role in determining the demand of loans and financing. As have explained in the above section, when the BLR is high, the demand for loans generally will fall, as the cost to borrow is higher, conversely, when BLR is relatively low, the demand for loans tend to increase, as the cost of borrowing is cheaper.

In addition, the VECM produces a statistic that may be of interest to the customers and banks. The coefficient of  $e_{t-1}$  tells us how long it will take to get back to long term equilibrium if that variable is shocked. The coefficient represents proportion of imbalance corrected in each period. For instance, in the case of the BLR, the coefficient is 0.01684. This implies that, when there is a shock applied to this index, it would take, on average, 059.38 months for the BLR to get back into equilibrium with the other variables..

## 4.6 VARIANCE DECOMPOSITION (VDC)

Whilst we have established that the Islamic financing (ISFIN) is the endogenous variable, and the base lending rate (BLR) and conventional home loan (CVFIN) are the exogenous variables, we have not been able to say anything about the <u>relative</u> exogeneity between BLR and CVFIN. In other words, of the two, which is the most exogenous (leader) variable compared to the other?

.

<sup>&</sup>lt;sup>5</sup> Ho: All variables are exogenous Hi: All variables are endogenous

<sup>6</sup> t ratio > 2 : significant, variable is endogenous t ratio < 2: insignificant, variable is exogenous

As the VECM is not able to assist us in this regard, we turn our attention to variance decomposition (VDC). The Variance Decomposition Method, decomposes the variance of the forecast error of a particular variable into proportions attributable to shocks (or innovations) in each variable in the system including its own. The <u>relative</u> exogeneity/endogeneity of a variable can be determined by the proportion of the variance explained by its own past shocks. The variable which is explained mostly by its own shocks (and not by others) is deemed to be the most exogenous of all.

We started out applying orthogonalized VDCs and obtained the following results (see Appendix 6A -6C for detail).

#### Forecast at Horizon = 10 months

	ISFIN	CVFIN	BLR
ISFIN	20.72%	79.23%	0.04%
CVFIN	7.19%	92.81%	0.00%
BLR	2.44%	2.50%	95.06%

For the above table, the rows read as the percentage of the variance of forecast error of each variable into proportions attributable to shocks from other variables (in columns), including its own. The columns read as the percentage in which that variable contributes to other variables in explaining observed changes. The diagonal line of the matrix (highlighted) represents the relative exogeneity. According to these results, the ranking of variable by degree of exogeneity (extent to which variation is explained by its own past variations) is as per the table below:

Table 9: Ranking of Variables by Degree of Exogeneity

No.	Variables
1	BLR
2	CVFIN
3	ISFIN

From the above table we can see that base lending rate is the most exogenous variable, compared to conventional loan. Therefore, even though in step 4, the LRSM, statistically, BLR was proven insignificant, in the above, it is proven otherwise, hence the decision to keep the variable in the equation is correct.

In order to make sense of this result, we need to recognize two important limitations of orthogonalized VDCs. Firstly it assumes that when a particular variable is shocked, all other variables are "switched off". Secondly and more importantly, orthogonalized VDCs do not produce a unique solution. The generated numbers are dependent upon the ordering of variables in the VAR. Typically, the first variable would report the highest percentage and thus would likely to be specified as the most exogenous variable.

Following this discovery, we decided to rely instead on Generalized VDCs, which are invariant to the ordering of variables. We obtained results as per Appendix 7A to 7C. In interpreting the numbers generated by the Generalized VDCs, we need to perform additional computations. This is because the numbers do not add up to 1.0 as in the case of orthogonalized VDCs. For a given variable, at a specified horizon, we total up the numbers of the given row and we then divide the number for that variable (representing magnitude of variance explained by its own past) by the computed total. In this way, the numbers in a row will now add up to 1.0 or 100%. The tables below show the result.

## Forecast at Horizon = 10 months

	ISFIN	CVFIN	BLR
ISFIN	24.29%	75.56%	0.14%
CVFIN	6.71%	93.20%	0.09%
BLR	2.36%	3.70%	94.00%

The Generalized VDCs, also confirm the earlier result, whereby the most exogenous variable is BLR, followed by CVFIN, and the endogenous variable is ISFIN.

# 4.7 IMPULSE RESPONSE FUNCTIONS (IRF)

The information that has been tabulated in VDC can be equivalently represented by Impulse Response Functions. IRFs essentially map out the dynamic response path of a variable owing to a one-period standard deviation shock to another variable. It is also can be explained as a variable specific shock. Figure 1 shows the generalised IRF for Islamic financing, where we shock the variable Islamic financing and see the effect on the conventional home loan BLR. Figure 2 shows the generalised IRF for conventional home loan, and the effect on the Islamic financing and BLR. Figure 3 shows the generalised IRF for BLR and the effect on the conventional home loan and Islamic financing.

From the three figures, it can be concluded that when we shock the most exogenous variable, which is the BLR that we can see the biggest difference in the other two variables. It is because the leader variable, BLR will naturally give the most impact to the other following variables.

Generalized Impulse Response(s) to one S.E. shock in the equation for LIS

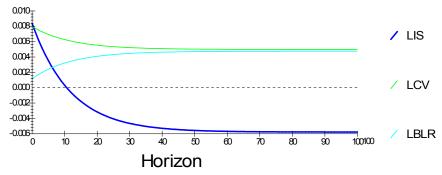


Figure 2
Generalized Impulse Response(s) to one S.E. shock in the equation for LCV

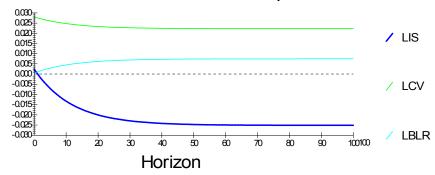
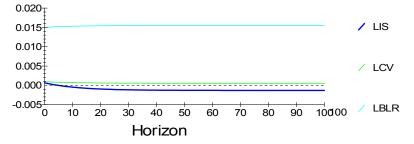


Figure 3:

Generalized Impulse Response(s) to one S.E. shock in the equation for LBLR

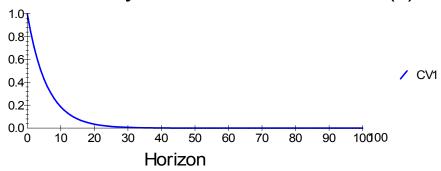


## 4.8 PERSISTENCE PROFILE

The persistence profiles traces out the effects of a system-wide shock on the long-run relations in an equation. In difference with the Impulse Response Function which is variable

specific shock, it indicates the time horizon that it takes to get back to equilibrium for a system wide shock.

# Persistence Profile of the effect of a system-wide shock to CV'(s)



In our model the persistence profile represents that it takes between 25 to 30 months for the equilibrium to be achieved again after a system wide shock.

#### 5. CONCLUSION

Ideally, customers of Islamic banks should not be guided by the profit motive; hence, any changes in BLR should not trigger them to shift to conventional banking. If the above scenario was adhered the level of Islamic banking financing will not have any significant changes. However, this paper found that the Islamic financing, specifically BBA (Al-Bai Bithaman Ajil), seems to be affected by both conventional home loans and BLR. However, the response to BLR is more apparent. It implies that Islamic bank's customers are profit motivated and their decisions to obtain Islamic financing (BBA) will be influenced by the substitution effect based on the changes in BLR. Our findings supports earlier research done, where during rising interest rates, BBA financing would be more popular, and during falling interest rates, customers would turn to conventional banking.

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Appendix 1A

Augmented Dickey-Fuller (ADF) Test

Variable: LIS

Unit root tests for variable LIS

The Dickey-Fuller regressions include an intercept but not a trend \*

103 observations used in the estimation of all ADF regressions.

Sample period from 2002M7 to 2011M1 \*\*\*\*\*

***					
	Test Statistic	LL	AIC	SBC	HQC
DF	-2.2635	318.6714	316.6714	314.0367	315.6043
ADF (1)	69597	354.4913	351.4913	347.5393	349.8906
ADF (2)	20305	360.9075	356.9075	351.6380	354.7732
ADF(3)	.28261	367.0969	362.0969	355.5101	359.4291
ADF (4)	.61969	369.6431	363.6431	355.7389	360.4416
ADF (5)	.82445	370.7373	363.7373	354.5157	360.0022
*****	******	. * * * * * * * * * * * *	******	******	******

\*\*\*

95% critical value for the augmented Dickey-Fuller statistic = -2.8895

LL = Maximized log-likelihood AIC = Akaike Information Criterion SBC = Schwarz Bayesian Criterion HQC = Hannan-Quinn Criterion

Unit root tests for variable LIS

The Dickey-Fuller regressions include an intercept and a linear trend \*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*

103 observations used in the estimation of all ADF regressions. Sample period from 2002M7 to 2011M1

\*

	Test Statistic	LL	AIC	SBC	HQC
DF	-2.8346	321.1622	318.1622	314.2101	316.5614
ADF (1)	-1.8263	355.9583	351.9583	346.6888	349.8240
ADF(2)	-1.7606	362.5603	357.5603	350.9734	354.8924
ADF(3)	-1.8753	369.3374	363.3374	355.4332	360.1359
ADF (4)	-2.0603	372.6303	365.6303	356.4088	361.8953
ADF(5)	-2.3079	374.6333	366.6333	356.0944	362.3647
*****	******	******	*****	******	*****

95% critical value for the augmented Dickey-Fuller statistic = -3.4535LL = Maximized log-likelihood AIC = Akaike Information Criterion

```
SBC = Schwarz Bayesian Criterion MQC = Mannan-Quinn Criterion
Appendix 2
```

# Selection of Order of VAR

\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\* Based on 102 observations from 2002M8 to 2011M1 . Order of VAR = 6List of variables included in the unrestricted VAR: DCV DRIR List of deterministic and/or exogenous variables: AIC SBC LR test Adjusted LR test 5 915.9264 858.9264 784.1147 ------\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\* Order LL 6 915.9264 858.9264 784.1147 ------ 5 915.0511 867.0511 804.0518 CHSQ( 9)= 1.7505[.995] 1.4245[.998] 914.2156 875.2156 824.0286 CHSQ( 18) = 3.4217[1.00] 2.7843[1.00] 911.6154 881.6154 842.2408 CHSQ( 27) = 8.6219[1.00] 7.0159[1.00] 911.6154 881.6154 842.2408 CHSQ(27)= 8.6219[1.00] 7.0159[1.00] 904.4455 883.4455 855.8832 CHSQ(36)= 22.9619[.955] 18.6847[.992] 888.3117 876.3117 860.5619 CHSQ(45)= 55.2294[.141] 44.9416[.474] 3 2 0 822.9001 819.9001 815.9627 CHSQ( 54)= 186.0526[.000] 151.3957[.000] \*

AIC=Akaike Information Criterion SBC=Schwarz Bayesian Criterion

# Appendix 3 Cointegration Test

Use the above table to determine r (the number of cointegrating vectors).

Use the above table to determine r (the number of cointegrating vectors).

```
Cointegration with unrestricted intercepts and restricted trendsin the VAR
Choice of the Number of Cointegrating Relations Using Model Selection Criteria
108 observations from 2002M2 to 2011M1 . Order of VAR = 1.
List of variables included in the cointegrating vector:
TSFIN
                CVFIN
                                BT.R
List of eigenvalues in descending order:
.59545 .031895 .024226 .0000
*******************
       Maximized LL AIC 859.8434 856.8434
Rank
                                        SBC HQC
                                    852.8202
887.6429
                                                     855.2122
r = 0
                        899.7125
r = 1
          908.7125
                                                     894.8187
r = 2 910.4629 897.4629 880.0290 890.3941

r = 3 911.7872 896.7872 876.6712 888.6309
AIC = Akaike Information Criterion SBC = Schwarz Bayesian Criterion
HQC = Hannan-Quinn Criterion
```

# Appendix 4A Long Run Structural Modelling (LRSM) Normalize ISFIN

ML estimates subject to exactly identifying restriction(s) Estimates of Restricted Cointegrating Relations (SE's in Brackets) Converged after 2 iterations Cointegration with unrestricted intercepts and restricted trendsin the VAR \* 108 observations from 2002M2 to 2011M1 . Order of VAR = 1, chosen r = 1. List of variables included in the cointegrating vector: CVFIN BLR \*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\* List of imposed restriction(s) on cointegrating vectors: \*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\* Vector 1 LIS 1.0000 ( \*NONE\*) LCV 1.1158 ( .22305) .046816 LBLR (.25289)-.022771 Trend (.0029917)\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\* LL subject to exactly identifying restrictions= 908.7125

# Appendix 4B Long Run Structural Modelling (LRSM) Normalize ISFIN Over-identifying Restriction: BLR not significant

```
ML estimates subject to over identifying restriction(s)
   Estimates of Restricted Cointegrating Relations (SE's in
Brackets)
                  Converged after 2 iterations
 Cointegration with unrestricted intercepts and restricted trendsin
*****************
*****
108 observations from 2002M2 to 2011M1 . Order of VAR = 1, chosen r
List of variables included in the cointegrating vector:
            CVFIN
                          BLR
******************
List of imposed restriction(s) on cointegrating vectors:
A1=1; A3=0
******************
*****
             Vector 1
LIS
               1.0000
             ( *NONE*)
LCV
               1.1430
             (.16879)
                -.0000
LBLR
             ( *NONE*)
              -.023145
Trend
             (.0022219)
****************
LR Test of Restrictions
                       CHSQ(1) = .033833[.854]
DF=Total no of restrictions(2) - no of just-identifying
restrictions (1)
LL subject to exactly identifying restrictions= 908.7125
LL subject to over-identifying restrictions= 908.6956
```

# Appendix 4C Long Run Structural Modelling (LRSM) Normalize ISFIN Over-identifying Restriction: CVFIN not significant

```
ML estimates subject to over identifying restriction(s)
    Estimates of Restricted Cointegrating Relations (SE's in
Brackets)
                  Converged after 19 iterations
 Cointegration with unrestricted intercepts and restricted trendsin
****************
108 observations from 2002M2 to 2011M1 . Order of VAR = 1, chosen r
List of variables included in the cointegrating vector:
ISFIN CVFIN BLR Trend
******************
List of imposed restriction(s) on cointegrating vectors:
A1=1; A2=0
*******************
*****
             Vector 1
ISFIN
                1.0000
             ( *NONE*)
                 -.0000
CVFIN
             ( *NONE*)
               1.0637
 BLR
             (.21607)
Trend
             -.0073654
             (.4653E-3)
*****************
                       CHSQ(1) = 36.5034[.000]
LR Test of Restrictions
DF=Total no of restrictions(2) - no of just-identifying
restrictions (1)
LL subject to exactly identifying restrictions= 908.7125
LL subject to over-identifying restrictions= 890.4608
******************
*****
```

# Appendix 5A

Vector Error Correction Model (VECM)

Variable: ISFIN

```
ECM for variable ISFIN estimated by OLS based on cointegrating VAR(1)
 Dependent variable is dISFIN
 108 observations used for estimation from 2002M2 to 2011M1
************************

        Regressor
        Coefficient
        Standard Error
        T-Ratio[Prob]

        Intercept
        1.4520
        .12091
        12.0084[.000]

        ecm1(-1)
        -.065645
        .0055177
        -11.8973[.000]

********************
 List of additional temporary variables created:
 dISFIN = ISFIN-ISFIN(-1)
 ecm1 = 1.0000*ISFIN + 1.1430*CVFIN -.0000*BLR -.023145*Trend
*******************
R-Squared .57180 R-Bar-Squared .56776
S.E. of Regression .0082619 F-stat. F( 1, 106) 141.5450[.000]
Mean of Dependent Variable .013470 S.D. of Dependent Variable .012566
Residual Sum of Squares .0072354 Equation Log-likelihood 365.7432
Akaike Info. Criterion 363.7432 Schwarz Bayesian Criterion 361.0611
DW-statistic .79406 System Log-likelihood 908.6956
DW-statistic
                                Diagnostic Tests
************************
   Test Statistics * LM Version
                                                              F Version
******************
* A:Serial Correlation*CHSQ( 12) = 52.7299[.000]*F( 12, 94) = 7.4733[.000]
* B:Functional Form *CHSQ( 1) = 2.7939[.095]*F( 1, 105) = 2.7884[.098]
                       *CHSQ( 2)= 23.9401[.000]*
* C:Normality
                                                            Not applicable
* D:Heteroscedasticity*CHSQ( 1)= .31008[.578]*F( 1, 106)= .30521[.582]
   A:Lagrange multiplier test of residual serial correlation
   B:Ramsey's RESET test using the square of the fitted values
   C:Based on a test of skewness and kurtosis of residuals
   D:Based on the regression of squared residuals on squared fitted values
```

# Appendix 5B

Vector Error Correction Model (VECM)

Variable: CVFIN

```
ECM for variable CVFIN estimated by OLS based on cointegrating VAR(1)
Dependent variable is dCVFIN
108 observations used for estimation from 2002M2 to 2011M1
*************************
                     Coefficient Standard Error
Regressor
                                                           T-Ratio[Prob]
                    .31915 .40443
-.013975 .018456
Intercept
ecm1(-1)
                                                           .78913[.432]
                                                           -.75723[.451]
*****
List of additional temporary variables created:
 dCVFIN = LCVFIN-LCVFIN(-1)
ecm1 = 1.0000*ISFIN + 1.1430*CVFIN -.0000*BLR -.023145*Trend
***
R-Squared .0053804 R-Bar-Squared -.0040028
S.E. of Regression .027635 F-stat. F( 1, 106) .57340[.451]
Mean of Dependent Variable .012907 S.D. of Dependent Variable .027579
Residual Sum of Squares .080949 Equation Log-likelihood 235.3422
R-Squared .0053804 R-Bar-Squared S.E. of Regression .027635 F-stat. F( 1, 106)
Residual Sum of Squares .080949 Equation Log-likelihood 235.3422
Akaike Info. Criterion 233.3422 Schwarz Bayesian Criterion 230.6601
DW-statistic 2.0135 System Log-likelihood 908.6956
                            Diagnostic Tests
*******************
  Test Statistics * LM Version * F Version
***********************
* A:Serial Correlation*CHSQ( 12)= .52764[1.00]*F( 12, 94)= .038458[1.00]
* B:Functional Form *CHSQ( 1)= .65219[.419]*F( 1, 105)= .63792[.426]
* C:Normality
                    *CHSQ( 2)= 41590.4[.000]*
                                                    Not applicable
* D:Heteroscedasticity*CHSQ( 1)= .018591[.892]*F( 1, 106)= .018250[.893]
  A:Lagrange multiplier test of residual serial correlation
  B:Ramsey's RESET test using the square of the fitted values
  C:Based on a test of skewness and kurtosis of residuals
  D:Based on the regression of squared residuals on squared fitted values
```

# Appendix 5C

Vector Error Correction Model (VECM)

Variable: BLR

```
ECM for variable BLR estimated by OLS based on cointegrating VAR(1)
Dependent variable is dLBLR
108 observations used for estimation from 2002M2 to 2011M1
************************
                     Coefficient Standard Error
Regressor
                                                              T-Ratio[Prob]
ecm1(-1)
                       -.36921 .21669
.016841 .0098883
                                                             -1.7039[.091]
1.7031[.091]
List of additional temporary variables created:
 dLBLR = LBLR-LBLR(-1)
ecm1 = 1.0000*ISFIN + 1.1430*CVFIN -.0000*BLR -.023145*Trend
***
R-Squared .026635 R-Bar-Squared .017453 S.E. of Regression .014806 F-stat. F( 1, 106) 2.9006[.091] Mean of Dependent Variable -.1755E-3 S.D. of Dependent Variable .014937 Residual Sum of Squares .023238 Equation Log-likelihood 302.7365 Akaike Info. Criterion 300.7365 Schwarz Bayesian Criterion 298.0543 DW-statistic 1.3454 System Log-likelihood 908.6956
                             Diagnostic Tests
*******************
  Test Statistics * LM Version * F Version
*******************
* A:Serial Correlation*CHSQ( 12)= 20.8722[.052]*F( 12, 94)= 1.8765[.047]
* B:Functional Form *CHSQ( 1)= 3.3132[.069]*F( 1, 105)= 3.3231[.071]
* C:Normality
                    *CHSQ( 2) = 851.6745[.000]*
                                                      Not applicable
* D:Heteroscedasticity*CHSQ( 1)= .53303[.465]*F( 1, 106)= .52575[.470]
  A:Lagrange multiplier test of residual serial correlation
  B:Ramsey's RESET test using the square of the fitted values
  C:Based on a test of skewness and kurtosis of residuals
  D:Based on the regression of squared residuals on squared fitted values
```

# Appendix 6A

Orthogonalized Variance Decomposition (VDC)

Variable: ISFIN

```
Orthogonalized Forecast Error Variance Decomposition for variable ISFIN
 Cointegration with unrestricted intercepts and restricted trendsin the
********************
108 observations from 2002M2 to 2011M1 . Order of VAR = 1, chosen r =1.
List of variables included in the cointegrating vector:
ISFIN CVFIN BLR Trend
*******************
List of imposed restrictions:
A1 = 1
*****************
Horizon ISFIN
********************
```

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# Appendix 6B

# Orthogonalized Variance Decomposition (VDC)

Variable: CVFIN

```
Orthogonalized Forecast Error Variance Decomposition for variable CVFIN
  Cointegration with unrestricted intercepts and restricted trendsin the
************
108 observations from 2002M2 to 2011M1 . Order of VAR = 1, chosen r =1.
List of variables included in the cointegrating vector:
              CVFIN BLR
*****************
***
List of imposed restrictions:
******************
         DI ISFIN CVFIN BLR

.080690 .91931 0.00

.079603 .92040 .6173E-7

.078572 .92143 .1958E-6

.077592 .92241 .3923E-6

.076661 .92334 .6423E-6

.075776 .92422 .9377E-6

.074935 .92506 .1271E-5

.074134 .92586 .1637E-5

.073371 .92663 .2028E-5

.072644 .92735 .2441E-5

.071951 .92805 .2870E-5

.071291 .92871 .3312E-5

.070660 .92934 .3764E-5

.070058 .92994 .4221E-5

.069483 .93051 .4682E-5

.068934 .93106 .5144E-5

.068934 .93106 .5144E-5

.068934 .93106 .5144E-5

.068934 .93159 .5606E-5

.067906 .93209 .6065E-5

.067906 .93209 .6065E-5

.066964 .93303 .6972E-5

.066964 .93303 .6972E-5

.066522 .93347 .7416E-5
 Horizon ISFIN
   Ω
    1
    2
    3
    4
    5
    6
    7
    8
   9
   10
  11
  12
  13
  14
  15
  16
  17
  18
         .066964
  19
  20
****************
***
```

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# Appendix 6C

# Orthogonalized Variance Decomposition (VDC)

Variable: BLR

			Variance Decomposition for variable BLR ted intercepts and restricted trends in the	ۼ	
VAR	-		-		
*****	*****	*****	**********	**	
***					
108 obs	servations	from 2002M2	to 2011M1 . Order of VAR = 1, chosen $r = 1$ .		
			the cointegrating vector:		
ISFIN		CVFIN	BLR Trend		
*****	*****	******	***********	**	
***					
List o	f imposed :	restrictions:			
A1=1					
*****	*****	*****	**********	: * *	
***					
Horizon		CVFIN	BLR		
0	.0060983	.1447E-3	.99376		
1	.0077597	.0010978	.99114		
2	.0095293	.0026406	.98783		
3	.011371	.0046521	.98398		
4	.013255	.0070294	.97972		
5	.015158	.0096854	.97516		
6	.017060	.012547	.97039		
7	.018945	.015553	.96550		
8	.020801	.018655	.96054		
9	.022619	.021809	.95557		
10	.024393	.024984	.95062		
11	.026116	.028151	.94573		
12	.027785	.031290	.94093		
13	.029399	.034383	.93622		
14	.030955	.037417	.93163		
15	.032454	.040382	.92716		
16	.033894	.043271	.92283		
17	.035279	.046078	.91864		
18	.036607	.048799	.91459		
19	.037880	.051434	.91069		
20 .039101 .053979 .90692					
***********************					
***					

# Appendix 7A

Generalized Variance Decomposition (VDC)

Variable: ISFIN

\*\*\*

Generalized Forecast Error Variance Decomposition for variable ISFIN Cointegration with unrestricted intercepts and restricted trends in the				
******	*****	****	**********	
***				
108 obse	ervations :	from 2002M2	to 2011M1 . Order of VAR = 1, chosen $r = 1$ .	
List of	variables	included in	the cointegrating vector:	
ISFIN		CVFIN	BLR Trend	
******	*****	*****	**********	
***				
List of	imposed re	estrictions:		
A1=1				
******	*****	*****	***********	
***				
Horizon	ISFIN	CVFIN	BLR	
0	1.0000	.080690	.0060983	
1	.96888	.044977	.0053213	
2	.89713	.051757	.0044328	
3	.79488	.099490	.0035521	
4	.67869	.17675	.0027847	
5	.56429	.26837	.0021867	
6	.46188	.36147	.0017636	
7	.37569	.44800	.0014903	
8	.30588	.52427	.0013316	
9	.25056	.58950	.0012543	
10	.20722	.64438	.0012322	
11	.17343	.69023	.0012457	
12	.14707	.72846	.0012814	
13	.12647	.76041	.0013302	
14	.11031	.78720	.0013861	
15	.097579	.80979	.0014450	
16	.087500	.82893	.0015045	
17	.079485	.84527	.0015630	
18	.073085	.85928	.0016196	
19	.067955	.87137	.0016737	
20				
******	*****	*****	***********	

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# Appendix 7B

\*\*\*

Generalized Variance Decomposition (VDC)

Variable: CVFIN

```
Generalized Forecast Error Variance Decomposition for variable CVFIN
  Cointegration with unrestricted intercepts and restricted trends in the
******************
108 observations from 2002M2 to 2011M1 . Order of VAR = 1, chosen r = 1.
List of variables included in the cointegrating vector:
              CVFIN BLR
*****************
***
List of imposed restrictions:
******************
         ISFIN CVFIN BLR
.080690 1.00000 .0011369
.079603 .99999 .0011157
.078572 .99997 .0010956
.077592 .99995 .0010767
.076661 .99991 .0010587
.075776 .99987 .0010417
.074935 .99983 .0010256
.074134 .99978 .0010103
.073371 .99973 .9957E-3
.072644 .99967 .9819E-3
.071951 .99962 .9688E-3
.071291 .99956 .9563E-3
.070660 .99950 .9444E-3
.070058 .99944 .9331E-3
.070058 .99944 .9331E-3
.069483 .99937 .9223E-3
.069483 .99937 .9223E-3
.068934 .99931 .9120E-3
.068934 .99931 .9120E-3
.068934 .99931 .9120E-3
.068934 .99919 .8928E-3
.067906 .99919 .8928E-3
.066964 .99907 .8753E-3
.066964 .99907 .8753E-3
 Horizon ISFIN
   Ω
    1
    2
    3
    4
    5
    6
    7
    8
   9
  10
  11
  12
  13
  14
  15
  16
  17
  18
         .066964
           .066964 .99907
.066522 .99901
                                         .8753E-3
.8671E-3
  19
  20
****************
```

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# Appendix 7C

Generalized Variance Decomposition (VDC)

Variable: BLR

```
Generalized Forecast Error Variance Decomposition for variable BLR
  Cointegration with unrestricted intercepts and restricted trends in the
******************
108 observations from 2002M2 to 2011M1 . Order of VAR = 1, chosen r = 1.
List of variables included in the cointegrating vector:
           CVFIN BLR
*****************
List of imposed restrictions:
******************
       on ISFIN CVFIN BLR
.0060983 .0011369 1.00000
.0077597 .0030891 .99926
.0095293 .0057373 .99771
.011371 .0089313 .99551
 Horizon ISFIN
      .0060983
  Ω
   1
   2
       .011371 .0089313
.013255 .012543
.015158 .016466
.017060 .020610
.018945 .024901
.020801 .029279
.022619 .033692
.024393 .038102
.026116 .042477
.027785 .046791
.029399 .051024
.030955 .055162
.032454 .059194
.033894 .063111
.035279 .066908
.036607 .070582
.037880 .074132
.039101 .077556
                                   .99551
.99279
   3
   4
                                   .98967
.98625
   5
   6
   7
                                    .98262
   8
                                   .97883
  9
                                   .97496
                                   .97103
  10
  11
                                   .96710
  12
                                   .96319
                                   .95932
  13
                                   .95552
  14
  15
                                   .94815
  16
                                   .94461
  17
                                   .94117
  18
       .037880
                                .93784
  19
                                    .93461
****************
```

# ISLAMIC HOME FINANCING PRODUCTS IN MALAYSIA: SHARI'AH ISSUES AND POSSIBLE CAUSES

Abul Azaheem Ahamed Azwar<sup>1</sup> Nurul Aini Muhamed<sup>2</sup>

#### **ABSTRACT**

Home is a basic necessity of human-being, so provision of such support is considered as promoting welfare to the people in need. Thus, facilitating shari'ah compliant home financing in the Islamic banking industries is an Islamic imperative in order to prevent larger chunks of middle class people's income, from unjust financial transaction. According to Islamic law, all Islamic financial transactions should imply risk, liability and effort to reflect the sense of justice and equity into a business transaction. Any practice contrary to above requirements is considered as non shari'ah compliant. This paper is a theoretical analysis of the existing shari'ah issues in both Bai' Bithaman Ajil (BBA) and Musharaka Mutanaqisah (MM) home financing and its possible causes in the practice. The paper found many shari'ah issues in BBA and MM model such as Bai al-Inah, Bai al-Madum, Bai wa-Sharth, Khiyar al-Ayb, ownership, pricing, purchase undertaking, combination of two contracts, forward Ijara and others. The paper concluded that several solutions should be initiated by government and other related parties to preserve rights of both Islamic banking institutions and their clients.

**Keywords:** Islamic home financing, Bai' Bithaman Ajil, Musharaka Mutanaqisah, Shari'ah issues

#### 1. INTRODUCTION

Shelter is an essential need for human beings. Hence Islam encourages possessing a shelter to live a stable family life in a society. Thus, provision of such support to the people in need is an enormous responsibility kept upon the whole Muslim community in general and in particularly upon Islamic bankers. Allah the Almighty says:

"Indeed, it is [promised] for you not to be hungry therein or be unclothed. (20:118) And indeed, you will not be thirsty therein or be hot from the sun." (20:119).

Since Islamic banks are obliged to pay profits to their depositors and investors, in addition to covering their overhead / operating costs, the only solution that can be provided by Islamic bankers is, facilitating a *Shari'ah* compliance mode of home financing to those whom in need, in order to promote social welfare of the people. *Shari'ah* compliance is a backbone of Islamic financing, hence the global Islamic financial institutions are using various types of *Shari'ah* contracts to provide Islamic Home Financing (IHF) such as sale, lease or partnership contracts. However, practical aspects of an IHF mode differ from one country to another or even one bank to another, even though they apply the same Islamic concepts under the same jurisdiction, regulation and legal rules. This paper attempts to theoretically analyse the *shari'ah* issues in BBA and MM home financing practices by Malaysian Islamic banks.

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#### 2. ISLAMIC HOME FINANCING PRODUCTS IN MALAYSIA

The concept of *Bai`al-ina'h* in BBA Islamic home financing has been used for the last few decades in Malaysia as a dominant alternative model for conventional mortgage. Nevertheless, the *shari'ah* issues in BBA and present dissimilarities in judgements have led to confusion among the public concerning the compliance status of BBA contracts. At the same time the BBA practice is disputed by Muslim jurists internationally.

In the year 2006 the *Musharaka Mutanaqisah* (MM) model has been introduced by Kuwait finance house in Malaysian market. However, due to higher risk weight requirement in this model and some other problems occurred in the practice, MM was not favourably used in the county except in few Islamic banks such as Kuwait finance house, May Bank Islamic, RHB Islamic and few others, while the majority of bankers were continuing the *Bai`al-ina'h* BBA model even though the practice was not accepted by majority jurist such as *Hanafiyyah*, *Hanbaliyyah*, and *Malikiyyah*.

However, the application of *Bai`al-ina'h* in BBA home financing resulted in facing many problem in Islamic home financing practice. So the Bank Negara Malaysia (BNM) issued a new resolution for *Bai`al-ina'h* on 19 December 2012, which requires the bankers to practice real sale contract fulfilling its pillars and conditions, without using invalid terms in the contracts. The resolution also required an acceptable interval between two sale contracts involved in *Bai`al-ina'h* transaction. Interestingly, at present majority of Islamic banks have launched MM mode for home financing in the market either simultaneously with BBA or with any other mode *such as Murabahah*, *Ijarah Mausufah Fi Zimmah*, *Ijarah Muntahiyah Bi Tamlik* (Asmadi 2011), whereas a few banks still prefer to use some other debt based instruments such as *Tawarruq and Istisna'* home financing (See appendix 1).

Although the MM home financing theoretically seems much fairer than BBA, the practical aspect of this model is vastly criticized by scholars. Some literatures argue that the MM home financing model is not an alternative for conventional mortgage or BBA but it is similar to *riba* as it does not reflect the objective of *Shari'ah* (Sadique 2008, Osmani and Abdullah 2010, Hassan 2011, Hassan 2012, Boon ka 2009).

## 3. ISLAMIC HOME FINANCING AND SHARIAH ISSUES

## 3.1 Bai' Bithaman Ajil (BBA) home financing

Bai' Bithaman Ajil (BBA) is a deferred instalment sale. This is an extension of Murabaha (cost plus mark-up) contract which is mainly used in banking practice for medium and long-term financing. Murabaha is simply a sale contract in which the seller discloses the cost of object and its mark-up (profit margin) to the buyer. In the actual sense, the Murabaha contract does not necessarily require the customer to settle the payment in deferred basis, but it can be paid on the spot as well.

In BBA home financing, the concept of *Murabaha* is used together with *Bai'Mu'ajjal and Bai Al-Ina'h*. Besides that some other supporting contracts are in use under this facility, such as *Wakala*, *Wa'd* and *Rahn*. Moreover, in Malaysian practice certain legal documentations are mostly used in BBA home financing; Letter of Offer, Property Sale Agreement, Property Purchase Agreement, Legal Charge or, Assignment and power of attorney or any other Islamic financing documents that are required for the home financing.

The structure of BBA home financing facility in Malaysia is as follows. The customer identifies the house that he or she wants to purchase and enters into a Sale and Purchase Agreement (S&P) with the property developer by paying 10 percent deposit. Subsequently, the customer approaches the bank for financing to settle the remaining balance of purchase price to developer. Upon customer's request being approved by the bank, the customer as a beneficial owner of the house sells his beneficial

ownership of the house or the house itself through Property Purchase Agreement (PPA) to the bank by cash, for a lower price which is equal to the financing amount. However, prior to PPA, the customer signs in an undertaking to re-purchase the same house based on selling price from the bank. Pursuant to that the customer re-purchases the house from bank through PSA for a cost plus mark up price which is computed based on BFR. The purchase price will be paid by customer on an instalment basis throughout the agreed tenure (Dusuki 2011).

#### 3.1.1 Shariah Issues in the Use of Murabaha contract

Murabaha is not a mode of financing but a particular kind of sale transaction. However concerning some practical difficulties in the current banking practices, the contemporary *Shari'ah* scholars allowed to use *Murabaha* as a mode of financing with following conditions; It should be used as a device to escape from interest in the circumstances that the *Mudaraba* and *Musharaka* are not practicable, it should fulfil all implications of *Murabaha* concept and basic element of a valid sale contract and it should be applied for real sales, not to provide fund to pay purchase price for the commodities that has been purchased by the customer prior to apply for financing (Usmani 2002).

The section five of *Murabaha Shari'ah* parameter reference (2008) issued by BNM, facilitate guidelines on *Murabaha* asset providing some important statements. Firstly the asset should be in existence, so the asset which is yet to be completed is considered as non eligible for *Murabaha* sale. Secondly the Islamic financer must legally or beneficially own the asset prior to *Murabaha* sale. Thirdly the selling object must be physically or constructively possess by seller.

#### 3.1.2 Shari'ah Issues in BBA

It is mandatory for property purchasers in Malaysia to execute statutory standard formatted Sale and Purchase Agreements <sup>3</sup>(S&P) with developer prior to seeking home financing from Islamic banks or any other financial institutions. Similarly, the taxes, stamp duty and other expenses related to the property in home financing transactions in Malaysia fall under liability of the purchaser (Dahlan and Kader 2010).

At first, the customer pays 10 percent deposit and executes S&P with developer. Subsequently the customer concludes Property Purchase Agreement (PPA) with Islamic bank. Dahlan and Kader (2010) argue that neither Islamic law nor civil law provide the customer full ownership or rights to sell the property by paying 10 percent deposit to the developer. This is evidence for the fact that the S&P between vendor and customer is not conferring the customer the title of the property but there is clear term which allows the vendor to forfeit the deposit, in the event of inability to settle the balance amount (Murshida and Marhaini 2011).

Similarly, since the BBA IHF is a sale contract, holding the ownership title of the house is important for seller, but in the banking BBA practice the ownership of the bank in the interested property is ambiguous since the bank does not purchase the house from the developer and does not take any ownership liability related to real sale agreement, such as risk of non-completion, damage and market value depreciations. Hence this practice appears as providing finance to the customer to settle remaining balance to developer for already purchased house. Accordingly, Hassan (2011) argues that as many believe, the Islamic banks do not purchase the property from vendor and sell it back to the customer at mark-up price. In fact, it is a loan arrangement between bank and customer.

Secondly, Islamic law does not recognise tying arrangement in a financial contract, which literally means one contract being referred to another contract. In BBA practice the PPA is executed between

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<sup>(3)</sup> Statutory standard formatted sale and purchase agreements provided by housing development control and licensing act 1966

bank and the customer with customer's undertaking to repurchase the same asset for selling price, which is disallowed in Islamic law as it is a condition sale (Tarmizi 2007).

"Yahya related to me from Malik that he had heard that the Messenger of Allah, may Allah bless him and grant him peace, forbade two sales in one sale" (Hadith. Muwatta. Business Transactions: Prohibition against Two Sales in One Sale #73)<sup>4</sup>

Thirdly, the BBA home financing uses *Bai` al-ina'h* contract by means of property purchase agreement and Property Sale Agreement (PSA). For example, a customer sells his property to an Islamic bank on cash basis and then buys back the same house at a deferred price which is higher than the cash sale price.

The majority of Muslim jurist such as *Hanafiyyah*, *Malikiyyah* and *Hanbaliyyah* disallowed the practice of *Bai`al-ina'h*. According to literatures *Bai`al-ina'h* is a trick used in BBA contract to legalize interest bearing loan. The bank uses this contract to avoid stamp duty and, ownership risk and liability in Islamic home financing transaction. Similarly, the *Bai`al-ina'h* BBA home financing has been ruled by high court as a non Bona fide sale transaction and equal to *riba* (Rosly, Sanusi and Norhashimah 2001, Dahlan and Kader 2010). According to Rosly and Seman (2003) *Bai al-ina'h* contract contains features of interest as it is not exchanging a value to an equivalent counter value.

However some Southeast Asian scholars contend that according to Imam Al-Shafi'i this contract is valid and it can be practiced in a region where its people are followers of that particular school of thought. Nevertheless, Imam Al-Shatibi says that in his *al-Muwafaqat fi usul al-Shari'ah*:

"it is absolutely incorrect to say that Imam Al-Shafi'i allowed the adoption of means that lead to usury. He does not presume the existence of an intention to do something forbidden unless there is manifest evidence to that effect" (Dusuki 2012).

Similarly, Zulkifli (2009) argues that, although the contract of *Ina'h* is confirmed from Shafi'i point of view, it is even hard to prove with satisfactory evidence that he has expressly declared its validity or not.

Fourthly, in the process of BBA home financing, initially the developer sells the uncompleted house to the customer through S&P. Subsequently, the same object will be purchased by the bank through PPA from customer, which is immediately followed by the bank selling it back to the customer through PSA. Above mentioned all three agreements are executed without the existence of subject matter, (Mahal Al-'Aqd) / object of the sale.

With the exception of *Hanbaliyyah*, Ibn Taymiya and his student Ibn Al-Qayyim, the majority of scholars from all schools of thought do not permit a sale of an object without its existence. This is based on the narrations of Prophet (PBUH) which has prohibited the sale of unborn foetus when the mother is not part of the sale (Zuhayli 2003). Similarly, there is another Hadith Narrated by Abu Dawud which is prohibiting the sale of an object without ownership (Zuhayli 2003).

On the other hand, Ibn Taymiya and Ibn Al-Qayyim opine that the wisdom of prohibition in the *Sunnah* is not for its nonexistence but it is because of its excessive risk and uncertainty *(Ghar'ar)*. Therefore, it is permissible, if the subject matter is certain in its future existence, such as selling an uncompleted house (Dusuki 2012, Al-Faddad 2000).

Similarly, Dahlan and Kader (2010) argue that Islam has forbidden the *Ghar'ar* to protect the well-being, rights and interest of both parties involved in the transaction and that the existence of *Ghar'ar* in the transaction causes injustice, hardship and disputes among contracting parties. So, the question

<sup>(4)</sup> Translation by A'isha `Abdarahman at-Tarjumana and Ya`qub Johnson , Volume: Business Transactions <a href="http://www.theonlyquran.com/hadith/Malik-Muwatta">http://www.theonlyquran.com/hadith/Malik-Muwatta</a>

to be asked here is, whether or not the Islamic bank can protect customers' interest and prevent them from harm in the abandoned housing project. Dahlan and Kader (2010) found that there are 141 housing projects that have been abandoned in Malaysia since 1990 till 2005 due to 22 reasons such as financial problems, loss of license approval, conflict among the developers, lack of coordination, fraudulent practices, insufficient experience, absence of better housing delivery system and many more.

Fifthly, the BBA home financing is a sale contract executed between the bank and the customer. As a result, the bank ideally becomes the seller of the property and liable for any defect that may be found in the sold object. In banking practice, the BBA documentation excludes *Khiyar al-ayb* and discounts the principle of *al-Kharaj bil Daman* where all the risks and liabilities come from this sale contract transferred to the purchaser and the bank merely act as a financer (Rosly, Sanusi, and Norhashimah 2001). Ariff and Rosly (2011) argue that risk and liability taking are fundamental for legitimate profit in Islamic financial transaction.

Finally, according to Islamic Law, the price should not be fixed by the state or any other authorities, but it must come from free operation of market force. In contrary the price of Islamic home financing asset computes in the current practice based on the volume of financing and period of financing tenure, not based on the market value of the property.

A Hadith narrated by Anas ibn Malik; "the people said: Apostle of Allah, prices have shot up, so fix prices for us. Thereupon the Apostle of Allah (Peace be upon him) said: Allah is the one Who fixes prices, Who withholds, gives lavishly and provides, and I hope that when I meet Allah, none of you will have any claim on me for an injustice regarding blood or property." (Sunan Abu Dawud. Kitab Al-Ijarah: Book 23: Hadith 3444)

Similarly, the Islamic law did not permit to have two prices in one single contract, even though the cost of fund changed in the banking practice due to market movements. Hence the selling price must be fixed and known to contracting parties in the sale contract at the time of concluding contract (Ariff and Rosly, 2011). However Islamic bankers in Malaysia prefer to finance at variable rate, which leads to uncertainty in the asset price as the BFR is subject to change according to BNM's monetary policy.

Meera and Abdul Razak (2005) state that many BBA home buyers are showing their dissatisfaction to over floating rate of BBA, because application of floating rate system not only lead the system to depend on interest rate, but it also creates a cash flow problem to the customer as it is required to pay high monthly instalments compared to conventional system. Equally, they establish that the selling price in BBA sale contract is not reflecting the market value.

Likewise, Hassan (2011) claims that the pricing mechanism used in BBA home financing is equal to conventional method. In general, both modes use the concept of Time Value of Money, Net Present Value and others. Hence, the selling prices in both the systems depend on financing tenure. Therefore, the longer the tenure incurs the higher the profit to Islamic or conventional bank. Besides the above discussed issues, the computing profit rate and default penalty are some other issues criticized by scholars in BBA home financing practice (Meera and Abdul Razak 2006).

# 3.2 Musharaka Mutanaqisah (MM) home financing

The *Musharaka Mutanaqisah* (MM) / Diminishing Partnership is a form of partnership contract in which customer and the bank jointly purchase the house from developer, where the customer agrees to rent the particular house and undertakes to purchase bank's undivided shares periodically. The *Musharaka Mutanaqisah* Home financing (MMHF) technique had been approved in 1991 during the workshop organized by IRTI in Jeddah and Sudanese Estate bank in Khartoum (Haneef, Kunhibava and Smolo, 2011). Moreover, both International *Fiqh* Academy of OIC in its 15<sup>th</sup> session and *Shari'ah* Advisory Council of Bank Negara Malaysia in its 56<sup>th</sup> meeting recognized MM home

financing (Osmani and Abdullah, 2010). Nevertheless, only in the last decade, this model gained attention from the practitioners and scholars in Malaysia.

The existing MM home financing mode combines three main Islamic contracts in the practice which are partnership, leasing and sale. In addition, some other supporting contracts are used by Islamic banks to smoothen the practice. Therefore, the sequence of the contract execution is mostly performed as follows: 1) Letter of invitation; 2) Letter of acceptance; 3) MM home financing facility agreement; 4) Share purchase agreement; 5) Property *Ijara* agreement; 6) Deed of covenant; 7) Trust deed; 8) Charge of assignment.

#### 3.2.1 Musharaka contract

The *Musharaka* (partnership) contract can be divided into two types: *Al-Amlak* (joint ownership) and *Al-Uqud* (contractual partnership). The joint ownership means, two or more partners purchase an asset and become joint owners on that particular asset, or two or more partners unwillingly become coowners of an asset through inheritance or gift. However, the contractual partnership is absolutely in the asset and there is no such agreement between the partners to involve in any commercial activities such as leasing and others. Meanwhile the contractual partnership is an agreement, where two or more partners willingly enter into commercial activities on the basis that the profits and losses arise from that particular business shared between partners. Moreover, according to Islamic law the generated profit in a partnership agreement can be divided among partners according to pre-agreed. However the losses should be shared proportionate to capital contribution of the partners in the contract. This is based on one type of *Muharaka* contract, which is *shirkah al-inan*. Similarly, in the partnership agreement the capital of one partner should not be guaranteed by others (Zarqa 2004; Naim 2011).

#### 3.2.2 Shari'ah issues in MM

First of all the current MM home financing practice does not seem to be clear on whether it falls under joint ownership or Contractual Partnership, because each has its own futures and conditions to apply in the practice. Naim (2011) concludes in a study that the current MM practice in its initial stage is joint ownership, but it is not permanent as the said contract does not comply with all the futures of joint ownership. On the other hand, Usmani (2005) and Haneef, Kunhibava and Smolo (2011) opine that, the current practice of MM home financing is joint ownership and is not contractual partnership since there is no such agreement to involve in commercial activities. In parallel Aris, Othman, Azli, Arshad, Sahri and Yaakub (2012) opine that the existing MM practice take the form of contractual partnership.

However, according to Islamic law a partner in a contractual ownership should not guarantee the other's capital. Naim (2011) and Sadique (2008) argue that the purchase undertaking agreement in the MM home financing to buy financer's share gradually or in the event of default, is similar to guaranteeing the capital of financer, which is not allowed in contractual partnership contract. Also, the said arrangement excludes the financer's risk and ownership liability in the transaction.

Secondly, in MM home financing the *Ijara* rental does not reflect the market rental rate. Islamic banks compute its rental rate based on BFR, by using the similar conventional formula, which is not recommended by Muslim scholars. Similarly, in the floating rate MM home financing the rental amount is uncertain (*Ghar'ar*) because the BFR is subject to change from time to time (Meera & Abdul Razak, 2009).

Thirdly, when the bank provides MM home financing for uncompleted house, the purchaser pays advance rental to the bank, without using usufruct of the asset, which contradicts with the nature of *Ijara*. The question to be asked here is whether the bank pays back the advance rental and takes constructional risk proportionate to its shares if the property is abandoned, or will the bank require the customer to payback the total financing amount. Haneef, Kunhibava and Smolo (2011) argue that it is

not possible for Islamic banks to take constructional risk in the abandoned project, because the said banking practice is obliged for more capital requirement. In addition to that, in the current MM facility the documentation used for under construction property is replicated from completed property documentation without more concerning Shari'ah requirements of under construction properties (Haneef, Kunhibava and Smolo 2011).

Fourthly it is ambiguous in the MM home financing that, neither the customer nor the bank knows which part of the house the customer is purchasing from the bank for paid monthly instalment (Sadique 2008). This situation may lead to *Ghara'r* in the transaction and dispute among the partners if any defect was found to be in the sold property. For example there is a possibility to claim defect option by the customer in said property from the bank even after 20 years of financing, because under MM home financing the last portion of bank share will be purchased by the customer in the end of the financing tenure. Since the purchasing share is not specified in the property, the customer can claim defect option within three days or agreed period arguing that the defected part of the house is the lastly purchased portion.

Fifthly, in MM home financing the customer is a co-owner of the property, so that the ownership responsibilities and risks arising from said property in *Musharaka* as well as *Ijara* contract in MM home financing should be shared proportionately by both parties. It is notable that except in KFH the property title is registered under customer's name in the existing BBA and MM practice in Malaysia (Sollehudin, Azam & Taqiuddin 2011). Therefore, ownership risks or responsibilities are not born by Islamic banks at all. Boon Ka (2009) points out in his article that, in MM home financing, all costs related to interested property are paid by the customer in *Musharaka* contract as he is a legal owner in the document of title. It is also pointed that in property *Ijara* contract the basic and structural maintenance are 100 percent borne by the customer, besides bearing routing and operational maintenance of the asset as well (Boon Ka, 2009).

Similarly, Sadique (2008) argues that in the MM home financing the banks do not involve in any trade activities in the existing practices, but they limit their involvement merely for financial interest. Therefore, it can be seen that the legal documentation of this contract is very much different from normal agreements. It is also pointed by Sadique (2008) that in the current practice the property title is directly transferred from developer to the customer, thus the financer does not take ownership or possession on the property in order to avoid the ownership risk and liability. He further argues that sharing responsibilities and liabilities pertaining to the ownership is a key differentiating factor between conventional leasing and MM.

## 4. DISCUSSIONS

The literatures in this field discussed many *Shari'ah* issues in both BBA and MM home financing practice in Malaysia such as; *Bai al-Inah*, *Bai al-Madum*, *Bai wa-Sharth*, *Khiyar al-Ayb*, *Ibra*, ownership, pricing, purchase undertaking, combination of two contracts, forward *Ijara* and others. At the same time some other authors found considerable relationship between those issues and tax burden, stamp duty, asset liability mismatch, capital cost, risk weight, market force and other legal and regulatory requirements. The below discussion briefly illustrates relationships between the issues and its causes.

a) Bai al-Inah: Islamic law requires the bank to purchase the property from developer through a valid contract (fulfilling its pillars and conditions) in BBA mode, which means S&P should be executed between Bank and Developer prior to PSA and PPA. Then the bank should sell the property with mark-up to customer. The said requirement is not favorable among practitioners, because they are obliged to pay legal fee, stamp duty and other expenses related to the property purchase agreement twice on a single asset, when the S&P is concluding between the developer and the bank and between the customer and the bank. Similarly the risk weight requirement for a true sale is 100 percent, while a loan or Bai'al-ina'h transaction

only requires 50 percent risk weight, because a true sale entails for financing risk and business risk so that applying true sale in Islamic banking business require more capital than *Ina'h* sale. Therefore Islamic bankers preferably use *Bai'al-ina'h* in BBA home financing to cut their capital cost and reduce the price of the financing asset in order to compete with conventional mortgage price.

- b) Ownership: According to Islamic law the property owner is liable for defect option in a true sale contract and responsible for structural maintenance in true *Ijarah* contract. Similarly, it is not permissible in Islamic law to sell something which is not under the ownership of the seller. Nonetheless according to regulatory requirements risk weight of true sale and operating leasing (together with ownership risk and liability) are 100 percent and 150 percent respectively, while mortgage loan only requires 50 percent risk weight (Rosly 2011). So practicing true sale and true *Ijarah* would increase in overall cost of financing, compared to conventional mortgage loan. Hence it is not easy for Islamic bankers to practice true sale and true *Ijarah* in a dual banking setting. Therefore the ownership liability and risk does not seem to appear in Islamic home financing practices.
- c) Bai al-Madum: It is a trite practice in Malaysia that the S&P execute between developer and customer in home financing before the construction started. On the other hand, according to majority of jurists, existence of subject matter is a condition for Islamic contracts except in Istisna and Al-Salam. Meanwhile, application of Istisna' contract in the Islamic home financing is not preferable for practitioners due to some practical problems and risk and liability obligations existing in the practice. So, said customary practice in the market led the Islamic banks to involve in Bai al-Madum transaction.
- d) Khiyar al-Ayb: according to Islamic legal maxims all the benefits lay a liability (Al-Kharaj Bil Daman). However taking constructional risk and defect option in Islamic banking business again brings the need for higher risk weight and larger economic capital. So the Islamic banks are not willing to take liabilities which may arise in sold or rented asset in the Islamic home financing practice.
- e) Pricing: Beside asset and liability mismatch problem, the above said all four issues equally influence on the pricing issue of Islamic home financing product.

Based on above discussion it is obvious that the existing *shari'ah* issues in BBA and MM home financing are very much related with negligent of risk and liability in the Islamic home financing practice. According to Islamic legal maxims "*al-ghorm bil ghonm*" (reward can be taken without risk) and "*al-kharaj bil daman*" (all the benefit lays a liability) are twin-principles of Islamic financial transaction (Sanusi, Rosly and Norhashimah 2011). Rosly (2005) argues that the legitimate profit in an Islamic transaction must come from exchange of a value against an equivalent value ('*iwad*) in order to reflect the sense of justice and equity into a business transaction. According to him the profits arise from *al-bay*, *al-ijara*, *al-salam*, *istisna'*, *mudaraba and musharaka* should imply the existence risk, liability and effort. Likewise Ibn al-Arabi states that: "*Every increase which is without 'iwad or an equal counter value is riba*" (Sanusi, Rosly and Norhashimah 2011).

## 5. CONCLUSION

This paper theoretically analyzes the existing *shari'ah* issues in both BBA and MM home financing and its possible causes in the practice. The study found that the tax burden, stamp duty, asset liability mismatch, capital cost, risk weight, market force and other legal and regulatory requirements in the banking practice, lead the Islamic bankers to neglect the twin principle of Islamic financial transaction, which is "al-ghorm bil ghonm" (reward can be taken without risk) and "al-kharaj bil daman" (all the benefit lays a liability). On the other hand neglecting said principles in an Islamic financial transaction rendered the transaction unlawful and equal to *riba*'. It can be concluded that, the

shari'ah issues in Islamic home financing is not possible to eliminate in the practice unless three of the following matters take place: At first the government and regulators should smoothen the law and regulation required for Islamic home financing practice. Second, the Islamic bankers should try to take risk and liability in the Islamic home financing transaction. Third, rising the customers' awareness to avoid unlawful financing and to accept Islamic financing product even though the price is comparatively expensive than conventional mortgage, due to their involvement in the real Islamic financial transaction.

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Appendix 1: Islamic Home Financing Facilities and concepts

	Name of the Bank	Facility	Concept	
1	RHB ISLAMIC BANK	Equity Home Financing-i	Diminishing Musharakah (MM)	
2	CIMB ISLAMIC	Home Financing-i	Bai' Bithaman Ajil (BBA)	
		Flexi Home Financing-i		
		Ijarah Property Financing-i	Ijarah Muntahiyah Bittamik	
3	MAYBANK ISLAMIC	Fixed Home Financing-i	Bai' Bithaman Ajil (BBA)	
		Variable Home Financing-i	Murabaha via Tawarruq or Commodity	
			Murabaha	
		HomeEquity-i	Musharaka Mutanaqisah(MM)	
4	CITY BANK ISLAMIC	Home Financing-i	Musharaka Mutanaqisah(MM)	
5	OCBC AL-AMIN	Manarat Home-i	Ijarah Muntahiyah Bittamik	
			Musharaka Mutanaqisah(MM)	
6	BANK MUAMALAT	Muamalat House Financing istisna'-i	Istisna'	
		Property Financing-i	Tawarruq	
7	BANK ISLAM	Baiti Home Financing-i		
		Property Financing-i	Tawarruq	
8	HSBC AMANAH	HomeSmart-i	Musharaka Mutanaqisah(MM)	
9	PUBLIC ISLAMIC BANK	Home Equity financing-i	Musharaka Mutanaqisah(MM)	
		Term Equity financing-i		
		HomeSave-i		
10	AMBANK ISLAMIC	Home Financing-i	Both Musharaka Mutanaqisah(MM) and	
			Bai' Bithaman Ajil (BBA)	
		Flexi Home Financing-i		
11	AFFINISLAMIC	Home Financing-i	Bai' Bithaman Ajil (BBA)	
12	ALLIANCE ISLAMIC BANK	Home Financing-i	Bai' Bithaman Ajil (BBA)	
13	ASIAN FINANCE BANK ISLAMIC	Home Financing-i	Bai' Bithaman Ajil (BBA)	
14	STANDARDCHARTERED	Saadiq My Home-i	Musharaka Mutanaqisah(MM)	
	ISLAMIC			
15	ALRAJHI	<b>.</b> •.		
16	KUWAIT FINANCE HOUSE	Property Financing-i	Musharaka Mutanaqisah(MM)	
		• 1	Murabahah	
			Istisna'	
		Asset Acquisition Financing-i	Ijarah Mawsufah Fi Al-Zimmah	
			Ijarah Muntahia Bi Al-Tamlik	

(Source: Based on official web pages of each banks 2013)

# EARNINGS QUALITY IN PRIVATE AND PUBLIC FIRMS: EVIDENCE FROM MALAYSIA

Amilia Syuhada Abdul Majid\*

#### **ABSTRACT**

This study reviews the extent of earnings quality in both public and private companies in Malaysia. Greater demand of information by stakeholders and higher scrutiny by regulatory board expect influences for greater earnings quality in public compared to private companies. Private companies also have emerged in its existence and contribution to the economy, hence perceived as increased importance in its earnings quality. This study addresses the gap of earnings quality study in private companies in comparison to the public companies. This study covers 50 public listed and 50 privately held companies for the period 2002 until 2007; results in 600 firm-year observations. Earnings quality is proxy by accruals based accounting as developed by Dechow and Dichev (2002) from the modified Jones (1991). The method is widely adopted such as by Dechow and Schrand (2004), Ball and Shivakumar (2005) and Givoly, Hayn and Katz (2010). The results confirm, despite of emergence of private companies in the economy, public companies in Malaysia generate lower accruals hence reflect better earnings quality in corporate financial reporting.

**Keywords**: Earnings quality, public and private companies

#### 1. INTRODUCTION

This study examines earnings quality in private and public companies in Malaysia. Earnings are widely use and highly rank as the most important measure of corporate performance to the outsiders (Graham, Harvey and Rajgopal, 2005). Investors, institutional owners, analysts and regulators rely on the quality of reported earnings in making inform decision on the company performance and value.

Public and private companies are the economic engine of the country (Economic Planning Unit, 2001). Prior studies mostly study earnings quality in the public company setting. However, private company has raises its contribution towards the economy<sup>1</sup> of the country. Public and private companies' reporting needs and application are differs. Hence, this raises the needs to study the adequacy, effectiveness and quality of private company financial statements reporting in comparison to the public company (Lev and Zarowin, 1999; Healy and Palepu, 2001).

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<sup>&</sup>lt;sup>1</sup> 99% of registered Malaysian companies are private companies. Based on data on the first quarter of 2008, there are 805,910 registered companies in Malaysia (source: Companies Commission of Malaysia website; www.ssm.com.my) of which 855 companies are listed in the main and second board of Bursa Malaysia (source: Bursa Malaysia website; www.bursamalaysia.com). In addition, 70% companies from the list of Malaysian top 1000 corporate directory in 2007/2008 were private companies.

In view of the above, section 2 discusses the similar importance and different application in public and private companies. Section 3 presents research sample and methodology of the study. The results and discussions are describes in section 4, whilst section 5 concludes the study.

#### 2. LITERATURE REVIEW

### **Earnings quality**

Earnings are widely used and highly ranked as the most important measures to corporate outsiders (Grahams, Harvey and Rajgopal, 2005). Investors, institutional owners, analysts and regulators rely on the quality of reported earnings in making inform decision on the company performance and value. This is because earnings reflect company's current operating performance and predict its future performance and value (Dechow, 1994; Dechow and Schrand, 2004; Ball and Sivakumar, 2005).

Earnings derive from accrual basis of accounting. It arises from timing and matching principles in recognizing accounting transactions which eventually requires discretionary assumption and estimation made by corporate managements (Dechow, 1994; Dechow and Dichev, 2002). The principles may allow corporate management to opportunistically manage and manipulate the recognition and match between earnings and its expenditure. This raises reliability concern on accounting numbers as they may contain estimation errors made by corporate management. Such of accounting estimation errors would consequently reduces the persistence of accounting numbers, hence may become less relevant for company's valuation. This is because any estimation errors would affect true corporate value during the accounting period and hence need to be corrected using the future earnings. These results in corporate earnings become less reliable in measuring the company performance (Dechow, 1994; Dechow and Schrand, 2004; Givoly et al., 2010).

## Earnings quality in public and private companies

Quality of earnings in financial statements may differ between public listed and privately held companies. Among the studies that compare earnings quality of public and private companies are Ball and Shivakumar (2005), Burgstahler, Hail and Leuz (2006) and Givoly et al. (2010). They highlight the issue of earnings quality in public and private companies based on demand and supply of information as well as opportunistic behavior hypotheses.

Public company's greater separation between corporate management and shareholders results in greater information asymmetry between them. This leads to greater demand on quality information disclosure in public company reporting (Ball and Shivakumar, 2005; Givoly et al., 2010). The information is highly use by investors in making inform decision on the company's performance and value in deriving investment decision on the corporate share capital trading activities. Public company's management also willing to supply high quality of information in reflecting good corporate performance and value, hence attracting greater capital financing for the company (Ball and Shivakumar, 2005; Burgstahler et al., 2006; American Accounting Association's Financial Accounting Standards Committee (AAAFASC, 2006). In addition, corporate stakeholders also demand greater information disclosures as a medium to monitor corporate managements performance and accountability on the resources entrusted to them (AAAFASC, 2006).

As public company's performance is scrutinized by corporate investors and shareholders, its management is pressured to report the corporate expected results and performance. Opportunistic behavior hypothesis suggests management may compel to opportunistically adopt certain accounting method to yield the expected corporate performance results in meeting investors and shareholders expectation and forecasts (Givoly et al., 2010). For instance, management has the incentive to manage stock prices to meet analysts' forecasts, avoid reporting losses and earnings decreases.

Higher demand and supply of financial information as well as potential opportunistic behavior of management in public company results in its information disclosures faces stringent monitoring by the regulatory governing bodies (Givoly et al., 2010). High scrutiny of public company financial reporting is because their financial information has significant impact to investors and potential shareholders on the security trading activities decision making.

Private company in Malaysia, on the other hand, is commonly manages by the owners (Claessens, Djankov and Lang; 2000). The private's owner-managed companies has less information asymmetry issue (Arunnada, 2010) as it is quickly resolves through informal private communication during the course of business operation (Ball and Shivakumar, 2005). This leads to less likely for private company adopting opportunistic behavior in its accounting practices and reporting. As such, there is lower demand and supply of high quality information disclosures in private company (Givoly et al., 2010).

A summary of demand and opportunistic behavior hypotheses predict quality of public and private companies financial reporting are indicated in following table.

	Demand and supply hypotheses	Predicted quality of financial reporting	Opportunistic behavior hypothesis	Predicted quality of financial reporting
Public listed company	Strong demand and supply for quality financial reporting	High	Strong incentives to manage accounting numbers	Low
Privately held company	Weak demand and supply for quality financial reporting	Low	No incentive to manage accounting numbers	High

Source: Adapted from Givoly et al. (2010).

#### 3. RESEARCH METHOD

# Sample companies

This study matches 50 public and 50 private companies of a similar size and within the same type of industry. The method ensures consistency and comparability of the two groups of companies. The method has been widely adopted in comparative public and private companies' studies such as Penno and Simon (1986), Ball and Shivakumar (2005) and Givoly et al. (2010).

Controlling for the company size, only companies with at least RM1 million sales is covered in the sample study. Public and private companies are matched-pair using a factor of 3<sup>2</sup>. The list of the sample companies is obtained from the Malaysian 1000 Top Corporate Directory<sup>3</sup>. The period of study covers from 2002 until 2007 (6 years); results in 600 firm-years observation.

### Earnings quality

This study adopts accruals as a measure of earnings quality as it has been widely adopt in measuring corporate earnings quality (Hashim and Devi, 2009). Accruals (total accruals; TA) can be divided into discretionary (DA) and non discretionary accruals (NDA) (Jones 1991; Dechow, Sloan and Sweeney 1995), hence reflects as TA = DA + NDA. Non-discretionary accruals (NDA) are accounting transaction arises from normal business operations (Ronen and Yaari, 2008). Discretionary accruals (DA) are accounting transactions made in managing earnings recognitions. Jones (1991), based on De Angelo (1986), proposed non-discretionary accruals are constant from period to period. Hence, the difference between current and prior period accruals is solely due to changes in discretionary accruals. As such, discretionary accruals (DA) reflect the absolute value from the result of residual value of the total accruals (TA). The model is adopted in various earnings quality study such as Dechow, Sloan and Sweeney 1995, Dechow and Dichev 2002, Ball and Shivakumar 2006, Burgstahler et al., 2006, Francis, Nanda and Olsson, 2008, Givoly et al., 2010) using modified Jones (1991)<sup>4</sup> approach as follows.

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TA_{i,t}/Assets_{i,t-1} = \alpha_0 + \alpha_1(I/Assets_{i,t-1}) + \alpha_2\left[\Delta Rev_{i,t}/Assets_{i,t-1}\right] + \alpha_3\left[PPE_{i,t}/Assets_{i,t-1}\right] + \varepsilon_{i,t} Where: TA_{i,t} = \text{total} accruals in year t for firm i \Delta Rev_{i,t} = \text{revenue} in year t less revenue in year t-1 for firm i PPE_{i,t} = \text{gross} property plan and equipment in year t for firm i Assets_{i,t-1} = \text{total} assets in year t-1 for firm i \varepsilon_{i,t} = \text{error} term in year t for firm i
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The result of the model is use in descriptive analysis of public and private companies.

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<sup>&</sup>lt;sup>2</sup> The method uses sales ratio between two matched-pair group of companies is not less than one-third nor greater than three from each other (Penno and Simon, 1986).

<sup>&</sup>lt;sup>3</sup> The method is consistent with Penno and Simon (1986). Penno and Simon obtained their sample company listing using the 1983 edition of Dun and Bradstreet's Million-Dollar Directory. The directory provides a comprehensive listing of public and private companies with at least \$1 million in revenue (that is similar in size) and of the same industry group.

<sup>&</sup>lt;sup>4</sup> Jones (1991) model developed a linear regression, controlling for non discretionary components, between total accruals (TA) and changes in revenue and property, plant and equity, scaled by lagged on prior year total assets (Dechow et al., 1995). Dechow et al., (1995) modified the Jones (1991) model by including changes in net receivables to adjust for changes in revenues. Both Jones (1991) and modified Jones models outperformed other models (such as Healy, DeAngelo and Industry models) in detecting induced earnings manipulation (Dechow et al., 1995; Guay et al., 1996). The modified Jones model reflects higher test in detecting management discretion on accruals/earnings management as compared to the original Jones model (Dechow et al., 1995; Bowman and Navissi, 2003). However, this study is unable to perform modified Jones model due to unavailability of net receivables data.

## **Regression model**

This study also performs regression analysis to study corporate characteristics which may influence earnings quality of public and private companies is as follows.

Accruals<sub>i,t</sub> =  $\alpha_0 + \alpha_1 Size_{i,t} + \alpha_2 CFO_{i,t} + \alpha_3 Sales$  growth<sub>i,t</sub> +  $\alpha_4 Profit_{i,t} + \alpha_5 Leverage_{i,t} + \alpha_6 Intangible$  intensity<sub>i,t</sub> +  $\alpha_7 Capital$  intensity<sub>i,t</sub> +  $\alpha_8 Total$  assets growth<sub>i,t</sub> +  $\alpha_9 Industry_{i,t} + \varepsilon_{i,t}$  Where:

Accruals<sub>i,t</sub> is accruals of the company i in year t. The model alternately regress the total accruals  $(TA_t)$  and discretionary accruals  $(DA_t)$  of the company. TA is represented by change in revenue over prior period total assets, whilst DA is represented by absolute value from the results of residual value of total accruals. The model is as discussed above.

 $Size_{i,t}$  is log of total assets of company i in year t.

 $CFO_{i,t}$  is cash flows from operation over total assets of company i in year t.

Sales  $growth_{i,t}$  is ratio of changes in sales of company i in year t and t-l.

 $Profit_{i,t}$  is represented by return of assets. It is measured by net income over total assets of company i in year t.

Leverage<sub>i,t</sub> is debt equity over total assets of company i in year t.

Intangible intensity<sub>i,t</sub> is intangible assets capitalized over total assets of company i in year t.

Capital intensity<sub>i,t</sub> is property, plant and equipment (PPE) over total assets of company i in year t. Total assets growth<sub>t</sub> is ratio of changes in total assets of company i in year t and t-l.

Industry<sub>i,t</sub> is industry that company *i* operates in. 1 is coded for industry sensitive towards intellectual capital development (manufacturing, trading and services) and 0 otherwise (infrastructure, construction and transportation).  $\varepsilon_{i,t}$  is error term.

## 4. RESULTS

The descriptive mean results of total accruals (TA), discretionary accruals (DA) and non-discretionary accruals (NDA) reflecting the extent of earning quality are presented in Appendix 1.

The overall results show private companies in Malaysia have higher accruals, hence lower earnings quality in corporate annual report as compared to public companies. The result of TA in Malaysia is consistent with Burgstahler et al. (2006) that studied 13 European countries between year 1997 and 2003. TA in Malaysia reflects 0.660 and 0.607 while TA in European countries reflects 0.691 and 0.565 in private and public companies respectively. This may relate to lower level of monitoring by the accounting legislation to private company as compared to public company (Burgstahler et al., 2006). It also may relate to greater demand of higher quality of information disclosure by stakeholders as public companies traded its shares in open securities market (Ball and Shivakumar 2005). Consistently, this study also noted similar results for DA (private: 0.005; public -0.006), hence supported the above propositions. The mean difference of DA between public and private companies is significant at 1% level.

Next, this study test validity of accruals (TA and DA) on variables that may influence the extent of earnings quality as adopted in other studies such as Francis et al. (2008) and Givoly et al. (2010). The variables are company size, cash flows, sales growth, profitability, leverage, intangible assets intensity, capital intensity, total assets growth and industry the company operates in. The results are as shown in Appendix 2. The explanatory power the variables towards total accruals (TA) are fairly high at adjusted R<sup>2</sup> of 83% and 60% in public and private companies

respectively. The explanatory power of discretionary accruals (DA) of public and private companies is fairly acceptable at 20% and 26% respectively.

In general, the coefficient's directive results are similar between public and private companies. The results show companies with larger size and higher operating cash flows have better earnings quality. This is because bigger size companies normally have better accounting systems monitoring its accounting framework. Higher operating cash flows reflect actual cash inflows, hence there is less accruals based assumption and adjustments were conducted in such companies.

Companies with higher sales growth and profitability tend to have poorer earnings quality. Corporate management may induce timing and assumption recognition of earnings transaction; hence reflect lower quality of corporate information disclosure. Companies with lower debt (leverage) tend to have better quality of financial statements. This serves debt covenants as have been agreed with debts providers such as banks (AAAFASC, 2006).

Companies with higher intangible assets intensity (ratio of intangible assets capitalized over total assets), capital intensity (proxy of property, plant and equipment (PPE) over total assets) and total assets growth tend to have poorer quality. These are in relation to the timing and assumption of assets recognition such as depreciation, amortization, impairments and provisions provided by the management of the companies.

Industries that companies belong to influence the extent of earnings quality. Industry prone to intellectual capital development may recognize higher intangible assets in its financial statements. This may involve management assumption on amortization and impairments recognition, hence relates to poorer earnings quality.

Based on the significant correlation for both public and private companies, TA related to both income statements and balance sheet items. This is because non-discretionary accruals (NDA) are reflected in most income statements components (i.e. balance sheet, cash flows and income statements). Discretionary accruals (DA), on the other hand, mostly involve in the cash items that reflected in the cash flows, income statements and leverages.

#### 5. CONCLUSION

Public and private companies in Malaysia, whilst governed by similar accounting standards, differ in the quality of information disclosure in their annual reports. The results of this study found public company has higher quality of information disclosure than private company. It relates to higher demand and supply of information as well as greater monitoring by the regulatory bodies in public compares the private companies (Ball and Shivakumar, 2005; Burgstahler et al., 2006; Givoly et al., 2010).

This study also found private companies have more accounting transaction in the income statements items and lesser in the balance sheet items. This results in greater avenue for accruals based accounting transaction in the income statements of private companies, but less in the balance sheet of the private companies as compared to the public companies. The results suggest balance sheet of private companies in Malaysia is more reliable to measure its quality of financial statements whilst income statement of public companies in Malaysia is more reliable to measure its quality of financial statements.

This study contributes in understanding of application of accruals, hence the quality of information disclosure in public and private companies in Malaysia. The study raises several avenue for future research. The understanding factors influencing the quality of information disclosure in public and private companies in Malaysia can be enhanced by interviewing relevant personnel in public and private companies.

Appendix 1: Descriptive earnings quality variables (TA, DA and NDA) and mean differences significance of public and private companies

Турени	20	2002 200		2003 2004		2005		2006		2007		All		
	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private
	n=50	n=50	n=50	n=50	n=50	n=50	n=50	n=50	n=50	n=50	n=50	n=50	N=300	N=300
Panel A:	TA													
Mean	0.593	0.707	0.570	0.627	0.666	0.719	0.689	0.565	0.511	0.689	0.614	0.654	0.607	0.660
Median	0.513	0.632	0.504	0.640	0.534	0.684	0.552	0.556	0.483	0.591	0.518	0.549	0.518	0.622
Max	3.084	3.691	2.225	1.830	2.704	1.715	4.563	4.563	1.766	4.563	2.594	4.563	4.563	4.563
Min	-0.509	-0.811	-	-0.811	-0.778	-0.380	-0.089	-0.775	-0.213	-0.006	-0.811	-0.518	-0.811	-0.811
Std Dev	0.523	0.854	0.619 0.502	0.499	0.598	0.392	0.670	0.731	0.400	0.661	0.500	0.753	0.543	0.664
Mean			0.302						×	<u> </u> :*				
diff pub.														
vs pri.														
Mean	0.0	650	0.5	599	0.6	593	0.0	527	0.0	500	0.634		0.634	
total														
TA														
Panel B:														
Mean	0.002	-0.002	-0.006	0.006	-0.002	0.002	-0.011	0.009	-0.006	0.005	-0.013	0.012	-0.006	0.005
Median	0.004	0.003	0.013	-0.002	-0.015	0.005	-0.003	0.013	-0.009	-0.012	-0.009	-0.000	-0.003	0.002
Max	0.227	0.366	0.150	0.307	0.199	0.290	0.167	0.399	0.196	0.399	0.249	0.399	0.249	0.399
Min	-0.197	-0.291	-0.255	-0.272	-0.243	-0.291	-0.262	-0.210	-0.258	-0.291	-0.211	-0.291	-0.262	-0.291
Std Dev	0.071	0.128	0.079	0.106	0.076	0.098	0.081	0.101	0.076	0.115	0.085	0.141	0.078	0.115
Mean													,	k
diff pub.														
vs pri.	0	000	0.0	200	0.0	200	0	001	0	001	0	000	0.4	200
Mean	-0.	-0.000 0.000		0.000		-0.	001	-0.001		-0.000		-0.000		
total DA														
	Panel C: NDA													
Mean	0.010	0.005	0.010	0.017	0.046	0.042	0.018	-0.000	0.014	0.014	0.039	0.008	0.023	0.014
Median	0.010	0.003	0.010	0.017	0.046	0.042	0.018	-0.000 -0.010	0.014	0.014	0.039	0.008	0.023	0.014
iviculali	0.007	0.003	0.003	0.017	0.057	0.055	0.014	-0.010	0.013	0.017	0.043	0.001	0.019	0.013

Max	0.102	0.205	0.107	0.065	0.166	0.149	0.160	0.527	0.083	0.055	0.133	0.175	0.166	0.527
Min	-0.059	-0.104	-0.059	-0.041	-0.031	-0.041	-0.041	-0.099	-0.034	-0.088	-0.022	-0.108	-0.059	-0.108
Std Dev	0.027	0.053	0.031	0.025	0.035	0.039	0.036	0.083	0.024	0.020	0.033	0.050	0.034	0.051
Mean diff pub.			*	•				*			*:	**	**	<b>*</b> *
Mean total NDA	0.008 0.014		0.044		0.009		0.014		0.024		0.0	019		

<sup>\*,\*\*,\*\*\*</sup> significant at 10%, 5% and 1% levels, respectively

Appendix 2: Regression of earnings quality variables on innate factors of public and private companies

 $Accruals_{i,t} = \alpha_0 + \alpha_1 Size_{i,t} + \alpha_2 CFO_{i,t} + \alpha_3 Sales \ growth_{i,t} + \alpha_4 Profit_{i,t} + \alpha_5 Leverage_{i,t} + \alpha_6 Intangible \ intensity_{i,t} + \alpha_7 Capital \ intensity_{i,t} + \alpha_8 Total \ assets \ growth_{i,t} + \alpha_0 Industry_{i,t} + \varepsilon_{i,t}$ 

		OMPANIES	PRIVATE COMPANIES									
	TA		I	DA		TA			DA			
	Coefficient	T-stat.	Sig.	Coefficient	T-stat.	Sig.	Coefficient	T-stat.	Sig.	Coefficient	T-stat.	Sig.
Intercept	-0.121	-0.738		0.015	0.300		-0.226	-0.677		0.027	0.341	
Size	-0.009	-0.328		-0.008	-0.849		0.047	0.796		0.008	0.584	
CFO	-0.320	-1.626		-0.500	-8.105	***	-0.389	-1.818	*	-0.485	-9.611	***
Sales growth	0.902	19.937	***	0.011	0.812		0.577	15.187	***	-0.017	-1.902	**
Profit	0.506	2.013	**	0.447	5.674	***	0.770	2.120	**	0.197	2.303	**
Leverage	0.199	2.547	*	0.022	0.893		0.135	1.237		-0.051	-1.970	**
Intangible intensity	0.242	0.962		0.075	0.948		-0.951	-1.400		-0.165	-1.030	
Capital intensity	1.002	13.807	***	0.030	1.301		0.940	7.749	***	-0.008	-0.271	
Total assets growth	0.472	15.635	***	-0.001	-0.067		0.235	6.996	***	0.109	1.379	
Industry	0.108	3.351	***	0.014	1.398		-0.226	-1.720	*	0.018	0.588	
Adjusted R <sup>2</sup>		0.833 0.197					0.598 0.258					
*,**,*** significant at 10%, 5% and 1% levels, respectively												

Accruals represent accruals of sample companies. The model alternately regress the total accruals (TA) and discretionary accruals (DA) of sample companies. TA is represented by change in revenue over prior period total assets, whilst DA is represented by absolute value from the results of residual value of total accruals. Size represents by log of total assets during the period. Cash flow from operation (CFO) is the CFO divided by total assets during the period. Sales growth; measured by ratio of changes in sales during the period. Profitability (Profit) is represented by return on assets (ROA) is measured by net income over total assets during the period. Leverage is measured by debt equity divided by total assets during the period. Intangible intensity is measured by total intangibles capitalized divided by total assets during the period. Capital intensity is measured by property, plant and equipment (PPE) divided by total assets during the period. Total assets growth is represented by ratio of changes in total assets during the period. Industry is where manufacturing and trading and services industries are noted as sensitive towards intellectual capital development, hence coded as 1, whilst infrastructure, construction and transportation industries are otherwise coded as 0.

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# THE INFLUENCE OF *TAWHIDIC* PARADIGM ON THE DEVELOPMENT OF A UNIFIED THEORY OF THE FIRM

Suhaimi Mhd Sarif<sup>1</sup>

#### **ABSTRACT**

This study argues on the influence of *Tawhidic* paradigm to a unified theory of the firm from for a comprehensive theory to describe the nature of the firm, the scope and boundaries of assessment on organizational environments, and the assessment of internal organizations to formulate, implement and evaluate organizational strategies. The conventional approach to the theory of the firm is not adequate to respond to external, internal, and human dynamism. The study used qualitative method via personal interview 15 senior managers of Islamic financial institutions that listed in Bursa Malaysia. The informants argued that the vision, mission and objective statements that differentiate the *shari'ah* compliant and non-*shari'ah* compliant companies. The *shariah*-compliant companies apply *Tawhidic* paradigm in terms of companies' continuous improvement in all functional aspects, value added services to the stakeholders, and enhancing social welfare to the humanity. The use of qualitative method through personal interviews is appropriate for exploratory nature of the study to develop a unified theory of the firm. Nevertheless, the findings cannot be generalizable. However, the study contributes a contemporary framework of the theory of the firm from *Tawhidic* paradigm, which adds into the sustainability principles and business continuity.

**Keywords:** Theory of the firm, Competitive advantage, *Tawhidic* paradigm.

#### 1. INTRODUCTION

The theory of the firm has been subscribed as comprehensive theory to describe the nature of the firm. the scope and boundaries of assessment on organizational environments, and the assessment of internal organizations to formulate, implement and evaluate organizational strategies. This theory cannot stand alone in the strategic management process due to its emphasis on the industrial organizational perspective only of the firm. The sustainability of the business, business continuity, and sustainable competitive advantage depends on both external and internal factors of the firm. The resource-based and knowledge-based of theory of the firm attempted to offer unified theory of the firm from evolutionary economics. However, the evolutionary economics view also is unable to provide a unified theory of the firm. Indeed, a unified theory of the firm is necessary to provide insights for rigorous, dynamic and comprehensive strategic management analyses. As an alternative, this study will develop a unified theory of the firm the Tawhidic paradigm approach as a mean to achieve organizational sustainable innovation and competitive advantage. The knowledge-based view offers an integrative framework to achieve sustainable knowledge management and organizational learning that are driven by knowledge-based view of firm innovation. The KBV view lacks of spirituality foundation to sustain intellectual contribution from knowledge workers. The Tawhidic approach contributes to the theoretical and practical understanding of the development of a unified theory of the firm.

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#### 2. LITERATURE REVIEW

Businesses continue to struggle to achieve sustainable competitive advantage for better profitability and strategic positioning in the competitive markets. The underpinned understanding in achieving sustainable competitive advantage is driven by organizational objectives. Garrouste & Saussier (2005) argued that organizational driven objectives are related to understanding of the theory of the firm. The theory of the firm that introduced by Coase (1937) rationalized by the theory of agency, theory of property rights and the theory of finance to develop a theory of the ownership structure of the firm (Aoki, 1986; Aghion & Tirole, 1997). In fact, the theory of the firm in Coase's seminal work had argued only on transaction cost, contract, nature of the firm, boundaries, and internal organizations (Coase, 1937, 1960, 1988). Coase (1937) and the scholars that follow his seminar work defined the firm as an economic entity that provides incentives and structure to solve organizational coordination (Hart, 1990; Holmström, 1999), the firm as a collection of assets, the firm as a collection of assets and incentive mechanims, and the firm as a collection of capabilities of the past (Coase, 1937, 1960, 1988).

The firms were formalized to avoid inefficiency in terms of moral hazard by internally organized through authority and hierarchy, assets ownership and hierarchy, and communication in hierarchy. By integrating and formalizing the problems in the agency, property rights, and ownership structure (Aoki, 1986; Aghion & Tirole, 1997). The firms are still unable to cope with internal and external organizational choices (Garrouste & Saussier, 2005). The trade-offs and assumptions of operationalizing the firm are still between risk and uncertainty, which is lacking of the role of the market players and entrepreneurs. Thus, there is insufficient element to a have a unified theory of the firm. The theory of the firm based on Coase (1937) has serious flaws, namely (a) unable to clearly define the nature and the boundaries of the firms because some transactions are internalized while others are externalized, and yet others are both internalized and externalized; (b) internal structure of the firm was not clearly and formally organized in terms of the production, incentives, controls and internal hierarchies; and (c) the relations between the firms and the market are not clearly defined whether firms are substitutes for the market or firms are not the market but players of the market with some limitations (Garrouste & Saussier, 2005).

The theory of the firm by Coase (1937) that being subscribed by the economists and business educationists are not unified theory due to its bounded rationality approach that made roles of entrepreneurs become uncertain (Kay, 1992). In addition, the role of institutional environment that affect the firm's decision is also unclear and vague. In fact, Coase's theory of the firm is very simplistic in which it assumed that the existence of the firm is due to the existence of transaction costs, and the firm's boundaries are defined by a simple calculus of transaction costs that are related to the Property Rights Theory and the Incentive Theory.

In short, Coase's theory of the firm and it formalized theories are unable to offer a unified theory of the firm due to lack learning processes both at the individual and organizational levels. Thus, the alternative theory of the firm that based on evolutionary theory and resource-based view of the firm can fill in the gap of learning and capacity building in the firm (Nelson & Winter, 1982; Kogut & Zander, 1996; Langlois & Garrouste, 1997). These two views have a common assumption, namely the behavioral assumptions (learning and rule-guided behavior) and assumed that knowledge and capabilities represent the firm's critical and distinctive resources (Foss, 1996; Poppo & Zenger, 1999). They argued that the resource-based and knowledge-based views of theory of the firm are more unified and comprehensive due to three arguments, namely knowledge is generated as the result of learning and experience; the result of learning, it is context (local) and path-dependent (historical), and it is partly tacit, and the organization is partly unaware of its existence because it is embedded in organizational routines and individual skills (Garrouste & Saussier, 2005).

#### 2.1 YET TO A UNIFIED THEORY OF THE FIRM

The resource-based and knowledge-based theory of the firm attempted to offer a unified theory of the firm based on the evolutionary perspectives. However, given the background of the contemporary business world that is full with uncertainty due to the globalization process, rapid changes are rampant due to the fast paced of technological development, high mobility of society, and high intensity in competition (Mahutga & Smith, 2011; Vergragt, 2012). This situation makes the business world competitive due to the increasing of enterprises that are competing on the uniqueness (Liu, Chen, & Tsai, 2004). The evolutionary perspectives emphasized on the importance of knowledge and innovation in facing the still competition to achieve sustainable competitive advantage (Karim & Hussein, 2008), but the firms are not able to do so with the increasing moral hazard events that hampered firms to create and sustain competitive advantage. There is increasing need to go back to the root of intellectual development, which lies in the soul of human. Lewis (2006) argues that the current business world can gain and sustain its competitive advantage when it is imbued with the soul (spirituality). Osman-Gani and Sarif (2011) argued that the excellence in spirituality leads to better worldview, far sighted and continuous improvement that guided by commendable values. Figure 1 summarizes the evolutionary process to develop a unified theory of the firm.

Not vet a Resource-based view & unified Coase theory of knowledge-based view theory of theory of the the firm Nature of the firm Individual External factors \*Global Boundaries Learning changes & Dynamism Internal Capacity/strength dynamism \*Ethical Internal Culture & External External Value capacity opportunitie opportunitie \*Uncertaint building Competitive Sustainable Competitive

Figure 1: The evolutionary process to develop a unified theory of the firm

Source: Developed based on Coase (1988), Mahutga & Smith (2011), Vergragt (2012).

Based on the flaws in the attempt to offer a unified theory of the firm as depicted in Figure 1, this research proposal offers an insight from Islamic perspective that a unified theory of the firm can be developed to gain and sustain competitive advantage via Tawhidic-based theory of the firm is based on Islamic monotheism worldview that the dynamism is actually part of the process to attain ultimate victory in this worldly and the hereafter life. Mohd Kamal Hassan (2010, p.187) explains that Tawhidic paradigm is about Islamic monotheism thinking to serve as the true servant of Allah ('*ibād al-Rahmān*), vicegerents (*khulafā' fī al-ard*), true believers (*al-mu'minūn*) for the sake of betterment of mankind (*khayra ummatin ukhrijat lil-Nās*) (Qur'ān, 3:110) and 'balanced community' (*ummatan wasatan li-takūnū shuhadā' 'alā al-nās*) (Qur'ān, 2:143).

According to Al-Faruqi (1992, p.5), the subscription to Tawhidic paradigm manifests the readiness and willingness to fulfill the Divine trust (*al amānah*) and obligatory duties (*al farā'id*) that are accompanied by the Divine guidance and human unique capability (Qur'ān, Surah Hud, 11: 6 and *Sura Az Zumar* 39: 41).

Given the dynamic contents of the business world, managers need comprehensive and rigorous theory of the firm to make the business continues to make profit on sustainable basis. The production-based economy provides the competencies to maximize profit through cost minimization and resources

optimization. Resources in today's world are not only physical and organizational resources, but also human potentials that are transformed into competencies and capacity building.

Realizing the need for human potential in the business and economy, business strategists are gradually subscribing knowledge-based economy that are capable of responding to fast paced globalization. In other words, organizations must be able to advance their technology and competencies so that they can cope with the knowledge-intensive business services, very fast acceleration of product cycles, and changes of customers' tastes and preferences. In facing the competitors, knowledge about the industry, market and customers is essential.

Organizations must always acquire knowledge and continuously learn from various stakeholders to gain competitive advantages. The knowledge intensive business requires the unique competencies to be innovative. Innovation capability is not with the organizations, but with the individual knowledge workers and who possess knowledge and other intellectual derivatives. The classical innovation works on linear basis, less interactive and within the formal organizational network. Unlike the contemporary innovation, it works on dynamic mode, highly interactive and hybrid organizational network.

#### 2.2 TAWHIDIC PARADIGM

This section elaborates on the *Tawhidic* paradigm perspectives. Mohd Kamal Hassan (2010, p.187) explains that Tawhidic paradigm is about Islamic monotheism thinking to serve as the true servant of Allah ('*ibād al-Rahmān*), vicegerents (*khulafā' fī al-ard*), true believers (*al-mu'minūn*) for the sake of betterment of mankind (*khayra ummatin ukhrijat lil-Nās*) (Qur'ān, 3:110) and 'balanced community' (*ummatan waṣatan li-takūnū shuhadā' 'alā al-nās*) (Qur'ān, 2:143).

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The theory of the firm can be unified based on the unified paradigm of the Tawhidic perspective. According to Zarkasvi (2010), unification of knowledge is the basis for unity in wisdom and action. Based on Al-Ghazālī's approach of organizational and human wisdom and soul development, knowledge can be divided into religious and rational knowledge. Religious knowledge includes the science of the practical religion ('ilm al-mu'amālah), God's guided knowledge on how the religion can be executed ('ilm al-shar'ivy), and knowledge that derived from human intellect ('ilm al-'aglivy). The scope of the practical religion ('ilm al-mu'amālah) is available in two forms, exoteric (zāhir) and esoteric (bātin) sciences. The exoteric (zāhir) sciences include the act of worship ('ibādat), social ethics ('ādat), and matters pertaining to dangerous act (muhlikāt). As for esoteric (bātin) sciences, it is about spirituality dimension. The second category of knowledge is the rational knowledge ('ulūm al-'aqliyyah/'ulūm ghayr shar'iyyah). This type of knowledge can be divided into fundamental (usūl) and subsidiary (furū'). The fundamental knowledge includes mathematics/logic, natural science (observation and experiment), and investigation science of existence. The theoretical classification of knowledge allows organizations to identify priorities, resources, and efforts to convert the knowledge into absorptive capability. Zarkasyi (2010, pp.162-164) argued that there are two ways knowledge can be acquired by individuals, namely through human teaching (al-ta'lim al insaniyy) and Divine teaching (al-ta'lim al rabbāniyy). People learn from other people via face-to-face and other instructional ways (Zabeda, 2004, 2008) with monetary or non-monetary rewards (Zabeda, 2008). However, the Divine teaching is highly spiritual when the learners acquiring knowledge based on Divine revelation (alwahv), inspiration (ilhām), reflection and contemplation (al-ishtighal bi al-tafakkur). The absorptive capacity to acquire human and Divine teaching is through five capabilities (power), namely common sense (al-hiss al-mushtarak), representative power (al-quwwah al-khayāliyyah), estimate power (alquwwah al-wahmiyyah), retentive power (al-quwwah al-hāfidah wa al-dhakirah), imaginative power (al-quwwah al-mutakhayyilah/ al-quwwah al mutafakirrah).

## 2.3 TAWHIDIC PARADIGM (TP) AND THE THEORY OF THE FIRM (TOF)

This section elaborates Tawhidic paradigm can be integrated with the theory of the firm upon the foundation of Islamic faith. The Islamic faith is based on *kalima shahaada*, which is to recognise Allah as the only universal God and Prophet Muhammad (Peace Be Upon Him) as the messenger of Allah. With this foundation, the ultimate aim of Islamic management system is to gain the pleasure of Allah by executing all of the duties prescribed by Him. The discussion of this paper begins with the explanation on the major components of *Tawhidic* paradigm. According to *Tawhidic* paradigm, man's multiple relationships revolve around *Tawhid*. In fact, there are prerequisites to *Tawhid* and the roles of the believers of the paradigm. Figure 2 depicts the integrative linking role of *Tawhid* with worship (*'ibadat*), submission of mankind to Allah for the sake of securing His Pleasure vis-à-vis the roles of mankind as servant (*'abd*) and vicegerent (*khalifa*) of Allah.

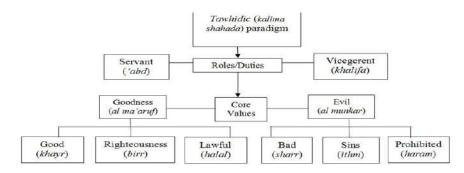
Faith \*Knowledge Servant ('abd) of \*Certainty Justice Allah \*Sincerity **Tawhidic** Worship \*Truthful (kalimah ('ibadah) Shahadah) \*Love \*Adherence Vicegerent Trust (amanah) (khalifah) Society of Allah (mujtama')

Figure 2: The integrative role of Tawhid in executing worship ('ibadat) with trust and justice.

Source: Sarif & Ismail (2011)

The development of a unified theory of the firm is in line with the main reason the creation of man, which is to worship ('ibadat) Allah, in which it has to be performed with trust and justice is depicted in Figure 3 to be consistent with the job description of vicegerent (khalifa) as stated in Sura al Baqarah 2: 30. This assignment is in line with the purpose that Allah has created mankind to be His servant and also His vicegerent on earth.

Figure 3: Fundamental Principles of Duniawi-Ukhrawi View



Source: Sarif & Ismail (2011)

# 2.4 INTEGRATING THE THEORY OF THE FIRM AND THE MANAGEMENT OF THE FIRMS

This section elaborates KMS nature from organizational perspectives. The development of a unified theory of the firm requires comprehensive assessment on internal, external, explicit and implicit aspects of the firms (Garrouste & Saussier, 2005; Debowski, 2006). Debowski (2006) contended that contemporary theory of the firm for knowledge management development includes the organizational process and support. Five phases of knowledge development are knowledge sourcing, knowledge abstraction, knowledge conversion, knowledge diffusion and knowledge refinement. Knowledge sourcing involves organizational task to identify relevant information from the market and feedback from stakeholders. Knowledge abstraction is about making sense of the information obtained from the market into theories and assumptions. The next step will do knowledge conversion, to codify tacit and embodied knowledge into explicit and codified knowledge. The codified knowledge is transferred, transmitted and diffuse for greater use.

Firms develop a unified theory of the firm in order to mobilise economic scarce resources and transform them into goods and services to benefit mankind. Gibbons (2005) said that firm is basically a vehicle for entrepreneur to mobilise resources to create wealth sustainably. Williamson (1971, 1979, 1985) argued that firm is used to generate continuous income for the owners of the firm; he called this activity as 'rent-seeking' behavior of the firm. Similar observations are made by Klein (1988, 1996). Firm is also being used as formal vehicle to own resources or 'property-rights' so that it can continue to be the beneficiary of the resources (Hart & Moore, 1990, and Hart, 1995). Other scholars argued that firm provides 'incentives' to economic system to generate wealth (Holmstrom, 1982, 1999). Cyert and March (1992) argued that firm sets the foundation for organisation to create goals, provide expectations and choices. Goals are very important for members of organisation to make commitment and shape the required behavior in order to achieve desired outcomes. Expectations are related to the potential benefits or advantages in the future that can be envisaged so that people can adjust the present behaviour in order to fulfil the future target. The firms make choices or solve problems based on goals and expectations so that the choices maximize the potential goals (Cyert & March, 1992; Cyert, Dill & March, 1958).

Firms could attain objectives and goals if they are managed efficiently and effectively. Management can be defined as the process of working with and through people via planning (P), organizing (O), leading (L), and controlling (C) - P-O-L-C - the people and other resources to achieve the objectives or goals (Daft, 2010; Dyck & Neubert, 2009). This definition is based on the classical theory of scientific management (Dyck & Neubert, 2009). In other words, there are four functions involved when managing firms or any organizations, i.e. to determine the goals, to arrange the task and structure, to

work with other people collectively, and to ensure results are achieved (Daft, 2010; Dyck & Neubert, 2009).

Daft (2010) argued that managers apply management functions of planning, organizing, leading and controlling to achieve goals of their organization. Planning is defined as the process to formulate goals for future performance together with the resources required. Organizing refers to the arrangement of tasks, responsibilities, accountability, and resources allocation to enable the organization to execute activities that attaining the goals. Leading is about the use of influence on employees so that they are motivated, willing and ready to perform the tasks assigned to them. As for controlling, it is about monitoring employees and resources so that they are on the right track to achieve the goals of the organization.

Managers perform the management functions on daily basis by carrying out various activities to achieve organizational goal of their organization. In other words, managers perform certain roles in carrying out the management functions – P-O-L-C.

## 3. METHODOLOGY

The objective of the study is to develop a unified theory of the firm based on *Tawhidic* paradigm approach. The nature of the study is not to test the existing theory of the firm, but to develop from the ground (field) a unified theory of the firm based on *Tawhidic* paradigm approach. The objectives of the study are (a) to explore the nature, factors, boundaries, and insights that contribute to the development of a unified theory of the firm from *Tawhidic* paradigm; and (b) to obtain the views of the policy makers, trade representatives, and business decision makers the criteria for a unified theory of the firm from *Tawhidic* paradigm. The study asked two questions to the informants, firstly (a) How do business decision makers address the challenges of the contemporary nature of business activity to sustain competitive advantage? Secondly, in what ways, the understanding of *Tawhidic* paradigm influences business strategists to formulate firm strategies to be more comprehensive, rigorous and dynamic?

The study used qualitative method via personal interview 15 senior managers of Islamic financial institutions that listed in Bursa Malaysia about the nature of the firm, the scope and boundaries of the companies that contribute to a unified theory of the firm. The use of qualitative method through personal interviews is appropriate for exploratory nature of studies. Miles and Huberman (1994) argued that qualitative method is appropriate to examine complex and difficult contexts of study because they can put the situation/s in question into the right perspective. In addition, Marshall and Rossman (1989) recommended the use of qualitative methods to enable researchers to ask more questions in order to explore the context of the study in greater detail.

The nature of business activity is dynamic because it involves different perspectives and understanding of different individuals. Such situations are best understood utilising qualitative method (Ezzy, 2002; Lee, 1999). Further, qualitative method also enables the researcher to identify and understand the complex relationships in knowledge transfer between firms (Lee, 1999; Rist, 1994). By asking questions in personal interviews, the researcher will get varieties of answers that are relevant to the interview questions (Patton, 2002; Silverman, 1993).

There are many techniques to obtain data using qualitative method, such as active or passive participation and observation, personal interviews, content analysis on various documents, and case study (Patton, 2002; Lee, 1999; Creswell, 1998). The researcher will use personal interviews. Such method provides greater opportunity for the researcher to understand the perceptions and preliminary assessments of technology-based firms towards social entrepreneurship and sustainable wealth. Nevertheless, the researcher is aware of the challenges and constraints in using the qualitative method in this study.

The data collection method is a qualitative research method. The qualitative method enables the study to explore a context deeply, which could not be done adequately by quantitative methods, such as survey (Wainwright, 1997; Patton, 1990). The study solicited the views, perceptions, insights, and advices of 15 senior managers of Islamic financial institutions that listed in Bursa Malaysia about the nature of the firm, the scope and boundaries of the companies that contribute to a unified theory of the firm.

#### 4. FINDINGS AND DISCUSSION

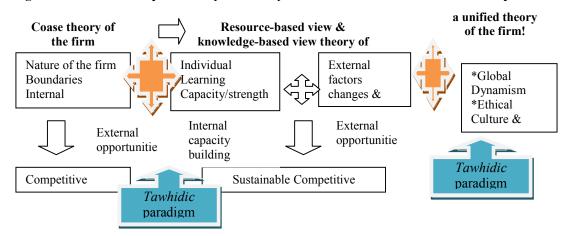
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**Table 1: Informants' Profile** 

Code	Post	Location
M1	General Manager	Kuala Lumpur
M2	Senior Manager	Petaling Jaya
M3	Vice President	Kuala Lumpur
M4	Branch Manager	Ampang
M5	Regional Manager	Ipoh
M6	Senior Manager	Shah Alam
M7	Senior Manager	Subang Jaya
M8	General Manager	Petaling Jaya
M9	Executive Director	Kuala Lumpur
M10	Chief Operations Officer	Kuala Lumpur
M11	Senior Manager	Kuala Lumpur
M12	General Manager	Kuala Lumpur
M13	Assistant General Manager	Kuala Lumpur
M14	Marketing Manager	Kuala Lumpur
M15	General Manager	Kuala Lumpur

The nature of the firm at the Islamic financial public companies is not much different from the conventional operations. According to M1, these companies appointed shariah advisory committee to advise the business model, policy, directions, and objectives. In essence, all the functional areas must follow the shariah requirements. M2 argued that some companies' directors perceived that the shariah compliant requires them to change their faith from non-Muslim to become Muslim. In fact, M3 emphasized that the main objective for the shariah requirement is to discipline the managers and employees to practice good universal values such as honesty, transparent, trustworthiness, and good behaviour. M4 contended that the nature of Islamic banking and finance companies is the services, to collect deposits from the public and to disburse the money through Islamic financing activities. M5 pointed out that the primary responsibility of the company remains to generate profit, growth and prosperity. M6 argued that the shariah values governed the responsibility of any company into four levels, namely economic, legal, ethical and social responsibilities. As for M7-M15, business continuity remains the struggle for the business. Based on the feedback of the informants, the Tawhidic paradigm glues the nature of the firm with the processes and functional areas of the firm to enable it survival and sustain with universal good values. Figure 4 shows the presence of *Tawhidic* paradigm into the unified theory of the firm for Islamic financial companies in Malaysia.

Figure 4: Informants input to unify the theory of the firm from Islamic finance companies



Based on Figure 4, the essence of *Tawhidic* paradigm is vital. The informants argued that the vision, mission and objective statements that differentiate the *shari'ah* compliant and non-*shari'ah* compliant companies. The *shariah*-compliant companies apply *Tawhidic* paradigm in terms of companies' continuous improvement in all functional aspects, value added services to the stakeholders, and enhancing social welfare to the humanity.

#### 5. CONCLUSION

The study asked two questions to the informants, firstly (a) How do business decision makers address the challenges of the contemporary nature of business activity to sustain competitive. Secondly, in what ways, the understanding of *Tawhidic* paradigm influences business strategists to formulate firm strategies to be more comprehensive, rigorous and dynamic? The findings are based on the feedback of the personal interview with 15 senior managers of Islamic financial institutions that listed in Bursa Malaysia about the nature of the firm, the scope and boundaries of the companies that contribute to a unified theory of the firm. The informants argued that the vision, mission and objective statements that differentiate the *shari'ah* compliant and non-*shari'ah* compliant companies. The *shariah*-compliant companies apply *Tawhidic* paradigm in terms of companies' continuous improvement in all functional aspects, value added services to the stakeholders, and enhancing social welfare to the humanity. The main contribution from this study is the framework of the theory of the firm from *Tawhidic* paradigm, which adds into the sustainability principles and business continuity.

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# THE EFFECT OF TRANSFORMATIONAL LEADERSHIP IN ACHIEVING HIGH-PERFORMANCE WORKFORCE THAT EXCEEDS ORGANISATIONAL EXPECTATION

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#### **ABSTRACT**

The focus areas of transformational leadership in organisational settings have undergone a significant evolution in terms of both theory development and empirical investigations over the last decade and a half. As a result, our knowledge about this leadership style has deepened, and there are several dominant theories that are now established paradigms in the leadership field. Consequently, despite the progress, there are numerous dimensions of this leadership form that we are still in the dark. Given this moment in the field's evolution, it is only appropriate that we take stock of where we have been and where we need to go into the future. Whilst leaders play the primary role in establishing and motivating employee's performance, little research has examined the specific processes which engender the effect of transformational leadership that result in high-performance workforce that exceeds organisational expectation. This paper conceptualises the ways and the process taken by transformational leaders and the effect of transformational leadership in achieving high-performance workforce that exceeds organisational expectation.

**Keywords**: Transformational leadership, high performance work force, organizational expectation.

## 1. INTRODUCTION

Creating high-performance workforce has become increasingly vital and to do so business leaders must be able to motivate organizational members to go beyond their task requirements. An important characteristic of leadership is using human talents to grow performance, trust and integrity in employees and the organization (Daft, 2005). As a result, new notions of leadership have surface - transformational leadership being one of them.

Transformational leadership has been defined as "leader behaviours that transform and inspire followers to perform beyond expectations while transcending self-interest for the good of the organization" (Avolio et al., 2009). Transformational leadership has become one of the most outstanding theories of organizational behaviour simply because organizations need leaders of excellence to steer the company's objectives and goals. In contrast to leadership based on individual, transformational leaders direct and motivate employee effort by raising their awareness of the significance of organizational values and the end results. In doing so, such leaders activate the higher order needs of their employees and encourage them to go beyond their own self interest for the organization and its clients. Research has not only authenticated the existence of transformational leadership but also has consistently

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linked the practice of these transformational leadership behaviours with employee performance and satisfaction (Bass and Riggio, 2006).

Transformational leaders, guide the way by stimulating intellectual curiosity and inspiring achievement. Additionally, transformational leaders empower team members to develop their own leadership skills by paying attention to individual needs and development. The result is that team members are often motivated to achieve more than they originally thought possible. They are also more satisfied with the results. As Bass and Riggio (2010) point out, research shows that transformational leadership is an effective model for a broad range of fields and cultures.

New businesses are established everyday but these businesses sometimes fail to take seriously the need to develop leaders' attributes which may affect their employees' performance because many are only concern about profit making. Transformational leaders play a very important role to lead their followers or co-workers to fulfil organizational goals effectively. Transformational leadership influences behaviours associated with leadership effectiveness in driving change and transform organization to success. It is the fundamental attitudes that leaders in organizations create which is a common mentality to achieve organizational goals and satisfy stakeholders.

The goals of the organizations are expressed in profits, growth in the market, or innovation is met through a combination of resources that are organized and mobilized by leaders. Leadership theorists have proposed a myriad of characteristics, behaviours and styles to profile effective leaders. Leadership is a dynamic concept, is about transformation, inspiration, vision, goals, cultural adaptation, and knowledge. Leadership styles change with the type of organization, the characteristics of followership, the relationship between followers and leaders, the resources used to generate actions from the followers and environmental factors.

#### 2. REVIEW OF THE LITERATURE

# TRANSFORMATIONAL LEADERSHIP

Much literature suggests that numerous variables affect a leader's effectiveness. It indicates that specific leader behaviours such as the ability to motivate to generate high-performance workforce, communicate, and build teams are factors of successful implementation of organizational change. These is critical when the ability of leaders becoming the change agent for the organization and by acting as change agent, they empower workers to higher motivation stages.

Therefore business leaders must be able to motivate organizational members to go beyond their task requirements. As a result, new understanding of leadership have emerged and transformational leadership being one of them. Transformational leaders who are visionary, inspiring, daring and thoughtful thinkers can be found at all levels of the organization. They may be in teams, departments, divisions, and organization as a whole with charismatic appeal. But there's so much more needed for a leader to make changes in the way an organization operates. According to Bass and Riggio (2006), transformational leaders must exhibit the four factors to bring major changes. Also known as the "four I's", the four factors of transformational leadership is idealized influence, inspirational motivation, intellectual stimulation, and individual consideration.

For anybody to propel teams or the organization forward, organizations need to emphasize the concept of leadership in training managers or group leaders. Transformational leadership involves a committed four basic elements that underlie it. In 1985 an industrial psychologist

named Bernard Bass wrote about the four components describing the characteristics that are valuable to the "transformation" process. According to Bass, when managers are strong role models, encouragers, innovators, and coaches, they are utilizing the "four I's" to help "transform" their associates into better, more productive and successful individuals. Northouse (2001) states that in 39 studies of transformational literature, individuals who exhibited transformational leadership were more effective leaders and with better work outcomes. This was true for both high-and low-level leaders in the public and private sectors (Hou, 2001).

#### **Idealized Influence**

Transformational leaders act as role models and display a charismatic personality that influences others to want to become more like the leader. Idealized influence can be most expressed through a transformational leader's willingness to take certain degree of risks and follow a core set of values, convictions and ethical principles. It is through this concept of idealized influence that the leader builds trust with his followers and the followers, in turn, develop confidence in their leader. In these aspects the leader has empower their subordinates creating trust and be seen as role model for the workers to excel in their duties.

#### **Inspirational Motivation**

Inspirational motivation refers to the leader's ability to inspire confidence, motivation and a sense of being receptive to followers' ideas and thoughts. The transformational leader articulates a clear vision for the future, communicate expectations of the group and demonstrate a commitment to the goals that have been laid out for the group to achieve. This aspect of transformational leadership requires superb communication skills as the leader must convey his messages with precision, power and a sense of authority. Other important behaviours of the leader include his continued optimism, enthusiasm and ability to point out the positive sides of organizational visions and goals.

#### **Intellectual Stimulation**

Transformational leadership values creativity and autonomy among the leader's followers. The leader supports his followers by helping them and involving them in the decision-making process and stimulating their efforts to be as creative and innovative as possible to identify solutions. They also challenges assumptions and solicit ideas from followers without criticizing instead helps change the way followers think about and frame problems and obstacles. The vision the leader conveys helps followers see the bigger picture and succeed in their efforts.

### **Individualized Consideration**

In any business organization, follower or group member has specific needs and desires. Some maybe motivated by money while others by change and excitement. The individualized consideration element of transformational leadership recognizes these needs and quickly attends to it. The leader must be able to recognize or determine by way of observation and evaluating motivates of each individual. Through one-on-one coaching and mentoring, the transformational leader provides opportunities for customized training sessions for each team member. These activities allow team members to grow and become fulfilled in their positions. The common examples of transformational leaders are Mahatma Gandhi and Barrack Obama. Effective transformational leadership results in performances that exceed organizational expectations.

The current business environment is very much characterized by economic uncertainty, global turbulence, organizational instability and political instability. Because of the uncertain landscape, transformational leadership has to prevail at all levels of the organization. In this case the followers of such leaders demonstrate high levels of job satisfaction and organizational commitment, and engage in organizational citizenship behaviours. With such a devoted workforce, it will definitely be useful to consider making

efforts towards developing ways of transforming organization through leadership. And thus for the purpose of this research the researcher will look into the four components of the leadership theory.

#### 3. ORGANIZATIONAL PERFORMANCE

Rowe et al. (2005) said that there is a common belief that leadership can enhance the performance of organizations. The style of leadership is also considered crucial in achieving organizational goals, learning, and performance (Barling et al., 1996). Each organization has its own goal, and workers have to utilize different control activities and effective operation to achieve their organizational goals.

In the for-profit organizations, performance is to measure revenue, production, and profit making. In the non-profit organizations, they do not evaluate performance by profits. They do not have to make an imminent improvement whether the decision is right or not, whether the resource is used properly, and whether the mission is being achieved. However, the non-profit organizations need performance management to control organizational operation (Section, 1999).

# 4. TRANSFORMATIONAL LEADERSHIP AND ORGANIZATIONAL PERFORMANCE

Transformational leaders will pay attention to take care and to respect their followers. Transformational leaders will motivate followers and lead those to achieve group performance thus followers become competent to execute task assigned to them. Morrow (1983) proposed that transformational leader will help to promote employees' work abilities, organizational involvement, self-determination, delegation, and self-achievement. If leaders and followers reciprocate, it will promote a higher recognition to the organizational goals and objectives. The followers will contribute their best efforts to the organization and hope to keep a good relationship with peers. Hence, job satisfaction can be promoted by transformational leadership while followers will perform better than expected and the degree of satisfaction increases. This is supported by Lee (1996). He found that transformational leadership in the government agencies is positively related to the followers' job satisfaction. So, performance and job satisfaction of followers in the work place will be elevated.

Hu (2001) found that organizational culture and types of leadership will influence job satisfaction of employees, and job satisfaction acts as a mediator of leadership and organizational culture to influence organizational performance. When transformational leaders promote the involvement and achievement of the employees, job satisfaction and organizational identification will also be raised. Therefore, the organization and employees will work closely and the job efficiency will be also lifted.

According to Sendjaya and Pekerti (2010) an empirical research related to organizational performance, with the impact of ethical leadership style such as servant leadership would enrich the understanding of the issue. By doing so, organizational performance can be measured in terms of return on asset, return on equity, net growth rate and return on sales etc., while the efficiency and effectiveness might also be measuring tools for organizational performance (Ho, 2011). With more advance in research regarding servant and transformational leadership, a clear distinction would be possible (Stone et al., 2004).

Wallach (1983) identified that performance and job satisfaction depend on the match of personal characteristics and organizational culture while Harris and Mossholder (1996) asserted that organizational culture is the core of the human resource management and it will

influence on job satisfaction. Huang and Chi (2004) concluded that job satisfaction can make employees work hard and increase operational performance of the organization. Therefore, when the employee's requirements are consistent with organizational culture, it can motivate them to work hard.

#### 5. CONCLUSION

Despite transformational leadership enjoying success and attention as an exceptional leadership theory, few scholars have investigated a specific link between transformational leadership theory and team performance. As such, this paper discusses how transformational leadership theory can provide a framework in which to investigate the effect of transformational leadership in achieving high-performance workforce that exceeds organisational expectation. We conceived that idealized influence/inspirational motivation, intellectual stimulation and individualized consideration could produce intermediate outcomes such as shared vision, team commitment, an empowered team environment and functional team conflict. However what is most important is we need to find out the process by which the transformational leaders are able to carry out his role in order to achieve high performance workforce. Further study will be conducted to study this particular research question.

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# THE STRUCTURE OF *SUKUK IJARAH*: AN INITIAL ANALYSIS FROM THE PERSPECTIVE OF *MAQASID AL-SHARI'AH*

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#### **ABSTRACT**

Sukuk Ijarah is a common asset based securities for sukuk issuance before 2008. However in 2008, Syeikh Mufti Taqi Uthmani has criticized on the prevailing sukuk Ijarahand concluded that almost allsukuk in the market are not in line with Shari'ah guidelines. Accordingly, several progressive developments have been made in the practice of sukuk where it was witnessed the shifting mode of sukuk issuance from the ijarah structure to the musharakah or murabahah for commodities. Therefore, this paper tries to share the suitable method in analyzing structure of sukuk Ijarah from the view of maqasid al-Shari'ahthat considers and reflects directly to theapplication of several principles and concepts such maslahah, mafsadah, hardship elimination, sad al-zara'i and al-Istihsan. The general finding shows that a proper consideration from the perspective of Maqasid al-Shari'ah is needed in order to structure Sukuk Ijarah.

**Keywords:** Magasid al-Shari'ah, sukuk Ijarah, sukuk, structure

#### 1. INTRODUCTION

Sukuk has experienced tremendous growth since 1990 when Shell MDS, a foreign-owned and non-Islamic company issued 125 million sukuk. The trend in issuing sukuk by corporate company was followed ten years later by the big conglomerate in Malaysia Kumpulan Guthrie Berhad with the worth of USD 150 million, also as the first global corporate sukukand has matured at 2006 under the concept of Sukuk Ijarah. The sukuk securities markets have grown rapidly, with both public issues and private sector issues, and have been a very popular fund raising mode in Malaysia since 2000 (Mohamad Ariff and Shamsher Mohamad, 2012).

*Sukuk* are still in an early stage of development relative to conventional capital markets. *Sukuk* often share the same pool of investors as conventional bond- that is, conventional investors subscribeto *sukuk* not necessarily because of *Shari'ah* compliance or ethical aspects, but for commercial considerations (Rahail Ali and Imran Mufti, 2011).

Sukuk is extremely flexible product that can be used to create a variety of instruments, ranging from straight unsecured debt to subordinated issues that can count towards the lower tier two capital of Islamic banks. Sukuk also provides access to an incremental investor base that cannot participate in conventional bond issues. In order to sustain issuance momentum, a greater diversify of structures, issuers and investors must be found while increasing awareness among traditional bond investors (Yavar Moini, 2011).

The Shari'ah's uppermost objectives rest within the concepts of compassionand guidance, which seek to establish justice, eliminate prejudice, and alleviate hardship by promoting cooperation and mutual support within the family and society at large. Both of these concepts are manifested by realizing the public interest that Islamic scholars have generally considered to bethe Shari'ah's all-pervasive value and objective that is, for all intents and purposes, synonymous with compassion (Asyraf Wajdi and

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Nurdianawati, 2007). Thus, this paper is an initial analysis for the proposal of studying the *sukuk Ijarah* structure from the view of *maqasid al-Shari'ah* where the objective is to define the principles of *maqasid* and the considerations given to the instrument in order to meet the objective of *Shari'ah*.

# 2. MAQASID AL-SHARI'AH AT GLANCE

Maqasid (the plural of maqsad means objective) al-Shari'ahare the objectives, spirit and the rationale of the Shari'ah. A comprehensive and careful examinations of the Shari'ah rulings entails an understanding that Shari'ah aims at protecting and preserving public interests (maslahah) in all aspects and segments of life. So, Shari'ah laws in general are designed to protect these benefits, and to facilitate improvement and perfection of human lives' conditions on earth. This fact suggest that we are required to maintain maqasid al-Shari'ah when implementing Shari'ah rulings, and to observe these maqasid when deducingrulings for the new arising matters (Abdul Azeem Abo Zaid, 2010).

The very objective of the *Shari'ah* is to promote the well-being of the people, which lies in safeguarding their faith ( *din* ), their self ( *nafs* ), their intellect ( *aql* ), their posterity ( *nasl* ) and their wealth ( *mal* ). Whatever ensures the safeguard of these five serves public interest and is desirable and whatever hurts them is against public interest and its removal is desirable ( Aliya Dahiru Muhammad, 2010 ).

'Alal al-Fasi draws wide picture that covers each angles in *maqasid al-Shari'ah*s 'the overall objective of *Shari'ah* is to populate and civilize the earth and preserve the order of peaceful coexistence therein, to ensure the earth's ongoing well-being and usefulness through the piety of those who have been placed there as God's vicegerents, to ensure that people conduct themselves justly, with moral probity and with integrity in thought and action, and that they reform that which needs reform on earth, that they tap its resources and plan for the good of all (Al-Raisuni, 2005).

Kamali (1999) explains that Al-Shatibi accentuated the knowledge of the *maqasid* as a prerequisite of attainment to the rank of a *mujtahid*. Those who neglect acquiring mastery of the *maqasid*do so to their own peril as it would make them liable to error in *ijtihad* included among these were the proponents of pernicious innovations (*ahlu al-bid'ah*) who only looked at the apparent text of the *Ouran* without pondering over its objective and meaning.

From the historical background, it was not until the early 4th Century of the *Hijrah* (the Islamic calendar) that the term 'maqasid' was used in the juristic writings of Abu 'Abd-Allah al-Tirmidhi al-Hakim. Recurring references to this then appeared in the works of Imam alHaramayn al-Juwayni (d. 478H), who was probably the first to classify the maqasid of the Shari'ah into the three main categories of the daruriyyah,hajiyyah and the tahsiniyyah, which has ever since been generally accepted. Al-Juwayni's ideas were then further developed by his pupil, Abu Hamid al-Ghazzali (d. 505H), who wrote at length on the doctrines of Maslahah (Public Interest) and Ta'lil (Ratiocination) in his works Al-Shifa' Al-Ghalil and Al-Mustasfamin 'Ilm Al-Usul. Sayf al-Din al-Amidi (d. 631H) identified the science as al-targih, a studied grid or criteria to ascertain preference amongst conflicting interests.

Next, the Maliki jurist Shihab al-Din al-Qarafi (d. 684H) was the first to add a sixth to the existing list of the five essential maqasid, namely, the protection of *al-'ird*( pride ). Izz al-Din Abd al-Salam al-Sulami's (d. 660H) renowned work, *Al-Qawa'id Al-Ahkam*, was in his own characterization a work on the *'maqasid al-ahkam'*. The work provides a comprehensive treatment of the various aspects of *al-Maqasid*, and especially in respect of the doctrines of *'Illah* (Effective Cause) and *Maslahah* (Public Interest).

Taqi al-Din ibn Taimiyyah (d. 728H) was probably the first scholar to depart from the notion of confining the *maqasid* to a specific number. He added to the existing list of the *maqasid* such things as the fulfillment of contracts, the preservation of the ties of kinship and respect for the rights of one's

neighbors. In relation to the Hereafter, he added an inventory of qualities, including love of God, sincerity, trustworthiness and moral purity (Kamali, n.d.).

In the 20<sup>th</sup> century, Al-Tahir Ibnu Ashur (d.1325H) is a prominent scholar who proposed that the universal *maqasid* of the Islamic law is to maintain orderliness, equality, freedom, facilitation and the preservation of pure natural disposition (*fitrah*). Muhammad al-Ghazali (d. 141H) also contributed unforgettable idea to the knowledge of *maqasid al-Shari'ah*by his critique on the literalist tendencies that many of today's scholars have. Al-Qaradawi concluded from Al-Quran the universal *maqasid*; preserving true faith, maintaining human dignity and rights, calling people to worship God, purifying the soul, restoring moral values, building good families, treating women fairly, building a strong Islamic nation and calling for a cooperative world (Jasser Auda, 2008).

Today, this science still in infant stage and need for the extensive development effort where it can be the guidance of scholars today in finding the solution for problems, issues and challenges that seem keep on increasing and compounding time to time. Furthermore, the science of *maqasid* also will protect the universality of *Shari'ah* law and ensure the acceptance of people globally in various sectors and fields of interest.

# 2.1 Maqasid al-Shari'ah in Islamic Finance

Islamic finance is a crucial portion of the discussion in the science of Islamic economic nowadays. Before entering the maqasid al-Shari'ah in Islamic finance, it is better to revise at glance to the maqasid al-Shari'ah in overall of Islamic economic.

Mustafa Omar and Syahidawati (2013) draw a table of general economic-based of *maqasid al-Shari'ah* that derived fromseveral influence scholars in Islamic economic and finance. Among the objective are eliminate poverty and deprivation, provide basic human needs, to achieve moral and material development, to circulate wealth, to achieve *falah* in economic and to achieve economic well-being and Islamic moral norms.

One if the biggest challenges in Islamic banking and finance industry today is to come up with products and services that is *Shari'ah* compliant or legitimate from Islamic point of view without undermining the business aspects of being competitive, profitable and viable in the long run (Asyraf Wajdi and Abdulazeem Abozaid, 2007). Habib Ahmad (2011) identifies two aspects to be configured and arranged in line with the requirements of *maqasid al-Shari'ah* in Islamic finance, first, is the *Shari'ah* requirement relates to the legal aspects of transactions whereas the second aspect is the dimension that relates to the social requirement.

Islamic law introduces many rulings aimed at realizing the preservation of wealth in both material and social-psychological dimensions. Muslim jurists have asserted that preservation of wealth is to be achieved in at least five main dimensions.

- 1. Preservation of wealth through the protection of ownership;
- 2. Preservation of wealth through its acquisition and development;
- 3. Preservation of wealth from damage;
- 4. Protection of wealth through its circulation;
- 5. Preservation of wealth through protection of its value (Asyraf Wajdi and Said Bouheraoua, 2011).

Islamic Finance is subject to rules and ethical values which are directly supportive of *Shari'ah* complementary *Maqasid*. Most important of these rules areand ethics which are derived from Shari'ah and 'Aqidah ( Islamic faith ):

- a. Prohibition of *riba* (interest)
- b. Prohibition of trade in debt
- c. Prohibition of *Ghabn* and *Gharar* (uncertainty)
- d. Promoting justice
- e. Enjoining the principle of leniency
- f. Recognition and respect of private property rights (Abdul Rahman Yousri Ahmad, 2009)

Akram Laldin and Hafas Furqani (2012) differentiate between the goals (maqasid) and the means (wasail) in Islamic finance activities. For the goals, they list three main maqasid in applying Shari'ah law, first, wealth circulation that comprises all processes related to its creation, consumption and distribution; second, fair and transparent financial practices whereas the last is justice in the macro and micro dimensions. The micro dimension related to transactional instruments and mechanisms. The means to achieve these goals are; facilitating financial contracts, establishing values and standard and instituting social responsibility.

In implementing the spirit of *maqasid al-Shari'ah*, there are several resolutions made by authority bodies that based on the consideration of *maslahah*, *mafsadah* and the general theory of *maqasid al-Shari'ah*, *as follows:* 

- 1. Application of *bai'* al-dayn which can safeguard the *maslahah* ( interest ) of the market participants.
- 2. Application of *ujrah* on *kafalah* based on *maslahah* and society's needs.
- 3. Application of iqta' with the objective of *maslahah* and deemed not contradict with *maslahah* 'ammah.
- 4. The permissible of regulated short selling when the prohibited element of *gharar*can be overcome in RSS system and the shares sold will be delivered.
- 5. The securities borrowing and lending based on the principle of *istihsan* and *maslahah* that provides liquidity to the share market.
- 6. Crude palm oil futures contract that often contains *gharar* and *ghalat* (false) elements. However, *ghalat* that involves a wrong assessment of an individual (*ghalat 'aqid*) cannot be used to terminate a contract.
- 7. Through the interpretation of *hikmah tashri'iyyah*, the composite index futures contract will create *maslahah* to the investor in particular and to the economic system in general, as it acts as a hedging instrument.
- 8. *Maslahah* is the best reasonto permit the mixed companies provided the core activities of company must be activities which are not against the *Shari'ah* principles or the public perception of the company must be very good and the portion of harama element is very small ( Ahcene Lahsasna, 2013).
  - Briefly speaking, the *maqasid al-Shari'ah*in Islamic finance aims to protect all parties' rights simultaneously together with their wealth and property by relying on the law of financial transantions ( *fiqh al-mu'amalat* ) that have been regulated and designed uniquely and comprehensively for the main purpose of every human in this world is to achieve happiness and fortunate in this temporary life and be granted by Allah with the reward and paradise in the hereafter.

### 2.2 The Elements to be Considered and Examined in Magasid Al-Shari'ah

Maqasid al-Shari'ah means the objectives aimed by the Lawgiver from the legislated law to the mankind and it constitutes the concept of enjoining benefits and avoiding difficulties ( Jalbu al-Masalih and Dar'u al-Mafasid) worldly and the hereafter.

1. According to Asyraf Wajdi (2008), many prominent Islamic economists, like Chapra, Ahmad and Siddiqui and Naqvi have asserted that Islamic banking and finance is a subset of the overall Islamic economic system, which strives for a just, fair and balanced society as envisioned and deeply inscribed in *maqasid al-Shari'ah*. Accordingly, the many prohibitions are to provide a level playing fieldto protect the interests and benefits (*maslahat*) of all parties involved in market transactions and to promote social harmony.

Ibnu 'Ashur(2006) gives a detail definition in his book with regard to al-Maslahah and al-Mafsadah: "An attribute of the act whereby righteousness and goodness (solah) takes places, that is to say utility and benefit (naf') always or mostly for the public or individuals. By "always" I refer to the maslahah that is absolute and regular, while by "mostly" I mean the maslahah is predominant in most of the cases. As for the expression "for the public or individuals" its means that maslahah is of

two kinds, namely public interest ( maslahah 'ammah ) and private interest ( maslahah khassah ). As for mafsadah, it is the opposite of maslahah, meaning that it is an attributeof the act whereby corruption or harm happens always or mostly to the public or to individuals".

2. One of the objectives of *Shari'ah* is to achieve comprehensive communal prosperity in the society. In order to achieve that, every member in the society should enjoy a reasonable satisfaction and maximum security while all types of harm and hardship must be either removed from the society or minimized. It is understood that that preventing harm is a result of putting into practice most of the objectives of *Shari'ah* in business and finance, because those objectives lead to the achievement of security in society (Ahcene lahsasna, 2013).

Asyraf Wajdi and Said Bouheraoua (2011) mention that Islamic scholars classify harm or damage into two broad types; the first type is the harm or damage which occurs as a result of a deliberate action by a person upon parties or entities. The second type is an action permissible in the *Shari'ah* and performed by a person with an honorable intention which, despite that, may directly or indirectly cause harm to other parties. While the former is strictly prohibited, the latter has to be examined in light of differing contexts and degrees of harm to determine whether the action is permissible or not.

3. Al-Raisuni (1995) addresses that *al-Istihsan* is protection of *maslahah* and '*adalah* (justice). This means the scholar should always alert with the objective of *Shari'ah* in judging any *fiqh* issue by preserving both, *maslahah* and '*adalah*. When in the circumstance of *maslahah* is being neglected, *al-Istihsan* will guide the scholar to perform *ijtihad* (independent opinion) in order to open an opportunity to avoid hardship and harm. When the text is understood in the way of bringing hardship or difficulty, or *qiyas* (analogical deduction) is comprehended in contrast with the spirit of *Shari'ah* law whereby *maslahah* and '*adalah* are neglected, Hence, the understanding upon the text and the *qiyas* should be revised by the concept of *al-Istihsan*m where it relied on the general principles of *Shari'ah* law.

In summary, *al-Istihsan* aims to protect *maqasid al-Shari'ah*whether by leaving *qiyas* and finding another method that more appropriate for the sake of *maslahah* or promoting leniency in judgment in general and particular condition or creating flexibility and neglecting rigidity or implement tolerant and eliminate hardship or shifting to easiness in facing difficulty (Al-Sarakhsi, 1978).

4. Al-Qarafi (1972) explains that *al-zari'ah* (plural for the word *al-zara'i*) is needed to be blocked in certain circumstance and also compulsory (*wajib*) to be opened or not recommended (*makruh*) to be allowed, where sometime it is recommended (*mandub*) to be encouraged, . This is because *al-zari'ah* is a mean whereby the mean to the prohibited practice is prohibited as well as, the mean to the compulsory act also considered compulsory (*wajib*) such walking to the mosque for *jum'ah* prayer and *al-haj* themselves.

Al-Yubi (1998) demystifies that the concept of sad al-zara'i is always reflects to its ma'al (consequence). The consideration on ma'al al-af'al (the consequence of action) is one of the significant magasid in Shari'ah law.

Taking ma'al al-af'al into the account of Shari'ah law is a significant step in determining any particular action whether it is complying with the Shari'ah requirements or vice versa. Therefore, Islamic scholars not judge on one action or practice based on weak assumption or aimlessly unless after they have considered and measured with the scale of Shari'ah the impact of the action consequently. The purpose is for creating maslahah and avoiding mafsadah. Sometime, the action is seemed non-permissible but the consequence of it might be in contrast where it can uphold the principle of creating maslahah and avoiding maslahah, so it is unacceptable to judge it merely relied on its form and substance. However, this duty is very difficult to perform it accurately except for whom experts in the sciences of Islamic jurisprudence with the branches of knowledge and it is applied in the path of maqasid al-Shari'ah (Al-Shatibi, 2003).

# 2.3 Structure of Sukuk Ijarah

Sukuk is better described as 'trust certificates' or participation securities' that grant the investors a share of an asset along with the cash flows and risks commensurate with such ownership. From a

practical point of view, it is believed that securitization is better placed to help in achieving this objective provided it remains adherence to the Islamic finance principles (Muhammad Al-Bashir, 2012).

Securitization is a funding technique whereby investors ultimately invest their capital in credit or performance of a pool of assets rather than the credit of corporates or other entities. Investors take a risk on the performance of the asset themselves rather than risk on the performance on the entity that previously owned the asset ( Debashis Dey and Greg Man, 2009 ).

Although the concept of securitization is derived from conventional bond application, Islamic securitization has distinctive features that distinguish it from asset securitization. Following the spirit of *Shari'ah*, Islamic securitization must be free from three prohibited practices, which are *riba*, *gharar* and *maysir*. Thus, anything leading to these practices is not tolerated such as debt and financial assets trading ( *bai' al-dayn* ), *haram* activities, interest bearing collateral and so forth. Furthermore, Islamic securitization must involve the funding or the production of real assets rather that financial securities, which causes irresponsible leverage as well as speculation, through derivatives lending ( Wilson, 2004 ).

Financing using securitization has significant advantages. First, it enables conventional institutions to efficiently remove assets from their balance sheet, to monetize previously illiquid assets, recycle cash to be reinvested and, hence, expand the volume of their business without a corresponding increase in their equity capital. In simple terms, securitization allows financial institutions to serve more customers without having to raise new funds in the form of either equity or deposits. Secondly, securitization helps financial institutions to raise cheaper capital for their businesses at the asset level instead of the enterprise level. Thirdly, in some jurisdictions, this allows originators to benefit from tax savings such as tax on capital (Chris P. Sioufi and Samer Y. Amro, 2006)

There are two famous types of *sukuk* securities that always be an underlying concept in *sukuk* issuance. First, is asset backed securities (ABS), which *sukuk Ijarah* conceptually based on this structure, created by the pooling of various categories of assets which the ABS derives their values and income stream. The pooled assets would be ring-fenced so that the securities would not be impaired by the financial behavior of the originator as the investors would rely on those assets for payment. The feature of an ABS is the securitization transaction which involves the true sale and transfer of the assets from the originator to a third party, which is normally an SPC (Nik Norzrul Thani et al., 2012). In contrast, with asset-based *sukuk*, there is no sale transaction taking place, rather one just transfer of financial rights to the asset and the income is derived from the financial rights to obligations attached to the debt (Aziz et al., 2010).

According to Abdullah Saeed and Omar Salah( 2012 ) The *sukuk al-Ijara* structure is based on the contract of *Ijara*. An *Ijara* contract allows the transfer of the usufruct of an asset in return for rental payment; as such , it is similar to conventional lease contract. Thus, the sukuk are based on the underlying tangible assets that the SPC ( Special Purpose Company ) has acquired rather than being debt securities, which is the case with the issuance of conventional bonds. Instead , the *sukuk al-Ijara* structure uses the leasing contract as the basis for the returns paid to investors, who are the beneficial owners of the underlying asset and as such benefit from the lease rentals as well as sharing in the risk.

Muhammad Al-Bashir (2012) explains the differences between Islamic and conventional lease by listing three major things where *al-Ijara* concepts differs from conventional lease. First, the Islamic lease must be free from any reference to interest or any provision that may contain any element of interest payment. Second, the nature of the leased asset must also acceptable from Islamic perspective and as such the asset must be permissible in itself and shall be used for permissible functions. Third, *al-Ijara* draws clear distinction between the roles and responsibilities of the lessor (owner of asset) and the lessee (hirer) where the all capital costs and major maintenance are the responsibility of the lessor as he is the owner of the asset, while day to day expenses and maintenance would be the responsibility of the lessee / hirer as he is benefiting from the usufruct.

Sukuk holders

(8) Obligator make periodic lease payment to SPV

(9) SPV pays coupon to investors. (4) Trust Certificate

(3) Issued Trust

(6) Payments received from investors by SPV Trust

Certificate

Issue

(5) Investors made payments

Diagram 1: Sukuk al-Ijara structure

Source: http://www.mifc.com/

The description of the diagram (based on the steps of the number in the diagram) Stage 1: Contract of the cash sale

(1) SPC purchases property (e.g. hospital) from obligator (government).

(1) Sell certain titles of land to SPV

Payments made

SPV to Obligator

- (3) The asset purchased by the SPC is funded by the issuance if *sukuk* (trust certificates) which represents beneficial ownership in the assets and in the lease.
- (7) Government received cash proceeds

Obligator as

seller

Stage 2 : Contract of leasing ( *al-Ijara* )

- (2) SPC rents property to the government for specific period
- (6) SPC collects rental

Stage 3: During the tenure

(9) SPC passed the rentals to investors in the form of periodic distribution or coupon

Stage 4: At maturity

- SPC sells the property to the government at an agreed price
- Government pays cash to the SPC
- SPC simultaneously pays investors cash for *sukuk* redemption

From the diagram and its description above, we understand in general the operation flow of *sukuk al-Ijara* other than recognize some variables of parties in executing the *sukuk*. The SPC which stands for special purpose company or vehicle is a legal entity typically formed as a limited company to carry out specific, narrow business purpose. SPC has been widely used in the financial services industry for off-balance sheet transactions, and issues securities to investors and utilizes the proceeds to acquire asset from the sponsor, and payments are made on the securities from the cash flow derived from the asset acquired. By transferring the asset to SPC, the assets are safeguarded from the financial ( or bankruptcy ) risk of the sponsor. Besides that, SPC is also used to raise capital as investment funds, reinsure and transfer risks as captive insurance companies and acquire and hold assets as holding and / or leasing companies ( Manuela Belmontes and Tahir Jawed, 2011 ) .

The roles of delegate trustee and the agents in a *sukuk* transaction are vital, not only from a functional perspective, but also for fundamental legal reasons. A *sukuk* issuer will inevitably be a special purpose company (SPC). This is for both legal and tax liability reasons, stemming from the fact that a *sukuk* transaction must be based on income-producing asset.

Accordingly by investing in a such trust certificates because *sukuk* represents, in essence, their ownership of the *sukuk* assets- it is not a debt from the issuer. Unsurprisingly, almost all *sukuk*transaction are governed, at least in part, by English law (Sema Kandemir and Daniel Renkin, 2011).

English common law and civil law each present distinctive problems when they collide with *Shari'ah*. The problem in using *Shari'ah* finance under common law; the national law/ common law always prevails over *Shari'ah* law when there are disputes. As a consequence, the contract is interpreted solely based on what is written in the contract in respect to *Shari'ah* regulations (Nazar, 2012).

However, in Shamil Bank of Bahrain vsBeximco Pharmaceuticals Ltd and otherscase on the basis of default payment in a *murabahah* agreement, The High Court and Court of Appeal of England consequently referred to the law of country, not to a non-national system of law such as *Shari'ah* without identifying those aspects of *Shari'ah* which were intended to be incorporated into the contract. From the above judgment, it is clear that resort to conventional courts by Islamic financial institutions is not without shortcomings. While the fundamental clauses of contract in Islamic finance are based on *Shari'ah* principles and the conventional court is unfamiliar with such principles and this will definitely affect its decision (Muhammad Al-Bashir, 2008).

The sale and lease back structure is a common method used in executing *sukuk al-Ijara*.It is aboutrenting an asset to the party who sold it. The issue is also at the core of the *Ijarasukuk* structures. Through this structure, the originator seeking financing 'sells' the asset to the *sukuk* SPC for a value equal to the financing provided, and then leases it back. The lease payments provide the fixed income stream which may be benchmarked to an index (Khalid Howladar, 2006).

#### 2.4 An Initial Analysis

In this initial analysis of the *sukuk al-Ijara* structure, it needs to be evaluated on the scale of *maqasid al-Shari'ah*that was explained above. First, in the form of *maslahah* and *mafsadah*, second,the element of hardship elimination or harm avoidance in the structure, third, *sad al-Zarai'* or blocking the means to prohibited element in the structure while the forth is how far *hiyal* or legal stratagemsis being used in the structure of the *sukuk*.

Initially, the first issue need to be analysed through the light of maqasid al-Shari'ah is sukuk securitization. As we understood from the previous discussion, sukuk is a form of financial securitization where it has been structured that way in order to meet the financial obligation to its holder as well as the issuer. But, how this securitization fits with the principle of maqasid al-Shari'ah? whether it for the maslahah of sukuk issuer, or to avoid any hardship in executing financial transaction in that kind of mechanism? Then, is the maslahah that we defined through sukuk securitization is not represent a forbidden hilah (legal stratagems) that scholars unanimous in prohibiting it in financial transaction? The concept of sadal-Zara'i also need to bereflected in this issue whereby it provides precautions for the parties involve in sukuk to protect their rights and wealth as mentioned by scholars as one of the objective of Shari'ah.

The formation of SPC (special purpose company) in the structure, despite it is an imitation from the conventional lease concept, aims to fulfil the duty of the sukuk issuer to the sukuk holders in a good manner and well-managed. Other than its role as bankruptcy remoteness to avoid any negative financial implication to its mother company, the purpose also to ensure the smoothness and transparency in governing the project in order to preserve the right of *sukuk* holders to get better return under the provision of wealth preservation. The *maqasid* view on SPC will go around the discussion about *maslahah* in creating SPC, the priority of creating SPC that costs highly from the investors' money than without SPC that may reduce the cost in *sukuk* issuance where it can allow the high return of investment, how SPC deals with the concept of *sad al-Zara'i*and *izalah al-doror*(hardship elimination). Through this analysis, we will understand the application of *maqasid al-Shari'ah* in SPC as one variable in *sukuk al-Ijara*.

The appointment of trustee in representing the *sukuk* holders which is invariably carried out by a corporate company which specialises in performing duties in capital market transactions. Similar to the appointment of variety of agents to undertake administrative functions on it behalf. As we understand, in general the appointment is likely applies the concept of *wakalah* ( agent ) beside promoting the transparency and leniency in related financial transactions in *sukuk* issuance. However, the cost that involve in that appointment may trigger *maqasid al-Shari'ah* view to determine whether they are really needed in this transaction for wealth protection purpose or the elimination of the agent and trustee will be more profitable for the investors as well as the issuer.

The other things that need to be examined in the light of *maqasid al-Shari'ah*, are the pricing and listing the *sukuk*. As we know, the sukuk follows the pricing mechanism that determined by LIBOR (London Interbank Offered Rate) that incorporate variables such as time, maturity and currency rates (Muhammad Al-Bashir, 2011). This practise also should be judged by the principles of *maqasid al-Shari'ah*, in particular the *maslahah* of taking LIBOR as benchmark in *sukuk* pricing, the hardship that will be faced by *sukuk* player by neglecting LIBOR or any other prevailing rate and what is the needs of *sukuk* to the rate, either *doruriyat* (compulsories) or *hajiyat* (necessities) or *tahisiniyat* (embellishments). Regarding to the *sukuk* listing,

In assuring the due diligence of *sukuk* process, the governing law plays a vital role that leads to the establishment of credibility of the issuer and protection of holders' rights. Therefore, the governing law of *sukuk* should consist of the special characteristics of *Shari'ah* law in order to perform its duties as the regulator and judge over all the transactions in that instrument. From here, it have raised up several questions such how far the governing law which dominantly derived from the British law or other common law, or in other word non-*Shari'ah* law can perform justly as well as *Shari'ah* law. Then, how *maqasid al-Shari'ah*solves the problemthat emerged from this scenario and what its stand and point of view on it based on *maslahah* and *mafsadah* concept, *fiqh al-awlawiyat* ( the science of prioritization ), *sad al-zara'i* and hardship elimination. The finding of this analysis not necessary to be on the side or support the prevailing practice in *sukuk* market today despite with the opinions and fatwas issued by many regulatory and authority bodies pertinent to the permissibility of the application.

According to Abradat Kamalpour (2008), the other shortcomings of the *sukuk Ijarah*those need to the evaluation process from the view of *maqasid al-Shari'ah*are:

- 1. Appropriate underlying asset available for such a transaction
- 2. The asset is locked up for the term of the transaction and the owner cannot simply sell it to a third party.
- 3. Even if an issuer does have the underlying asset, in some jurisdictions there could be adverse taxation costs associated with introducing the asset into the structure.
- 4. Not all assets can be used for leasing purposes.
- 5. There could be ongoing Shari'ah audits in connection with the asset. This can be time consuming and costly for the issuer.
- 6. The structure is not easily usable for a *sukuk* programme structure.

In summary, all the elements those involve in *sukuk al-Ijara* structure might be measured based on *maqasid al-Shari'ah* view where it can inform us how the application on the *sukuk* meets with thespirit of Islamic law. By fulfilling the criteria of *maqasid*, the instrument could be considered as *Shari'ah* based product that always upholds the principals in wealth preservation within the upmost important objective, the preservation of *din* (religion) that guides us in achieving the truly happiness worldly and the hereafter.

#### 3. CONCLUSION

Fulfillment the requirements of *maqasid* is expected to be difficult for any new financial product in the capital market furthermore the market itself is predominated by the conventional financial product such bond, derivative, debenture, stock and others. Even though, it is not the hurdle to the Islamic scholars, practitioners, experts and *sukuk* players to strive the best effort in structuring and designing the *sukuk* based on the needs of *maqasid al-Shari'ah* with the intention to spread the *Islamalazation* philosophy to the entire world of economic for the human well-being.

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# SUKUK IJARAH: KONSEP DAN AMALANNYA DALAM PASARAN MODAL ISLAM DI MALAYSIA

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#### **ABSTRAK**

Sukuk Ijarah merupakan sebahagian daripada produk pasaran modal Islam. Bagi mewujudkannya, dua pendekatan diambil iaitu; mengekal cara konvensional yang diterima oleh Islam dan mengambil prinsip syariah sebagai instrumen baru dalam pasaran modal. Sukuk adalah sijil pelaburan Islam yang amat berbeza dengan bon kerana ia perlu membuang dalam strukturnya riba dan gharar. Ia distruktur melalui konsep pensekuritian dan kontrak pertukaran. Hutang yang terbit dari kontrak tersebut disekuriti pada kadar yang ditetapkan dan diketahui. Kontrak-kontrak itu adalah seperti ijarah, mudarabah, bay' bithamin ajil dan lain-lain. Prinsip syariah ini, digunakan bagi membentuk instrumen yang baru dalam pasaran hutang Islam seperti Sukuk Ijarah.Sukuk Ijarah yang mewakili aset sewaan boleh dimanfaatkan sebagai aset kewangan bagi tuiuan pelaburan tetap. Walaupun ja diambil dari prinsip syarjah namun cara konvensional yang tidak bersalahan dengan syara' diterima pakai, seperti bidaan tender, rebet dan dendaan sekiranya ingkar pembayaran. Di Malaysia, saiz penerbitan Sukuk Ijarah yang diterbitkan oleh pihak swasta berkembang dari 2% pada tahun 2004 kepada 11% pada tahun 2007. Sukuk Ijarah yang diamalkan telah menggunakan pelbagai prinsip yang ada dalam konsep ijarah. Oleh itu beberapa sukuk yang diterbitkan dikaji bagi menjelaskan bagaimana konsep ini boleh diaplikasi dalam pasaran modal Islam di Malaysia.

Kata kunci: Sukuk Ijarah, Pasaran Modal Islam

# 1. PENGENALAN

Sekuriti yang diniagakan di pasaran modal boleh dibahagikan kepada dua iaitu sekuriti hutang seperti bon dan nota hutang. Kedua, sekuriti ekuiti seperti pemilikan saham syarikat. Kebanyakan Ulama' dan sarjana Islam sepakat berpendapat bahawa bon konvensional haram. Kebanyakan negara Islam mula mewujudkan pembiayaan hutang awam Islam. Di Malaysia, pensekuritian hutang bermula dengan struktur bay' bithamin ajil, bay' 'inah dan bay' dayn dalam jumlah yang besar. Pada tahun 2005, Sukuk Ijarah pertama diterbitkan dalam jumlah yang sedikit iaitu hanya 2.9% dari jumlah terbitan Islam yang lain. Penerbitan yang sedikit di Malaysia berbanding instrumen yang lain menimbulkan pertanyaan adakah penerbit dan pelabur memahami dengan sebenarnya konsep bon Islam dan konsep Sukuk Ijarah serta peluang pelaburan yang boleh diambil? Sukuk Ijarah kini menggunakan konsep sewaan Islam yang menggunakan rangka kerja sewaan konvensioanal dan hal ini tidak disebut secara jelas oleh fuqaha' terdahulu. Bagaimanakah proses penerbitannya dan adakah ia menepati kehendak syara'?. Oleh itu kertas ini mengkaji konsep-konsep asas dan proses terbitan Sukuk Ijarah serta aset pendasar (underlying asset) yang boleh digunakan dalam Sukuk Ijarah di pasaran modal Islam di Malaysia.

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#### 2. KAJIAN LEPAS

Di Malaysia, struktur ijarah digunakan bagi mengelak kontroversi hukum bay inah dan bay dayn dalam struktur Sukuk. Struktur Ijarah boleh digunakan dalam pembangunan jangka masa panjang. Ia mempunyai aset sandaran yang kuat dan bukan semata semata janji pembayaran. Bahkan ia digunakan di Malaysia, Timur tengah dan Asia sebagai insentif dalam pembiayaan projek-projek pembangunan ekonomi. Walaubagaimanapun ia masih kurang digunakan dalam pasaran sekunder yang boleh menggantikan konsep bay muajjal dan bay murabahah. Isu kemungkiran pembayaran dan bayaran pampasan sekiranya juga perlu diberi perhatian pengawasan syariah seperti tuntutan yang membebankan penyewa dengan tuntutan yang tidak munasabah. (Kamali, 2007, p. 20)

Tidak semua struktur Sukuk diaplikasi dalam sesebuah negara. Hanya beberapa struktur sukuk sahaja yang boleh digunakan secara aktif. Seperti contoh pembangunan di negara-negara teluk seperti Kuwait, UAE, Arab Saudi dan lain lain amat pesat. Demikian itu, Sukuk Ijarah diperlukan bagi menampung kewangan pembangunan hartanah. Produk yang ada bagi pembiayaan pelaburan hartanah (Real Estate Investment) hanyalah Ijarah, Mudarabah dan Musharakah. Satu kajian persepsi terhadap ketiga-tiga pembiayaan ini dikalangan pemain-pemain industry hartanah seperti , konsultan hartanah dan para pelabur di negara teluk mendapati 93% menyukai dan bersetuju dengan cara Ijarah dan sukuk untuk membiayai Real Estate, 86% bagi Mudarabah dan 81% Musharakah. Walaubagaimanapun kedua-dua pembiayaan Mudarabah dan Musyarakah tidak ditawarkan oleh pihak bank di negara-negara Teluk (MohdFaishalIbrahim, 2012).

Situasi ini berbeza di Malaysia. Kajian yang dilakukan oleh Christiophe Jgodlewski terhadap pencapaian portfolio Sukuk dan Bon mendapati pelabur pelabur akan memilih Sukuk sebagai satu alternatif kerana mengetahui wujudnya permintaan bank-bank Islam diperingkat antarabangsa. Beliau juga mendapati bahawa pelabur-pelabur lebih cenderung kepada pemilihan songsang. Iaitu bertindak memilih menggunakan mekanisma perkongsian untung-rugi bagi syarikat-syarikat yang menerbitkan sukuk yang tidak berdaya saing dalam pasaran bon (Christiophe, 2013)

Situasi di Indonesia pula berbeza apabila Isu harga sukuk ditimbulkan. Harga Sukuk ditetapkan dan bukannya mengikut harga pasaran. Satu kajian dilaksanakan dengan kaedah Metodhologi Pearson Corelation bagi dana mutual pada tahun 2008-2009 di Indonesia mengkaji adakah Islam melarang pengubahan harga dalam sukuk? Hasil kajian mendapati harga bagi sukuk perlulah mengikut tanda aras yang ditetapkan iaitu mesti menghampiri harga Sukuk Ijarah. Hasil kajian juga mencadangkan agar harga Sukuk dan sukuk mutual fund perlu disesuaikan pada harga yang sebenar (Siswantoro, 2012).

Manakala dari sudut pengiraan keuntungan satu kajian perbandingan keuntungan diantara sukuk ijarah dan musharakah dilakukan. Kajian mendapati bagi pelabur yang membeli sukuk ijarah ianya lebih menguntungkan daripada pembelian sukuk Musyarakah pada tempoh jangka masa panjang. Kajian ini berdasarkan kepada kaedah model matematik. Walaubagaimanapun kajian ini tidak menunjukkan perbandingan diantara struktur sukuk-sukuk ijarah yang ada (MariamJamilahAbdulJalil, 2012). Dari sudut pematuhan industri dan pihak pasaran terhadap panduan Syara'. Satu kajian terhadap peranan agensi dan pihak-pihak lain terhadap pematuhan Syara' dilakukan. Hasil kajian mendapati pihak penilaian seperti Moody dan pasaran mula mengambil berat tentang teguran ulama khususnya teguran Syeikh Uthman Taqiuddin terhadap isu pematuhan Syariah dalam penerbitan Sukuk disemua peringkat (Maurier, 2010). Berdasarkan kajian lepas, Sukuk Ijarah berpotensi untuk dijadikan sebagai pemangkin pembangunan pasaran modal Islam di Malaysia.

#### 3. KAEDAH KAJIAN

Kajian ini bersifat deskriptif dengan kaedah kajian perpustakaan, temubual dan melayari internet untuk mendapatkan bahan dan sumber rujukan yang diperlukan

#### 4. DEFINISI SUKUK IJARAH

Sukuk Ijarah ialah alat kewangan Islam yang boleh dijual-beli dan ditebus apabila sampai tempoh matang. Ia diterbit dengan mengenal aset pendasar yang boleh dijual beli bagi menjayakan pensekuritian ini. Pemilik aset akan menyewakan aset kepada SPV iaitu sebuah syarikat yang ditubuhkan bagi menguruskan harta aset. Aliran tunai sewaan diantara keduanya akan ditulis dan diterbitkan oleh SPV bagi menarik pelaburan daripada pelabur dalam bentuk hakmilik unit yang tidak boleh dipecahkan. Diakhir sewaan pemilik aset akan membeli aset dari SPV dan seterusnya pelabur boleh mendapat hasil pelaburan dari jual beli tersebut (Mohd Hashim Kamali, 2007)

Berdasarkan kepada Standard Syari'ah No.(17)<sup>2</sup>, perkataan Sukuk Ijarah tidak disebut secara jelas, tetapi disebut sebagai sijil pemilikan dalam aset sewaan (Certificates of Ownership in leased Assets), sijil pemilikan manfaat (Certificates of Ownership in usufructs) dan sijil pemilikan manfaat bagi aset pada masa akan datang (Certificates of Ownership in usufructs of described future Assets). Sijil pemilikan dalam aset sewaan didefinisikan oleh AOOFI sebagai<sup>3</sup>:

> "These are certificates of equal value issued either by the owner of a leased assets or a tangible asset to be leased by promise or they are issued by a financial intermediary acting on behalf of the owner with the aim of selling the asset and recovering its value through subscription so that the holders of the certificates become owners of the assets.

#### 5. KONSEP MU'AMALAH ISLAM DALAM SUKUK IJARAH

Dalam Sukuk Ijarah moden konsep *mu'amalah* Islam digunakan. Diantaranya ialah konsep pensekuritian, konsep ijarah, ijarah muntahiyah bi tamlik dan ijarah thummal bay'. Pensekuritian bermaksud proses menukar sesuatu kepada wang tunai dalam bentuk dokumen yang boleh diniagakan di pasaran sekunder. Dalam bahasa arab ia diistilahkan sebagai tawriq atau taskik<sup>4</sup>. Ia adalah proses menukar sesuatu alat kewangan berasaskan aset kepada tunai iaitu dengan mempakejkannya dalam bentuk sijil dan mengedarkannya untuk dijual kepada pelabur<sup>5</sup>. Juga ia adalah proses membahagikan pemilikan aset dan manfaat yang bernilai kepada unit-unit yang sama nilainya ke dalam satu sijil yang boleh dijual beli dikalangan pelabur<sup>6</sup>. Dalam *ijarah* atau sewaan Islam, aset yang disewa boleh dibahagikan kepada unit-unit asalkan ianya dikenalpasti oleh pemiliknya<sup>7</sup>. Sekiranya ia disewa oleh ramai penyewa ia dikenali sebagai i*jarah musya* i

<sup>2</sup> Iaitu satu standard pelaburan Islam yang memberi panduan perundangan syariah terhadap penerbitan sijil pelaburan Islam,jenis sijil, ciri-ciri, syarat dan bagaimana ia didagangkan

<sup>3</sup> Accounting and Auditing Organisation For Islamic Financial Institutions (2003), op.cit., h.298

<sup>4</sup> Engku Rabiah Adawiah Engku Ali (2005), "Syariah and Legal Framework of Islamic Securities", (Kertas kerja bengkel Islamic Bonds, Sukuk & Securitization, Product and Instruments in Islamic Securities, Hotel Renaissanse, Kuala Lumpur, 6-7 September 2005), h. 3

<sup>5</sup> Wan Abdul Rahim Kamil (2005), "The Challenges of Securitisation for Islamic Financial Institutions", (Kertas kerja bengkel Islamic Bonds, Sukuk & Securitization, Product and Instruments in Islamic Securities, Hotel Renaissanse, Kuala Lumpur, 6-7 September 2005), h. 4

<sup>6</sup> Accounting and Auditing Organisation For Islamic Financial Institutions (2003),

<sup>7</sup> Accounting & Auditing Organisation for Islamic Financial Institutions (2002), Standard Shari'ah 1423H-2002. Bahrain: AAOFI, h.142.

(sewaan secara beramai-ramai)<sup>8</sup>. Dalam konteks Sukuk Ijarah, pemilik kepada manfaat dan aset sewaan adalah pelabur-pelabur dan ia dibenarkan oleh syara'.

Konsep ijarah muntahiya bitamlik hampir sama dengan konsep ijarah. Bezanya ialah pemberi sewa (pemilik aset) berjanji untuk memindahkan pemilikannya kepada penyewa diakhir tempoh sewaan melalui tiga cara. Pertama, janji untuk menjual aset tersebut kepada penyewa pada harga pasaran atau pada harga yang sama nilai sewaan. Kedua, janji untuk memberikan aset kepada penyewa sebagai hadiah. Ketiga, janji untuk memberikannya kepada penyewa sebagai hadiah apabila sampai tempoh ansuran terakhir<sup>9</sup>. Kontrak sewaan yang diamalkan dalam Sukuk Ijarah hendaklah dilaksanakan oleh pihak yang cukup keahliannya dalam syara', tidak dipaksa dan sekiranya melibatkan orang kafir dan orang islam, maka janya sah kerana ia tidak melibatkan perkhidmatan seliaan. Ia hanya melibatkan perkhidmatan kewangan yang boleh menguntungkan kedua belah pihak. Walaubagaimanapun barangan yang diharamkan oleh syara' tidak boleh disewa, seperti haram menyewakan bangunan atau rumah untuk tujuan pelacuran, perjudian dan kedai minuman keras. Barangan yang tidak kekal seperti makanan dan tidak boleh digunakan untuk sewaan. Begitu juga dengan wang kerana ia boleh menyebabkan riba<sup>10</sup>. Dalam konteks Sukuk Ijarah, manfaat boleh disekuriti seperti manfaat tempat tinggal dan manfaat menggunakan tanah asalkan aset dan tanah itu tidak musnah dan rosak. Bayaran sewaan Sukuk Ijarah boleh ditentukan dengan dua cara. Pertama, bayaran sewaan tetap seperti tercatat di dalam propektus dan kedua, kadar sewaan disandarkan pada kadar terapung (floating rate) seperti kadar tawaran antara bank (Interbank Offered Rate) ditambah dengan kadar keuntungan contohnya KLIBOR + 0.25%<sup>11</sup>. Penyewa bertanggungjawab untuk menjaga aset ijarah dengan amanah kerana penyewa hanya memiliki manfaat aset dan bukannya aset. Penyewa perlu menjaga amanah aset tersebut yang dimiliki oleh pemberi sewa dengan sebaik mungkin. Manakala pemberi sewa pula perlu memberikan perkhidmatan penjagaan terhadap aset sewaan (*ijara*h) dengan sebaik mungkin<sup>12</sup>. Dalam konteks Sukuk Ijarah, pihak pemegang amanah yang dilantik iaitu pihak bank dan SPV dan akan memberikan perkhidmatan penjagaan aset dan menguruskan segala pembayaran sewaan dan pulangan modal kepada para pelabur. Pada masa kini, konsep ijarah telah berkembang kepada ijarah bi muntahiyah bitamlik yang hampir kepada konsep sewaan kewangan konvensional (financial leasing). Perbezaan diantara Islam dan konvensional adalah penalti kelewatan pembayaran yang ditetapkan hanyalah 1% sahaja. Sedangkan dalam sistem konvensional kiraan lewat adalah dikira seperti kiraan faedah diatas baki tertunggak.

#### 6. AMALAN SUKUK IJARAH DALAM PASARAN MODAL ISLAM DI **MALAYSIA**

Sukuk Ijarah telah diamalkan dalam pasaran modal Islam Malaysia sejak tahun 2004 dengan jumlah terbitan sebanyak RM310 juta dan Prinsip *ijarah* digunakan bagi menstruktur bon Islam dengan pendekatan program nota kewangan (Comercial Paper) dan program nota kewangan berjangka sederhana (Medium Term Note). Melalui dua program tersebut, pihak swasta boleh mendapatkan dana atau menstruktur hutang mereka berdasarkan amalan *mu'amalah* Islam<sup>13</sup>. Ia berkembang dari 2.5% pada tahun 2005 kepada 34% pada tahun 2011. Dengan adanya program penerbitan bon Islam, maka pelabur Islam yang taat kepada perintah Allah boleh melabur dalam

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<sup>8</sup> Institute of Islamic Banking & Insurance (1995), Encyclopedia of Islamic Banking & Insurance. London: IIBI, h.138

<sup>9</sup> Accounting and Auditing Organisation For Islamic Financial Institutions (2003), op.cit., h. 146

<sup>&</sup>lt;sup>10</sup> Institute of Islamic Banking & Insurance (1995), op.cit., h.139

<sup>&</sup>lt;sup>11</sup> Accounting and Auditing Organisation For Islamic Financial Institutions (2003), op.cit, h.306

<sup>12</sup> Wahbah al-Zuhaili (1995),op.cit.,h.770-774 13Suruhanjaya sekuriti, www.sc.com.my, 17 Disember 2008

pelaburan pasaran modal Islam berbanding dengan pelaburan konvensional. Sebuah syarikat yang ingin menerbitkan sukuk di Malaysia perlu merujuk dan memohon kepada Suruhanjaya Sekuriti bagi kelulusan penerbitan sukuk. Bagi tujuan penerbitan, Suruhanjaya Sekuriti telah mengeluarkan panduan penerbitan sekuriti Islam<sup>14</sup>. Perkembangan Sukuk Ijarah yang perlahan pada tahun 2004-2007 disebabkan pihak industri banyak menggunakan prinsip bay' al-dayn dan bay al'-inah dalam pensekuritian hutang Islam di Malaysia. Walaubagaimanapun kedua-dua instrumen itu ditolak oleh sarjana Islam dari timur tengah dalam penerbitan bon Islam dan Sukuk. Kontroversi itu menyebabkan pihak industri dan sarjana syariah Malaysia mula meliberalisasi Sukuk menyebabkan perkembangan Sukuk Ijarah mula mendapat perhatian di Malaysia. Bagi menerbitkan sukuk, penerbit perlu mematuhi Syeksen 32 Akta Sekuriti 1993 dan juga mematuhi garis panduan yang dikeluarkan oleh Suruhanjaya Sekuriti. Diantaranya ialah penerbit perlu mengemukakan dan mengamalkan prinsip syariah yang diluluskan oleh Suruhanjaya Sekuriti dalam setiap permohonan mereka bagi menerbitkan sekuriti Islam atau sukuk. Bagi kelulusan penerbitan, proposal penerbitan *sukuk* perlu dikemukakan oleh pihak bank perdagangan dan bank saudagar<sup>15</sup>. Setelah pihak penerbit memahami garis panduan dan akta-akta berkaitan dengan penerbitan sekuriti Islam atau sukuk, penerbit perlu menyediakan dokumen-dokumen untuk kelulusan. Diantara dokumen-dokumen yang perlu dihantar ialah:

# a) Maklumat Syarikat dan Struktur Terbitan<sup>16</sup>

- 1. Maklumat syarikat penerbit dan profil ahli lembaga pengarah
- 2. Keterangan transaksi dan struktur sekuriti yang ingin diterbitkan
- 3. Kegunaan dana yang diterbitkan secara lengkap
- 4. Kelulusan tertentu dari penasihat syari'ah
- 5. Bagi terbitan sekuriti yang ingin membayar hutang pembiayaan yang lain perlu mengemukakan maklumat pembiayaan hutang semasa.
- 6. Maklumat yang berkaitan dengan terbitan yang dikemukakan.
- 7. Nama, telefon dan no fax pegawai penasihat kewangan bagi terbitan perlu dikemukakan.

#### b) Terma dan Syarat proposal

Terma dan syarat utama perlulah di tulis nama pihak yang terlibat dalam transaksi yang dicadangkan. Pihak tersebut ialah syarikat asal (*originator*), peniaga utama (*principle dealer*), penyelaras kewangan, peguam, penasihat kewangan, penasihat teknikal, penjamin, nama agen yang menguruskan kemudahan. Dalam terma dan syarat proposal juga perlu disertakan nama penasihat syariah, agen pembayaran dan laporan akauntan bagi tahun kewangan semasa. Bagi menstruktur terbitan sekuriti Islam, perlu juga dinyatakan prinsip Islam yang diguna pakai, keterangan kemudahan, saiz dan jumlah terbitan dalam nilai Ringgit Malaysia, harga terbitan, tempoh matang terbitan, pembayaran kupon atau keuntungan sehingga tempoh matang, kegunaan terbitan, penarafan dari syarikat penarafan (*Rating Company*), cara terbitan, had jual beli, langganan minimum, aset yang digunakan bagi tujuan terbitan, harga atau sewaan bagi aset yang

<sup>14</sup> Suruhanjaya Sekuriti, "Guidelines On The Offering Of Islamic Securities", http://www.sc.com.my/eng/html/bondmkt/guidelines-islamic\_PDF.pdf, 17 Disember 2008, h.1

dijual beli, jaminan dan waranti, pengakuan penerbit dan penasihat utama serta penyata akaun yang terkini yang telah diaudit<sup>17</sup>

## c) Maklumat yang dihantar selepas pra lulus suruhanjaya sekuriti

Bagi kelulusan satu-satu terbitan penerbit perlu menghantar maklumat tentang saiz terbitan, cara terbitan sama melalui tender atau jualan atas kaunter atau melalui sistem FAST<sup>18</sup>. Maklumat langganan minimum bagi terbitan, tempoh matang, harga sebenar dan kadar keuntungan atau sewaan juga perlu dihantar ke suruhanjaya sekuriti bagi tujuan kelulusan. Maklumat tentang aset dan jenis aset serta terma dan syarat utama transaksi yang dilakukan juga perlu dihantar. Selain daripada itu, maklumat latar belakang syarikat dan SPV perlu dinyatakan seperti nama penerbit, alamat, No pendaftaran syarikat, Tarikh penubuhan, Status syarikat, Aktiviti utama, Ahli lembaga pengarah, struktur pegangan saham, modal berbayar<sup>19</sup>. Menurut En. Wan Rahim Bin Kamil<sup>20</sup>, garis panduan ini digunakan bagi kelulusan dan penyeliaan Sukuk Ijarah di Malaysia. Sekiranya Sukuk Ijarah distruktur menurut standart dan garis panduan yang dikeluarkan oleh AOOFI maka ia diterima pakai seperti prinsip *ijarah mausufah fi zimmah* yang dipersetujui oleh AOOFI. Menurut beliau, bagi struktur Sukuk Ijarah kedua-dua garis panduan ini tidak bersalahan antara satu sama lain.

# 7. SUKUK IJARAH DAN PELABURAN HARTANAH (REIT) DI MALAYSIA : SUKUK AL-AQAR CAPITAL

#### a) Struktur Sukuk Al-Aqar Capital

Bentuk Sukuk al-Aqar Capital berbeza sedikit dengan struktur Sukuk Ijarah yang lain kerana ia melibatkan sewaan yang kedua pada transaksi sewaan yang pertama. Sukuk Al-Aqar capital akan menandatangani perjanjian jual beli dengan REIT Trustee iaitu satu syarikat amanah untuk membeli hospital-hospital tertentu. Bagi tujuan pembelian tersebut. Al-'Aqar Capital akan mengeluar *sukuk* atau sekuriti iaitu surat keterangan perjanjian jual beli tersebut kepada pelabur bagi menyelesaikan pembayaran pembelian hospital tersebut. Al-Aqar Capital sebagai pemilik aset akan menyewakan kepada REIT Trustee dengan satu perjanjian sewa diantara kedua-dua belah pihak Dalam masa yang sama Al-Aqar Capital mengeluarkan surat atau sijil perakuan kontrak sewaaan dan kontrak jual beli aset hospital tertentu diantara kedua-dua belah pihak bagi dan memperaku akaun dan surat hak milik aset kepada para pelabur yang berminat. Secara umumnya , sukuk tersebut mewakili kepentingan aset dan keuntungan pelabur yang dibahagikan secara kolektif<sup>21</sup>. Kumpulan Pemegang Amanah Reit juga bertanggungjawab untuk membeli semula aset hospital yang ditentukan daripada al-Aqar Capital sekiranya kumpulan tersebut tidak

<sup>18</sup> Fully Autamated for Tendering System ( Sistem Tender Automatik)

<sup>20</sup> Temubual dengan En. Wan Rahim Bin Kamil pada 18 Mac 2009 (Beliau merupakan pegawai di Jabatan Pasaran Modal Islam, Suruhanjaya Sekuriti)

<sup>21</sup> Suruhanjaya Sekuriti, "Al-Aqar Principal Term and Condition of The Proposal", http://www.sc.com.my/SC/search\_issuer.asp?stype=S&stype2=Q&skey=aqar#, 15 Disember 2008, h. 6-8

membayar obligasi sewaan tersebut. Sekiranya tidak berlaku keadaan diatas atau kegagalan membayar sewaan Al-Aqar Capital menjual aset tersebut pada tempoh matang yang dipersetujui kepada vendor pada nilai rata iaitu RM 1<sup>22</sup>. Kemudian terdapat 5 aset hospital akan dicaj masuk kedalam sijil amanah kepada pemegang *sukuk* atau pelabur dan bank sebagai jaminan tambahan yang akan dimasukkan ke dalam akaun pembahagian keuntungan kepada para pelabur. Dimana sekiranya berlaku kemungkiran pembayaran sewaan kumpulan Pemegang amanah *reit* akan membeli keseluruhan 11 aset sebagai jaminan kepada deposit pelabur atau pemegang *sukuk*<sup>23</sup>. Al-Aqar KPJ REIT juga akan menyewakan kepada operator hospital pakar dalam satu transaksi sewaan yang berlainan. Pembayaran sewaan tersebut akan dimasukkan ke dalam akaun kutipan. Hasil dari akaun kutipan tersebut akan dimasukkan kedalam akaun pembahagian keuntungan kepada para pelabur. Setiap pelabur akan mendapat pendapatan tetap mengikut langganan unit sukuk mereka masing-masing<sup>24</sup>.

#### b) Nilai terbitan, Aset, Kadar sewaan dan Siri Terbitan

Sukuk Ijarah Al-Aqar Capital ini berjumlah RM 300 juta yang diterbitkan secara bersiri. Kadar keuntungan sewaan akan ditentukan semasa tarikh penerbitan pertama yang akan diumumkan oleh pihak suruhanjaya sekuriti. Manakala aset yang disekuritikan adalah bangunan hospital yang akan disewakan kepada operator dan pengusaha hospital lain. Hasil dana dari pensekuritian akan digunakan untuk dilaburkan dalam Real Estate Investment Trustee (REIT). Tempoh matang bagi *sukuk* ini bermula dari satu bulan dari tarikh terbitan sehingga 7 tahun.

# c) Operasi Sukuk Ijarah al-Aqar Capital

Sukuk Ijarah al-Aqar Capital ini diterbitkan melalui dua program iaitu program islamic medium term note (IMTN) dan islamic comercial paper (ICP). Melalui ICP, sukuk yang diterbitkan mempunyai tempoh matang dari 1 bulan sehingga 48 bulan dan melalui program MTM sukuk mempunyai tempoh matang sehingga 7 tahun. Bagi memudahkan pembayaran sewaan kepada para pelabur, akaun FSRA iaitu *Finance Service Reserve Account* akan dibuka dan diuruskan. Juga segala urusan dagangan sukuk ini akan didagangkan melalui sistem FAST<sup>25</sup>.

## 8. RISIKO SUKUK IJARAH

Amat penting bagi penerbit dan pelabur perlu memahami risiko apabila Sukuk Ijarah distruktur. Beberapa risiko yang perlu diambil kira sebelum para pelabur membeli Sukuk Ijarah. Diantara risiko tersebut ialah risiko pasaran, risiko tukaran wang asing, risiko kemungkiran pembayaran sewaan, risiko ketidakpatuhan syariah dan risiko operasi<sup>26</sup>. Risiko pasaran wujud apabila pelabur

membeli Sukuk Ijarah, sudah tentu pelabur inginkan hak pulangan sewaan dan keuntunganya. Katakan kadar pulangan sewaan semasa adalah 10%. Apabila penerbitan Sukuk Ijarah semakin popular kadar pasaran bagi pulangan balik sewaan sudah tentu berbeza katakan 15%. Sekiranya kadar pulangan sewaan adalah tetap sehingga tempoh matang, para pelabur sudah mengalami kerugian<sup>27</sup>. Risiko tukaran wang asing pula wujud apabila para pelabur membeli Sukuk Ijarah yang didagangkan di pasaran antarabangsa pelaburan tersebut biasanya didagangkan dalam matawang US dolar. Namun, apabila nilai wang US dolar jatuh sudah tentu pulangan terhadap keuntungan sewaan akan menjadi kurang. Oleh itu para pelabur perlu memerhati dan menilai kadar tukaran wang asing sebelum membuat keputusan membeli sukuk<sup>28</sup>. Sukuk Ijarah juga tidak terlepas dari risiko kemungkiran pembayaran sewaan seperti juga bon. Sekiranya syarikat asal (originator) tidak membayar sewaan kepada SPV maka pelabur akan mengalami kerugian. Oleh itu pelabur perlu memilih sukuk yang telah diberi penarafan yang baik oleh syarikat penarafan (rating company)<sup>29</sup>. Di Malaysia sebelum Sukuk Ijarah diterbitkan, Suruhanjaya Sekuriti perlu memeriksa dan mengawal selia proposal Sukuk Ijarah agar ia mematuhi kehendak syara' melalui Mailis Penasihat Syariah Malaysia. Namun sekiranya berlaku kontroversi terhadap keputusan majlis penasihat syari'ah seperti berlakunya khilaf dan percanggahan pendapat di arena antarabangsa, sukuk tersebut sudah pasti mempunyai risiko terhadap pasaran antarabangsa kerana para fuqaha dan sarjana Islam tidak menyokong kelulusan terbitannya. Begitu juga sekiranya Mailis Penasihat Syariah membatalkan kelulusan sukuk kerana terdapatnya unsur tidak patuh seperti hasil dana digunakan untuk perkara yang haram.Oleh itu sebelum menstruktur Sukuk Ijarah, penerbit dan penasihat syariah perlu memeriksa samada sukuk yang diterbitkan tidak kontroversi dan menepati pendapat kebanyakan para fugaha dan sarjana Islam di dunia pada masa kini<sup>30</sup>. Selain dari risiko di atas, risiko operasi juga perlu diambil kira oleh penerbit dan pelabur. Diantaranya ialah risiko semasa proses penebusan *sukuk*. Apabila sampai tempoh matang sewaan (ijarah), para pelabur boleh menebus sijil (Sukuk Ijarah) mereka. Walaupun begitu, ia berisiko sekiranya syarikat asal (originator) membeli aset ijarah semula dengan harga pasaran yang berkemungkinan lebih rendah dari harga muka Sukuk Ijarah (face value). Ini menyebabkan pelabur tidak boleh menebus keseluruhan unit Sukuk Ijarah kerana risiko tersebut. Dalam operasi sukuk, kecairan ataupun keupayaan untuk didagangkan di pasaran kedua perlu diambil kira oleh para pelabur kerana sekiranya *sukuk* tersebut tidak boleh didagangkan di pasaran kedua pelabur akan menghadapi kesukaran untuk mendapatkan tunai sebelum tempoh matang. Oleh itu pelabur yang inginkan tunai sebelum tempoh matang perlu memilih sukuk yang boleh didagangkan di pasaran kedua<sup>31</sup>.

Apabila sampai tempoh matang dan tamat tempoh sewaan, syarikat asal (*originator*) perlu membeli semula aset *ijarah* daripada penerbit (SPV). Apabila syarikat asal menebus semula aset

ijarah, pelabur tidak akan mendapat hak manfaat iaitu bayaran sewaan kerana pelabur menebus kembali wang modal mereka dengan menjual aset ijarah kepada syarikat asal<sup>32</sup>. Namun adakah harga jualan dan belian tersebut mengikut harga pasaran atau harga yang dipersetujui iaitu nilai muka bagi setiap unit sukuk<sup>33</sup>?. Mengikut standart Sharia no.17 penerbit boleh menebus semula sijil tersebut dan menjual aset *ijarah* samada pada harga pasaran atau harga yang telah dipersetujui iaitu nilai muka bagi setiap unit sukuk.Bagi tujuan penebusan sukuk sekiranya berlaku kemungkiran pembayaran, jumlah dan nilai tebusan semula Sukuk Ijarah boleh diketahui melalui formula seperti dibawah<sup>34</sup>:

#### $RV = FV [1+{(r+p) \times (n/365)}]$

#### Dimana:

RV : Nilai tebusan (redemption value).FV : Nilai muka bagi IMTN dan ICP.

r : Kayu ukur bagi kadar hasil hingga matang (Yield to maturity/Kadar pulangan dalam kiraan peratus (%) per tahun).

p : Nilai ganti rugi termasuk ganti rugi (ta'awidh) kepada kemungkiran pembayaran.

n : Bilangan hari diantara hari berlakunya kemungkiran pembayaran dan tarikh akhir tebusan keseluruhan sukuk.

Dengan adanya formula ini, pelabur boleh menjangkakan pulangan dan tebusan sukuk mereka apabila tiba tempoh matang nanti.

# 9. KESIMPULAN

Berdasarkan data yang diperolehi dari tahun 2005-2011 Sukuk Ijarah berkembang dari 2.9% kepada 34% pada tahun 2007. Perkembangan ini menunjukkan bahawa usaha-usaha untuk memantapkan lagi pasaran hutang Islam Malaysia. Suruhanjaya sekuriti telah memperkenalkan peraturan dan garis panduan bagi mempercepatkan kelulusan sesuatu sekuriti baru. Suruhanjaya juga menerima pakai standart dan garis panduan yang disepakati diperingkat antarabangsa seperti garis panduan yang dikeluarkan oleh pihak AOOFI. Sukuk Ijarah di Malaysia tidak hanya menerima pakai prinsip *ijarah* dan *ijarah thumma bay*' dalam pencairan asset semata-mata bahkan ia boleh diaplikasi dalam bidang hartanah. Di Malaysia, suatu terbitan itu tidak terhad kepada satu prinsip sahaja bahkan boleh digabungkan bersama seperti *ijarah mausufah fi zimmah* dan *mudarabah* seperti Sukuk PLSA. Terbitan *sukuk* di Malaysia juga boleh diterbitkan secara bersiri bagi mengurangkan risiko kemungkiran pembayaran. Walaupun begitu, Sukuk Ijarah terdedah kepada risiko operasi, pasaran, ketidakpatuhan syariah dan risiko tukaran wang asing.

34 "Al-Aqar Principal Term and Condition of The Proposal" (15 Disember 2008), op. cit., h.12

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Oleh itu, pelabur, bank dan Suruhanjaya Sekuriti perlu mengurangkan risiko dan mengembangkan prinsip agara terus dapat berdaya saing dalam pasaran global. Secara kesimpulannya, Sukuk Ijarah di Malaysia begitu unik kerana hampir setiap prinsip sewaan Islam telah diamalkan dalam pasaran modal Islam yang melibatkan pihak kerajaan, agensi dan swasta. Bahkan ia boleh diamalkan secara gabungan bersama prinsip Islam yang lain seperti prinsip *mudarabah-ijarah*.

#### RUJUKAN

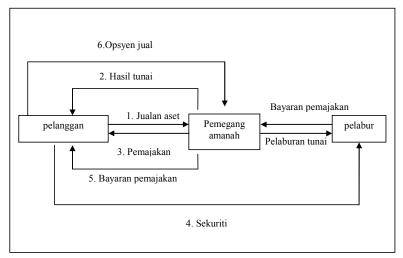
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#### **LAMPIRAN**

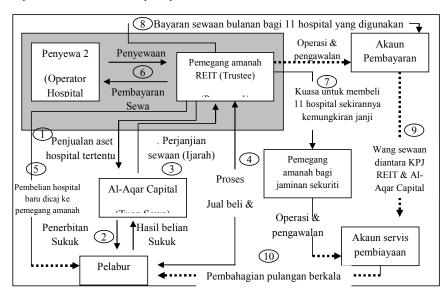
# Rajah dan Lampiran

Rajah 1 : Struktur Sukuk Ijarah



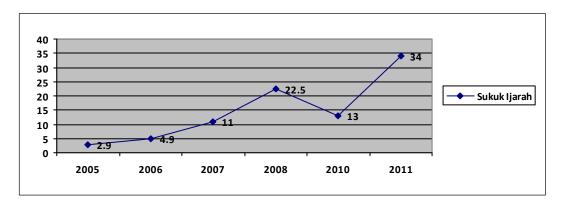
Sumber: Bank Negara Malaysia

Rajah 2: Struktur Sukuk Al-Aqar Capital



Sumber: Suruhanjaya Sekuriti (www.sc.com.my)

Graf 1 : Saiz Sukuk Ijarah



Sumber: Dikumpul dari data Suruhanjaya Sekuriti Malaysia

# MACROECONOMICS FACTORS OF CREDIT RISK IN ISLAMIC BANKS: THE CASE OF MALAYSIA

Safeza Mohd Sapian<sup>1</sup> Norhazlina Ibrahim<sup>2</sup> Nor Haziah Hashim<sup>3</sup>

#### **ABSTRACT**

**Purpose** – This paper makes an attempt to investigate which macroeconomics factor would be the most influential that could contribute to credit risk exposure and non-performing financing (NPF) as well as affecting the performance of Islamic banks in Malaysia for the period of 2002 - 2010.

**Design/methodology/approach** – This study uses quantitative methods of Time Series Analysis. A formal unit root test and cointegration test have been conducted to proof the long-term relationship between the variables. Next, the long-run structural modeling (LRSM) has been applied to ensure that the estimation is in line with theoretical expectation. Then, in order to determine the properties of endogeneity and exogeneity of variables, vector error-correction model has been employed followed by generalized variance decompositions, generalized impulse response and persistence profile. Data used in this study are secondary data in the form of quarterly time series statistics and period used is from January 2002 to December 2010 drawn from the website of Bank Negara Malaysia<sup>3</sup>.

**Findings** – Among the factors that have been chosen for the study are gross domestic products (GDP), Non-Performing Financing rate, Islamic financing rates (IFR) and unemployment rates (UMPT). However, the finding shows that Islamic Financing rate (IFR) has become one and only factor that would give a significant impact to the credit risk exposure and non-performing financing as well as the performance of Islamic banks in Malaysia.

Keywords: Credit Risk, Non-performing Financing, Islamic Banks, Time Series Analysis

#### 1. OBJECTIVE AND MOTIVATION OF STUDY

Since Islamic banks deal with a set of unique product characteristics and bound by the *Shariah* requirements, it is important to note that the level of exposure to credit risk for Islamic banks could be different if to compare with the conventional banks.

The evolvement of Islamic Banks in Malaysia since the first set up of Bank Islam Malaysia Berhad in 1983 (incorporated under companies act 1965) has shown various efforts by the government, regulators in particular Bank Negara Malaysia (BNM) and the Islamic Banks themselves to strengthen credit risk management in line with local and international best practices. The adoption of Basel II (International Convergence of Capital Measurement Standard) which is in line with the practices adopted by the G10 countries, has paved the way for BNM to establish Capital Adequacy Framework of Islamic Banks (CAFIB) in 2005 to be adopted by the Islamic Banks in Malaysia to better manage banking risk and compliant with regulatory capital requirement. On top of that BNM through

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<sup>&</sup>lt;sup>3</sup> http://www.bnm.gov.my

numerous circulars and guidelines such as Best Practices for the Management of Credit Risk which was issued in 2001 and guidelines on Classification and Impairment Provision issued in 2007, has continuously guided the Islamic banks to improve the credit risk management standard to be at par with the conventional counterparts.

Credit risk is one of the common and significant risks in banking institutions which can be simply said is the ability of borrowers to meet it their financial obligation when they fall due. The inability could be due to personal specific factors such as mismanagement, fraud or due to systematic or economy wide factors such as recessions, high inflation etc. While the specific factors would normally being addressed by the banking institutions in Malaysia through best practices on credit risk management in line with regulatory requirements, there is lack of studies conducted to identify the default behavior owing to systematic or macroeconomic factors. Therefore, this paper will try to identify and investigate the contributing factors to the credit risk for Islamic banks in Malaysia in terms of macroeconomics perspective.

Lack of attention and understanding in credit risk management would expose the banks to serious credit risk exposure as what happened in the US mortgage prime crisis in the past few years and even worst it has led to the global financial crisis. The nature of credit risk in Islamic banks is no different from its conventional counterparts and same goes with its management is also rooted from the same analysis as the conventional banks. However, due to uniqueness of the products and their strict compliance with *Shariah* requirements, Islamic banks credit risk management tools are limited. While some of the fiqh related issues have to be resolved by the *Shariah* scholars, setting up infrastructure need to be continuously carried out by the government and regulatory authorities in the country. Credit risk arises due to borrowers' inability to meet financial obligations as they fall due. The inability could be due to personal as well as macroeconomic factors. Therefore, this paper will try to identify and investigate the contributing factors to the credit risk for Islamic banks in Malaysia in terms of macroeconomics perspective for the period of 2002-2010.

#### 2. LITERATURE REVIEW

There were quite numbers of studies has been conducted to analyze the relationship between the macroeconomic factors against the behavior of the default of the credits. While the impact of the credit risk being studied elsewhere, it is hardly to be found that such a study has been carried out in the case of Malaysia.

Ali and Daly (2010) use econometric models to analyze the macroeconomic determinants of credit risk using a recent evidence from selected cross-country study in the US and Australia. The result indicates that same set of macroeconomic variables (GDP, interest rate, industrial production as well as debt to GDP ratio) display different default risk of the two economies. More importantly, the study reveals that the US economy is much more susceptible to adverse macroeconomic shocks. Australian GDP variable is highly significant and negatively correlated with the default rate. The short term interest rate (nominal) and cyclical indicator has a negative coefficient yet insignificant to the default rates. Level of debt as indicated by the Debt-to-GDP ratio is positively correlated with the default rate. US GDP variable has negative coefficient with default and highly significant in explaining aggregate default. The nominal interest rate and Industrial production variables are both insignificant in explaining the default rate for the US economy. Debt to GDP ratio has a positive sign and is highly significant in explaining the default rate for the US economy.

Kunt and Detragianche (1998) studied the factors with regard to systemic banking crises in a large sample of develop and developing countries in developing countries for a 14 year period from (1980 – 1994) using a multivariate logit econometric model. From the study, it was noted that the banking crises tend to erupt when the macroeconomic environment is weak in particular when the growth is low and inflation is high. On top of that, it was also found that high real interest rates were also closely related to the systematic banking problems. It is argued that vulnerability to aggregate output shock is

not necessarily the sign of the inefficient banking systems but due to its very nature which involves risk taking activities. With regard to the inflation, it was argued that it could be possibly due to the high and volatile nominal interest rate make it difficult for the banks to perform maturity transformation. The high real interest rates may be the result of host factors such as financial liberalization which is often associated with the fragility in the banking system.

Tang and Yang (2009) studied the impact on the interaction between markets and default risk on corporate credit spreads. The studied revealed that the GDP is significant determinant of average credit risk. Credit default swap (CDS) spreads decline in GDP growth rate. Other than it was also argued that the investors' sentiment is negatively associated with the credit spread. Although the study were concentrated more on the firm level as implied volatility due to investors sentiments are the most significant determinant of default risk, it also recognized macroeconomic variables are directly responsible albeit on a lesser portion.

Volainen (2004) studied on the macro stress testing with a macroeconomic credit risk model for Finland. In the studied they employed data on industry specific corporate sector bankruptcy for 18 years period from 1986 to 2003. They used estimated model to analyze corporate credit risks reflective the current economic conditions during the study. The samples include data from severe recession period with significantly higher than average default rates in early 1990s. It was revealed for the study that, there are significant relationships between corporate sector default rates and macroeconomic factors which include GDP, interest rates and corporate indebtedness. The Interest rates shock and extreme GDP shock would significantly increase the default rates for the corporate debts.

Gerlach et. al (2004) studied the impact of macroeconomic conditions and banking performance in Hong Kong with a focus on the impact of macroeconomic developments on the net interest margin and asset quality. The study employed financial information on all retail banks in Hong Kong between the years 1994 – 2002. It was found that both the interest margin and asset quality are affected by the macroeconomic and financial development. It was revealed from the study that the default rates rises with increase in GDP, inflation and nominal interest rate. However the rises in the property prices reduce the NPL ratio as a result of the related bank's exposure to the real estate sector.

Babouchek and Jancar (2005) conducted a study to investigate transmission involving set of macroeconomic variables describing the development of the Czech economy and the functioning of its credit channel from 1995 to 2004. It provides the first systematic assessment of the links between loan quality and the macroeconomic shock in the Czech Republic. Unemployment, real GDP growth, exports, imports, the real effective exchange rates, the CPI and credit growth has been chosen as indicators of ratios performance against an unrestricted VAR methodology. It was showed from the study that the appreciation of real effective exchange rate does not deteriorate the NPL ratios; increasing unemployment and Inflation would increase the NPL ratio, whiles fasters GDP growth would decelerates NPL ratio. Thus the importance factors indirectly influencing financial stability and loan portfolio quality are the dynamic of inflation and interest rate.

## 3.0 METHODOLOGY

# 3.1 Data Descriptions

For the purpose of this study, the 3 months gross non-performing financing (NPF) would be taken as dependent variables while macroeconomic determinants would be considered as independent. Based on the literatures discussed above, we have decided to select some macroeconomic determinants that reflect the macroeconomic forces onto the behavior of the default rates in credits that are quarterly gross domestic products (GDP), Islamic financing rates (IFR) and unemployment rates (UMPT). All the data are obtained from the Bank Negara Malaysia's website<sup>4</sup>.

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<sup>4</sup> http://www.bnm.gov.my

#### 3.2 Stationarity of Variables Test

The first step in time series techniques is the unit root test. Under this test we need to determine the stationarity or non-stationarity of variables chosen. Generally, economic data of a stochastic time series or a trend is not stationary, meaning that the data have unit roots. So, in order to estimate a model using these data, we need to test the stationarity of the variables or known by the unit root test. If the variables used contain root element of the unit, it will be difficult to estimate a model because these data trends not tend to fluctuate around its average value. Then it can be concluded that the variables which are stationary will have a tendency to approach the average value round mean values (Guiarati, 2003).

#### 3.3 Determination of Order of the VAR Model

Before proceeding with test of cointegration, we need to first determine the optimal order lag of the variables which means the number or lags to be used. We use the most recommended Akaike Information Criterion (AIC) as well as Schwarz Bayesian Criterion (SBC) test to determine the lag length of the VAR system to make sure the model is well specified. The lag will commonly be determined by the "Highest" value of AIC where as the SBC test is more refined and extended test. On top of that, in determining the level of optimum lag, number of sample observations need to be considered as the number of lag will minimize the degree of freedom.

#### 3.4 Cointegration Test

Once we have determined the optimum order lag of the variables, we should be ready for the next step which is to test whether the variables are cointegrated with each other or not or in other words is to evaluate whether there have a linear combination of integration variables that is stationary in their long-term relationship. Therefore we can say that our variables are cointegrated if they are non-stationary integrated of the same order and yet their linear combination is stationary. Cointegration test not only tells us information on the long run relationship between the variables it also tells us that the variables have some significance in the economic theory and it does not happen spuriously.

#### 3.5 Long-Run Structural Modelling (LRSM)

After we have determined the number of lags and cointegrating relationship between variables, we need to move on to Long-Run Structural Modelling (LRSM). The purpose of conducting this test is to determine the coefficient of variables against theoretical expectations in the long run. In this test we will start by assuming which variable that we want to treat as a dependent variable and put a restriction on it relations within other variables.

## 3.6 Vector Error-Correction Modelling (VECM)

Under this step, it holds an assumption that all variables are "endogenous" (dependent) in the long run. "Exogenous" variables can be observed when the error correction coefficient in any equation shows an insignificant result. On the other hand, if the coefficient is significant, it implies that the corresponding dependent variable is "endogenous". The size of the coefficient of the error correction term indicates the spread of a short-term adjustment to bring about long-term equilibrium and it represents the proportion by which the disequilibrium in the dependent variable is being corrected in each short period.

#### 3.7 Variance Decompositions (VDCs)

After we have determined which variables are endogenous and which variables are exogenous, we will proceed to the next step, Variance Decompositions (VDCs). Both VECM and VDCs are testing on causality but VDCs test is more specific where it will determine which variables is the most exogenous and which variable is the most endogenous. On the other hand, VECM does not give us any information about the relative exogeneity or endogeneity of each variable. The variable which is explained mostly by its own shocks is deemed to be the most exogenous of all variables. The variable that have a lot of decomposed proportions in other variables are said to be endogenous.

#### 3.8 Impulse Response Functions (IRFs)

The Impulse Response Functions (IRFs) essentially produce the same information as the VDCs, except that they can be presented in graphical form. It will show us when we shocked one variable, what will happen to the other variables or in other words, it mapped out the dynamic response of a variable owing to one period standard deviation shock to another variable.

## 3.9 Persistence Profiles (PP)

The Persistent Profile trace out the effects of a system wide shock on the long run relations between the variables. Under this step we would be able to see how long it will take to get back to equilibrium when the entire cointegrating variables are shocked.

#### 4. ANALYSIS AND FINDINGS

Under this section, we will explain in great details on the analysis and findings in this study.

#### 4.1 Step 1: Testing the non-stationarity/stationarity of each variable

As mentioned in the earlier section, most of macroeconomic series appeared to be non-stationary. Thus, in order to start running the data, first and foremost we need to check for the stationarity of the series whether it is stationary or non stationary. Here, we have applied the Augmented Dickey-Fuller (ADF) (1981) test to examine the stationarity characteristics of the series. The test will be done for each variable (in both level and differenced form). In Table 1 below show the summary of the results.

Table 1: Unit root test

Variable	Test Statistic	Critical Value	Implication		
	Variables in Level Form				
LGDP	-1.3172	-2.9499	Variable is non-stationary		
N TOP	2 0050	20100	** ***		
NPF	-2.8879	-2.9499	Variable is non-stationary		
UMPT	-2.4397	-2.9499	Variable is non-stationary		
IFR	-2.4808	-2.9499	Variable is non-stationary		
95% critical value for the augmented Dickey-Fuller statistic = -2.9499					
Variables in Differenced Form					
LGDP	-3.8847	-2.9528	Variable is stationary		
NPF	-7.6401	-2.9528	Variable is stationary		
UMPT	-4.1793	-2.9528	Variable is stationary		
IFR	-3.0827	-2.9528	Variable is stationary		
95% critical value for the augmented Dickey-Fuller statistic = -2.9528					

Thus, from the above table, the result has suggested that, at 5% significance level, the null hypothesis of a unit root (i.e., non stationary) is accepted when the series LGDP, NPF, IFR and UMPT are in

level form, but it is rejected when they are in first differences form. Therefore, we can move to the next step that is to determine the lag order.

#### 4.2 Step 2: Determination of the order (or lags) of the VAR model

In order to investigate whether there is cointegration between LGDP, NPF, UMPT and IFR we need to know the lags order of Vector Auto Regression (VAR) to be used. **Table 2** below shows the summary of the result.

Table 2: The order of lags

	Choice Criteria	
	AIC	SBC
Optimal order	6	0
6	60.92	13.90
5	58.38	4.47
4	41.36	9.52
3	37.49	1.42
2	35.00	8.06
1	60.21	5.65
0	27.65	24.65

Given the limitation of the number of our observation which is total of 40 observations as well as looking at this apparent conflict between recommendations of AIC and SBC, we have decided to choose order 2. This is due to the fact that, the more lag we take, the more we will lose the degree of freedom and again due to this, the order of lag 2 is chosen.

#### 4.3 Step 3: Testing the Cointegration

The third step is to determine the value of cointegrating relationship of the current model. We use 'multivariate' with VAR order 2 to get the results based on 'Eigen values' and the 'trace' statistics to determine the value of r (cointegrating relationship). Basically, this test is conducted to see whether NPF, LGDP, IFR and UMPT have long-term relationship or not. Both cointegration tests, the Engle Granger and Johansen methods are applied in this analysis. In Engle Granger method we are testing the stationary on the residual where as under Johansen method, determination of cointegration seen from the trace statistic and maximum Eigenvalue statistics. Eigenvalue and trace statistics that exceeds the critical value indicate that there is cointegration in the model used. However, in residual-based method, we can only draw a conclusion for one cointegrating relationship.

As summarized in the Table 3 and Table 4 below, it shows the result for Engle Granger Method (Residual-based) and Johansen Method.

**Table 3: Engle Granger Cointegration test** 

Error Term	Test Statistic	Critical Value	Implication
ADF(1) (based on SBC)	6.8849	-4.4347	Variable is stationary

From the result, looking at the error term test of stationarity on the residual we found that at lag 1 the stationarity test on residual found to be stationary which implies that there is one cointegrating relationship between variable Y and independent variables or the regressors. As time goes by, if the

error term found to be stationary, it implies that the error term is not permanent and transitory in nature.

**Table 4: Johansen Cointegration Test** 

Но	$H_1$	Statistic	95% Critical	90% Critical Value	
			Value		
1. Ma	ximal Eigenvalue				
r = 0	r = 1	49.5752	31.7900	29.1300	
r<= 1	r = 2	29.4432	25.4200	23.1000	
r<= 2	r = 3	12.4495	19.2200	17.1800	
r<= 3	r = 4	3.8656	12.3900	10.5500	
2. Tr	2. Trace Statistic				
r = 0	r= 1	95.3335	63.0000	59.1600	
r<= 1	r= 2	45.7584	42.3400	39.3400	
r<= 2	r= 3	16.3151	25.7700	23.0800	
r<= 3	r = 4	3.8656	12.3900	10.5500	

From the result above, both Eigenvalue and trace statistic states that there are 2 cointegrating relationship. Statistical value in bold, denote significance at the 5% and 10% significance level respectively, while r stands for the rank or the number of cointegrating vectors present. However, this particular study is focusing on contributing factors to credit risk that emphasized on one variable to be endogenous. Thus, it is more practical to assume only one cointegrating relationship.

#### 4.4 Step 4: Long-Run Structural Modelling (LRSM)

The fourth step is to test the Long Run Structural Modeling. This test is needed in order to compare our statistical findings with theoretical (or intuitive) expectations by imposing on those long-run relations (and then testing) both identifying and over-identifying restrictions based on theories and information of the economies under review. Please refer to Table 5 below for the summary of the results.

**Table 5: LRSM (exact identifying test)** 

Variable	Coefficient	Standard Error	t-ratio	Implication
LGDP	-2.6535	2.1669	-1.225	Variable is insignificant
IFR	0.37794	0.13557	2.788	Variable is significant
UMPT	-0.15348	0.11712	-1.310	Variable is insignificant

<sup>\*</sup>The dependent variable (NPF) has been normalized.

From the table above (exact identifying test), after calculating the t-ratios manually, we found two variables to be insignificant – LGDP and UMPT and one variable to be significant – IFR.

Looking at the result, we were very curious as to why the LGDP and UMPT were found to be insignificant. Therefore, driven by curiosity, we have decided to verify the significance of the variables by subjecting the estimates to over-identifying restrictions. We did this for all the variables (making one over-identifying restriction at a time) and the results confirmed the earlier findings that only IFR were significant, as detailed in the Table 6 below:

**Table 6: LRSM (over identifying test)** 

Variable	Chi-Sq p-value	Implication

Variable	Chi-Sq p-value	Implication
LGDP	0.089	Variable is insignificant
UMPT	0.066	Variable is insignificant

# 4.5 Step 5: Vector Error-Correction Modelling (VECM)

The vector error correction models (VECM) is an econometric model used to capture the evolution and the interdependencies between multiple time series. It specifies the short-run dynamics of each variable in the system, and in a framework that anchors the dynamics to long-run equilibrium relationships suggested by economic theory.

In this test, if the error-correction coefficient is insignificant, the corresponding dependent variable is 'exogenous'. But if that coefficient is significant, that implies that the corresponding dependent variable is 'endogenous' (it does depend on the deviations of other variables). In other words the ECM term contain long run information. If the ECM term is found to be significant, the variable is endogenous. On the other hand, if the ECM term is found to be insignificant, the variable is exogenous. Therefore, IFR is an exogenous which it does not depend on the deviation of other variable. It also implies that is a leading variable and initially receives the exogenous shocks resulting in deviations from equilibrium and transmits the shocks to other variables. Please refer to Table 7 below for summary of the results. This result implies that the variable is endogenous. Therefore in this particular study, the NPF is an endogenous variable and IFR is an exogenous variable. To make it more clearly, NPF is depending on other exogenous variable which is IFR. This shows that, IFR would have significant bearing on the expected movement of NPF.

**Table 7: VECM** 

Variable	ECM(-1) p-value	Implication
NPF	0.000	Variable is endogenous
IFR	0.294	Variable is exogenous

#### 4.6 Step 6: Variance Decompositions (VDCs)

In previous step, we have found that IFR is the exogenous variable but we have less assurance on the relative endogeneity of the other variable. According to Masih (2008), the Vector Error-correction Modelling can tell us which variable is exogenous (i.e., leader) and which variable is endogenous (i.e., follower), but the error-correction model cannot tell us the relative exogeneity or endogeneity of the variables. Since the VECM test could not give the relative endogeneity of the variable, we need to move to the next test which is Variance Decomposition (VDCs).

The decomposition results have been summarized in **table 8** below:

Table 8: VDCs

Horizon	NPF	IFR			
Relative variance in NPF (Follower)					
5	5 0.76302 0.23698				
10	0.62938	0.37062			
15	0.53868	0.46132			
20	0.47194	0.52806			
Horizon	NPF	IFR			
Relative variance in IFR (Leader)					
5	0.043199	0.95680			
10	0.034072	0.96593			

15	0.030980	0.96902
20	0.029427	0.97057

From the table shows that as the time horizon increased, the follower variable (NPF) is depending on IFR which explains the variance forecast error of IFR keep on increasing as the horizon increased whereas, for the leader variable (IFR), as time horizon increased, we can see that the variables (IFR) is explained mostly by its own shocks which shows it is exogenous where it depends on its own past and not depending on NPF. For example, from the result, variance of forecast error for horizon 20, IFR is 97% explained by itself which deemed to be most exogenous whereas NPF is only 2%.

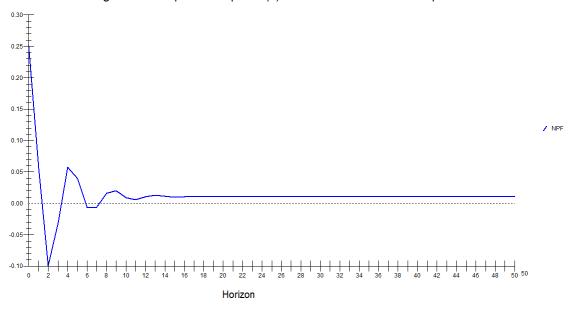
# 4.7 Step 7: Impulse Response Functions (IRFs)

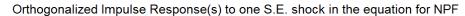
In this section a series of impulse respond analysis functions and their interpretations are presented. Impulse Response Functions described the time profile of all variables returning to its equilibrium value after a one period shock to a particular variable (Masih, 2006).

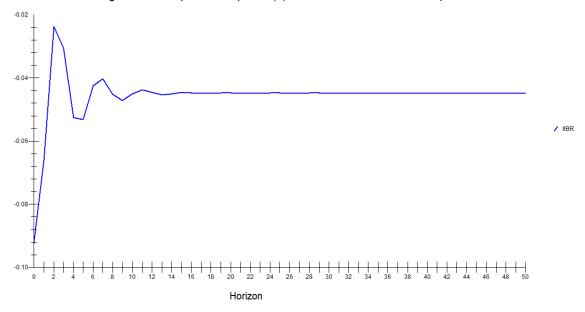
The information contained in the VDCs can be equivalently represented by IRFs only that it has presented in graphical manner (Please refer to the graphs below). IRFs essentially map out the dynamic response path of a variable owing to a one-period standard deviation shock to another variable. The IRFs are normalized such that zero represents the steady-state value of the response variable (Masih and Masih, 2008).

# i) Orthogonalized Impulse Response

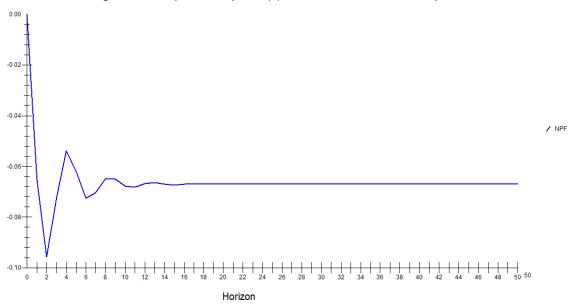
Orthogonalized Impulse Response(s) to one S.E. shock in the equation for NPF

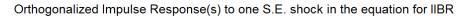


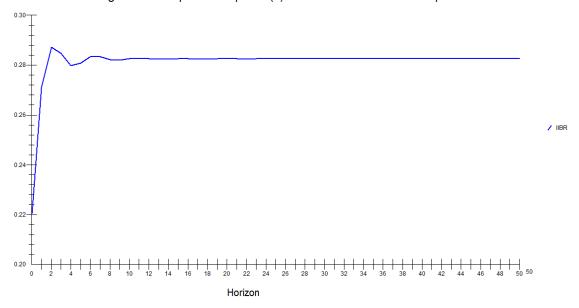




# Orthogonalized Impulse Response(s) to one S.E. shock in the equation for IIBR

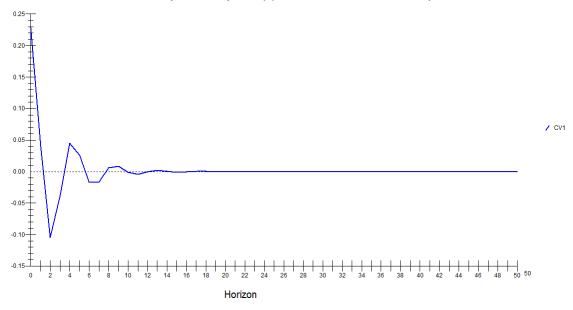


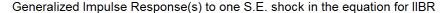


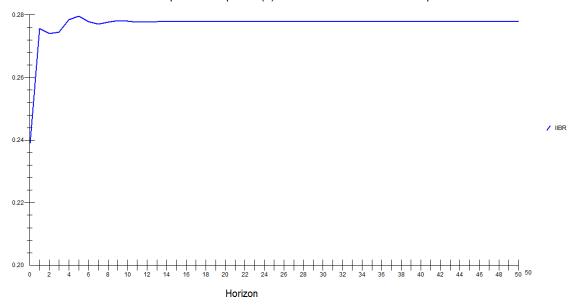


# i) Generalised Impulse Response

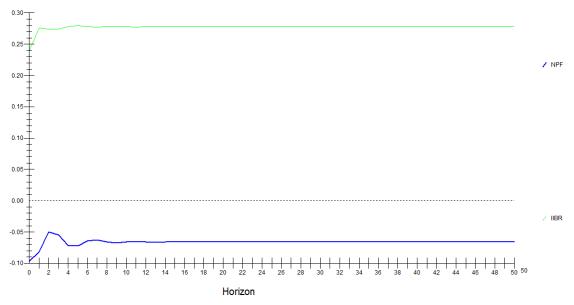
Generalized Impulse Response(s) to one S.E. shock in the equation for NPF





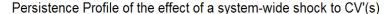


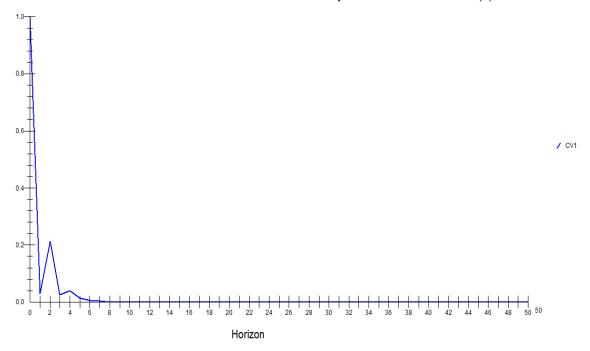
# Generalized Impulse Response(s) to one S.E. shock in the equation for IIBR



## 4.8 Step 8: Persistence Profiles (PP)

Persistence Profiles (PFs) presented a view of the model in the long run under the external force whole shock of the entire equations. It gives the dynamic response over the shock and tells us on how long does it takes for the whole equation to return to equilibrium after the shock. It will explain that variables are cointegrated in a vector for the long run. The Persistent Profile trace out the effects of a system wide shock on the long run relations between the variables. In the graph below, it shows that after the shocked was made for NPF and IFR, it will converge to equilibrium at 7.5 periods.





#### 5. CONCLUSION

The objective of this study is to identify and investigate which macroeconomics factor would be the most influential that contribute to credit risk exposure and non-performing financing (NPF) as well as affecting the performance of Islamic banks in Malaysia for the period of 2002 - 2010.

Among the factors that have been chosen for the study are gross domestic products (GDP), Non-Performing Financing rate, Islamic financing rates (IFR) and unemployment rates (UMPT). However, the findings shows that Islamic Financing rate (IFR) has become one and only factor that would give a significant impact to the credit risk exposure and non-performing financing as well as the performance of Islamic banks in Malaysia.

The cointegration test has proved that NPF and IFR both have cointegrating relationship. This shows that both variables are cointegrating in the long- run. The results in both analyses have documented a positive long-run association between NPF and IFR. The IFR appears to be significant and exogenous in nature from the VECM test. From the VDCs test shows clearly that the NPF is the follower and highly depending on IFR that indicates a very strong causality relationship of IFR. IFR is explained mostly by its own shocks that show its exogenous characteristic where it depends on its own past and not depending on NPF.

Overall, the findings has led us to conclude that even though the GDP and UMPT has been rejected to be the contributing factors to the credit risk, my intuition and personal beliefs still thinks that GDP and UMPT could also become the contributing factors maybe not so significant but at least there are small percentage that the two factors are also macroeconomic determinants for credit risk. Referring to the study done by Babouchek and Jancar (2005), they found that increasing in unemployment and Inflation would increase the NPL ratio, whiles fasters GDP growth would decelerates NPL ratio.

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# ESTIMATING OUTPUT GAPS IN SUKUK ISSUING OIC MEMBER COUNTRIES: THE CASE OF MALAYSIA AND UAE

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#### **ABSTRACT**

The aim of this study is to estimate the size of output gaps for two sukuk issuing countries namely Malaysia and the United Arab Emirates. These two countries represents about two-third of total value international sukuk issuance during 2001 to 2010. The output gap is measured based on univariate Hodrick-Prescott (HP) filter for the period 1980 until 2011 using annual data. Data are sourced from the World Economic Outlook Database. The findings indicate that Malaysia has smaller average percentage changes in CPI and output gaps estimations. The estimated output gaps track the changes in inflation quite well for both countries. The findings would be useful to the policy-makers since output gap can be used to assess inflationary pressures. For cross-border sukuk issuance countries, the ability to sustain economic growth in the long run without inducing inflation will boost investors' confidence.

**Keywords:** Sukuk, output gap, Hodrick-Prescott filter, inflation

#### 1. INTRODUCTION

One of the important issues in macroeconomics is understanding macroeconomic fluctuations. One way to measure the fluctuations is by estimating output gap. Output gap, or business cycle, is defined as the difference between actual and potential output. Potential output is an unobservable variable that reflects the maximum output an economy can sustain without inducing inflation. It is the level of Gross Domestic Product (GDP) that is consistent with full utilisation of all factors of production under conditions of stable inflation. Since output gap is unobservable, it has to be estimated.

The estimations of output gap is a useful tool for policy analysis. Monetary and fiscal policy will affect actual output while structural output will affect potential output (Coe and McDermott, 1997). Output gap captures the effect of shifts in domestic demand thus represents demand shocks. The argument is higher domestic demand would tend to raise domestic and import prices (Bussiere, 2006). Output gap captures the notion that with increasing sales, firms are more likely to pass-through increases in costs to final prices. The reverse is also true. Theoretically, the current output gap should provide information regarding future inflation.

Potential output and output gap estimates also help to assess macroeconomic policies. The estimate of output gap can contribute to identifying and assessing patterns of monetary policy framework over time. A positive output gap is indicative of demand pressures and a signal that inflationary pressures are increasing and that policy may need to tighten. A negative output gap has the opposite implication.

The present study attempts to measure the size of output gap in Malaysia and United Arab Emirates (UAE). This is because these two countries represent approximately two-thirds of the total value of

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international sukuk issuance for the period 2001 to 2010 (IIFM Sukuk Annual Report 2011). The findings will indicate whether the output gap is a good indicator of inflationary pressures (as measured by CPI) for these countries. It would also be interesting to examine the effectiveness of these economies in managing their macroeconomic policies over time since the degree of excess capacity in the economy is an important determinant for inflation. In turn, inflation is an important determinant for sukuk performance.

The paper is organized as follows. After the Introduction, Section 2 discusses literature review. Section 3 examines research method while Section 4 presents the findings. Section 5 concludes the discussion.

#### 2. LITERATURE REVIEW

#### Output Gap

There are at least five different methods of estimating output gap namely linear time trends, Hodrick-Prescott (HP) filter trends, multivariate HP filter trends, unobservable components models and a production function model. In general, these methods produced similar broad time profile of the output gap (De Brouwer, 1998). The inclusion of output gap produce better estimates of inflation. Coe and McDermott (1997) find the estimated output gap is in the range of  $\pm 3$  percent for the 13 Asian economies they have investigated.

Output gaps are estimated for two reasons. Firstly is to provide information about excess capacity in the economy at a particular point in time. From the perspective of monetary policy, the output gap over the forecast horizon is of most interest. Secondly, time series of the output gap is to be used in modelling exercises. For example, given that excess demand pressures are a key cause of rising inflation, the output gap can be included in price or wage inflation equations to obtain a more precisely estimated equation and more accurate forecasts (De Brouwer, 1998). Hence, the importance of output gap in macroeconomic models is due to its importance in assessing inflationary pressures; cyclical position of the economy and convergence criteria of the countries trying to form a currency union.

#### Sukuk Issuance

Table 1 below shows the regional break-up of sukuk issuance country over the period 2001 to 2010. The Gulf Cooperation Council (GCC) and Middle East Countries dominate in terms of number of issuance and percentage of total value. The United Arab Emirates (UAE) has the highest percentage of total value (in USD million) of 52 percent, followed by Malaysia and Bahrain each contributed 12 percent and Saudi Arabia - 11 percent. The United States, United Kingdom, Japan and Turkey represent only two percent of the overall international issuance. Based on the current trend, sukuk are most likely to be issued in the Asia and the Far East and the GCC and Middle East economies in the future

ASIA & FAR	Amount		
EAST	(USD million)	Number of Issues	% of Total Value
Malaysia	5,496	12	12%
Indonesia	650	1	1.4%
Pakistan	600	1	1.3%
Brunei Darussalam	200	2	0.42%
Total	6,946	16	15%
	Amount		
GCC & MIDDLE	(USD million)	Number of Issues	% of Total Value
EAST			
Bahrain	5,633	90	12%
Qatar	2,020	4	4%
Saudi Arabia	5,440	9	11%
UAE	25,050	30	52%
Kuwait	1,575	9	3%
Total	39,718	142	83%
	Amount		
AFRICA	(USD million)	Number of Issues	% of Total Value
Sudan	130	1	0.3%
Total	130	1	0.3%
	Amount		
OTHERS	(USD million)	Number of Issues	% of Total Value
Japan	100	1	0.2%
Turkey	100	1	0.2%
UK	271	2	0.6%
USA	600	2	1.3%
Total	1,071	6	2%
Grand Total	47,865	165	100%

Source: IIFM Sukuk Issuance Database (Jan. 2001 – Dec. 2010) and Sukuk Annual Report 2011.

#### Exchange Rate Arrangement

The majority of the OIC member countries are classified under "other conventional fixed pegged regime." Other exchange rate arrangements for all other member countries include currency board, pegged exchange rate within horizontal bands, crawling peg, managed-floating with no pre-determined path for the exchange rate and independently floating. In addition, they belong to different monetary policy framework of 'Exchange Rate Anchor', 'Monetary Aggregate Target', 'Inflation Targeting Framework' or 'Other' category (SESRICb, 2012).

Malaysia adopts a managed-floating with no pre-determined path for the exchange rate arrangement under 'Other' category. Meanwhile, the UAE falls under exchange rate anchor with conventional peg and the currency is pegged to United States dollar (USD). The selection of exchange rate regime would depend, among others, on the level of its financial development. For an exchange rate regime to maintain a stable and competitive real exchange rate, it should be supported by a robust financial sector. This is because foreign exchange exposure is one of the types of risks present in sukuk structures. Exchange rate flexibility can act as a shock absorber against external shocks in order to maintain competitiveness and stability.

In short, the economic structure and level of development of a country will determine the appropriate exchange rate regime. In developing countries, with fairly new financial systems, trade variables will most likely determine the exchange rate. For the developed economies, the movements of capital and financial assets will affect exchange rates. Exchange rate stability is an important currency attribute in

long-term international capital markets in minimizing exchange rate risk exposure due to currency fluctuations.

Besides Shariah requirements, sukuk are also affected by supply and demand, risk and return, economic objective and credit rating of the issuer, legal framework in the jurisdiction and tax implication of a structure, among others. It is also a function of the regional and global debt market. The general rule is that bonds tend to perform well when inflation is low, interest rates are expected to fall and company profits are under pressure. Bond prices rise and fall in cycles, doing well in a low inflationary environment and low interest rates (or the Shariah-compliant investment issues, GIIs's yields for sukuk). They perform badly when the first two indicators are rising. Rising inflation is particularly damaging to both bonds and sukuk because their return is fixed in money terms and inflation erodes their value. At certain times in the stock market and economic cycle, sukuk can be a good investment choice since their prices are generally less volatile than shares.

#### 3. METHOD

The sample consists of two OIC sukuk issuing member countries namely Malaysia and the UAE. Data are annually, covering the period 1980 to 2011 and are sourced from the World Economic Outlook Database. For annual data, Gross Domestic Product (GDP) is used as the proxy for real output and to estimate potential output. The study also includes data on annual percentage changes in Consumer Price Index (CPI) for both countries. Data for GDP are in log values, constant USD 2005 prices. Output gap is defined as actual minus potential output as measured by Hodric-Prescott filter. The output gap is measured in growth rates and CPIs are measured in percentage changes.

Output gap is estimated as the log difference between actual output and its Hodrick-Prescott (HP) filter. The Hodrick-Prescott filter (HP henceforth) decomposes output into permanent and transitory components generating a smoothened trend of output. The generated smoothened series is the estimated potential output. The HP filter is defined as follows. Suppose a time series  $ygap_t$  can be decomposed into trend (growth) component,  $ygap_t^s$  and cyclical component,  $ygap_t^c$ :

$$ygap_{t} = ygap_{t}^{g} - ygap_{t}^{c} \tag{1}$$

The HP filtering process will choose the growth component,  $ygap_t^g$  that minimize the following problem:

$$Min(1/T)\sum_{t=1}^{T}(ygap_{t}-ygap_{t}^{g})^{2}+(\lambda/T)\sum_{t=2}^{T-1}[(ygap_{t+1}^{g}-ygap_{t}^{g})-(ygap_{t}^{g}-ygap_{t-1}^{g})]^{2}$$
(2)

where T is the sample size. The first term is the sum of the squared deviations and indicates the goodness of fit. The second term is the sum of the squares of the trend component's second differences and measure the degree of smoothness. The parameter  $\lambda$  is the smoothness parameter, set at 100 for the annual data, following the literature in the subject.  $\lambda$  penalizes the variability in the growth component. If the value of  $\lambda$  is zero, then the second term becomes zero, the sum of squares is minimized when  $ygap_t - ygap_t^g$ ,  $\forall_t$ , and the HP filter would return the original series  $ygap_t$  as the growth component. Meanwhile, the second term is minimized when  $ygap_t^g - ygap_{t-1}^g$  is the same  $\forall_t$ . The objective of the minimization problem is to select the trend component that minimize the sum of squared deviations from the observed  $ygap_t$  series, subject to the constraint that changes in the trend component ( $ygap_t^g$ ) vary gradually overtime.

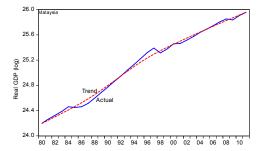
#### 4. RESULTS

The output gap based on HP filter is conducted for each country and results are presented below in Figure 1 for Malaysia and Figure 2 for the UAE. Real GDP and its estimated trend (in log values) are displayed in the left panels and annual rates of inflation and the estimated growth rates of output gaps are presented in the right panels. For the right panel, the visual plots indicate whether real GDP and its estimated trends are relatively smooth. Note that the scales differ across countries in each figure.

For the study, we focus on whether the change in the gap is related to the change in inflation, which in turns implies that the level of inflation will remain stable if the level of the gap is unchanged (Coe and McDermott, 1997). This is done by examining the volatility of inflation and gaps variables and whether the spikes in output gap are followed by the spikes in inflation. The visual plots would indicate to what extent the estimates of output gap explain inflation developments in the countries under study.

Based on the visual plots, the estimated trends are relatively smooth for both countries after the 1997 Asian financial crisis. There was a sign of economy being overheated as indicated by excess capacity where potential output exceeded actual output several years prior to the crisis. The situation was more obvious in UAE as compared to Malaysia.

On the other hand, visual inspections on the output gap and inflation suggest that inflation has been volatile in early 1980s for Malaysia with spikes of 10 to 12 percent. Afterwards, inflation has generally been lower – below 6 percent in Malaysia. On the other hand, UAE experience much higher inflation rate with spikes of 12 percent during the recent 2007 global financial crisis and remained relatively higher at below 8 percent throughout the period. For both countries, many of the inflation spikes tend to be associated with smaller spikes in the output gaps, sometimes with delayed reactions. However, there are certain periods where the spikes in output gap are not accompanied by similar rise in inflation. Examples are in 1985 and 1998 for UAE and Malaysia, respectively. For the UAE, it might be due to the rising oil prices and for Malaysia, the period of great recessions saw both a decline in output yet rising prices. These situations require further empirical investigations. The average CPI percentage change is 3.5 percent and 4.89 percent for Malaysia and UAE, respectively. The average size of changes in output gap is a +1 percent for Malaysia and -0.99 percent for UAE. This might indicates that in general, Malaysia is operating above the capacity while UAE is operating below capacity. Therefore, if the trend continues, inflation is expected to rise in Malaysia and to decline in the UAE.





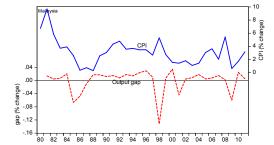
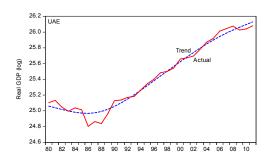
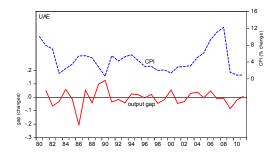


Figure 2: Output Gaps and Inflation for UAE, 1980-2011





The countries under 'exchange rate anchor' arrangement might learn 'other' monetary policy framework. The literature suggests that output gaps have valuable information content about movement in price and wage inflation (de Brouwer, 1998). However, the information should be used along with other broad set of information in policy setting. Assessing model predictions based on output gap produce better results when policy has clear targets.

### 5. CONCLUSION

The study compares the size of output gap in two selected OIC sukuk issuing member countries. The findings suggest that in general, Malaysia is doing better due to smaller percentage changes in both output gap estimations and CPI. The two countries under study here both adopt different exchange rate arrangements and monetary policy framework. This might explain the different results obtained. Therefore, the output gap estimations here could be incorporated in the preparation of inflation forecasts and assessments of the economic outlook and the stance of macroeconomic policies. The size of output gap helps policy-makers design appropriate policies to sustain economic growth in the long run without inducing inflation. A more accurate forecast of inflation would help improve formulation of monetary policy in these economies.

For future research, since the output gap discussed above were all obtained based on univariate data analysis, other factors might be included such as inflation and capacity utilization rate. In addition, the output gap could also be decomposed into observables as suggested by recent literature. This is to see how individual observables such as unemployment or GDP contribute to the estimation of output gap.

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#### THE IMPACT OF TAXATION ON THE CAPITAL DEVELOPMENT OF A STATE

Muhibat, A. O.<sup>1</sup>

#### **ABSTRACT**

The objective of this paper is to investigate and identify how an effective and efficient tax system could serve as a source of government revenue for the development of a state. Tax is considered as a main source of government revenue in public finance for the development of a state, which made government to make high expectations from it in its budget. Therefore, the paper is concerned with the assessment of taxation as a source of government revenue and how it is use for the development of a state, Lagos State. One hundred (100) sample was drawn from the population which comprised of all the entire employees of Lagos State Internal Revenue Services (LIRS) and the tax payers The critical value of  $X^2$  0.05 at 1 degree of freedom from the statistical table 3.84. Since 41.0 which is the computed value is greater than 3.84 which is the statistical value, we reject the null hypothesis and accept the alternative hypothesis. Statistical analysis means that taxation as a source of government revenue serves as tools for development of a state. From the results analysis for secondary data, using 5% level of significance at 1 degree of freedom r = (0.98) calculated (12.706) table, there is a significant relationship between taxation and capital development. It was also gathered that good tax administration is an important factor which determines the level of revenue of any state. This means that revenue generation as well as good tax administration is the most important factor which leads to development. Taxation as a source of Lagos state government revenue is quite encouraging as the Lagos state government ensures efficiency collection of taxes; this in turn leads to capital development in the state. But there are still rooms for improvement if the recommendations are implemented. The study will have policy implication to the Lagos State and will also be a source of reference for other state in Nigeria in formulating and implementing the similar concept of effective and efficiency taxation for development of a state.

**Keywords:** Taxation, Capital development, Tax payer, Government revenue, Lagos State Internal Revenue Services (LIRS).

## 1. INTRODUCTION

Taxation in Nigeria has been a revenue instrument to Nigeria government since pre-colonial era to date. Also, there is no doubt that the government of any nation be it under developed or developed is faced with a lot of challenges and responsibilities. The citizens are expecting the government to provide various social amenities such as roads, construction of building, redistributing income, protecting the infant industries, controlling inflation and meeting other

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social and economic policies. The government is also obliged to pay the public servant salaries and allowance for the services rendered. Every state government belongs to the public sector of the economy with aims and objective of providing basic economic and social amenities at reduced rate. In order to finance the above various obligations, the governments therefore, have it as its disposal various way of sourcing funds. One of these means of sourcing funds is "taxation" **Tax** is a compulsory levy on the resident of a society by the government of that society Dye (1963). Two things must be born in mind about tax.

- i. Its payment is compulsory as the government has an enforcing law and can force people to pay it. Non-payment of tax carries penalties.
- ii. It is only the government that can levy taxes and this is done through various government agencies like Board of Inland Revenue.

Tax is also a compulsory contribution imposed by government authorities on goods, individuals, corporate bodies etc. Irrespective of the exact amount of services rendered to the tax payer in return and not imposed as penalty for loyal offence Ilesanmi (2001). Revenue is defined as "the income which accrues to the government Aboyade (1995). Relating the above definition to Lagos state government, revenue can therefore be redefined as "the income which accrues to the Lagos state government from various sources during a given development, according to Lagos state government as stated in the speech delivered by the Lagos state governor Babatunde Raji Fashola. To butter this, Owuama (2010) stated that there are three (3) main categories of finance (funds):

- i. Tax: This is the most important source of government revenue. It includes direct and indirect tax.
- ii. Fees, fine, charges and rates: These are income derived from the use of environment services such as vehicle licenses, water rate, stamp duties, toll fess etc.
- iii. Rent, Royalties and profit: These are income derived from the use of government properties, income received in form of aid from other countries, from international organizations like the World Bank, International Monetary Fund (IMF).

From these three sources of finance, Owuama (2010) establish that highest revenue comes from Tax; also Lagos state government has a percentage for it in its budgets. This has therefore necessitated this research work on the appraisal to taxation on Lagos state development. There are various reasons for the imposition of taxes in Lagos state. They are:

- (a) To provide public good
- (b) To redistributed income and wealth
- (c) To promote social and economic welfare
- (d) Economic stability

Given these general responsibilities taxation can be a powerful tool in the hands of any government as a means of ensuring that the social, political and economic policies of the government in power are brought to fruition through:

- Revenue raising
- Redistribution of income and wealth
- Economic regulator
- Harmonization.

The implementation process of Lagos State Internal Revenue Service's (LIRS) (formerly known as Lagos State Board of Internal Revenue) autonomy was completed and her new log unveiling by his Excellency, the governor of Lagos state Babatunde Raji Fashola (SAN) in

2011. Members of staff who opted remain in the civil service have been transferred to other ministries. Lagos State Internal Revenue Service being the major financing arm of the government has taken on the challenges of increasing the Internal Generated Revenue (IGR) for the development of the State through the adoption and implementation of various strategies which have impacted positively on revenue generation for the development of Lagos state, with the IGR moving from 30,093,974.65 in 2008 to 94,854,379,863.51 in 2011 a percentage increase of about 315% (LIRS, 2012). The establishment of a new corporate headquarters at Good Shepherd House, Alausa Ikeja equipped with up-to-date infrastructure facilities to enhance productivity development and adoption of a vision statement by all the staff. Establishment of a virile operational procedure that ensure proper and timely coordination of activities between the assessing and enforcing arms of the Board. Ensure adequate dissemination of board's activities and expectation from the citizenry in the tax deduction and remittance. LIRS management completed the construction of Mushin Tax complex through direct labour and commences operations from the complex. This complex now houses the training school for LIRS staff-one of the cardinal instrument of enhancing efficiency of the service. The LIRS has introduced self Assessment filling system for individuals the first of its kind in Nigeria to make tax payment convenient, boost the state's IGR and expand payers list. In partnership with collecting banks, and individual tax payer can conveniently pay his tax at any of the over 1200 branches of those banks and LIRS 36 tax stations and receive their receipt and e-tee within 72 hours of payment. The LIRS took its tax campaign to the traditional rulers thereby co-opting them into the tax drive and also met the major trade association including the tailors, Tyre merchants, patient medicine dealers and butchers amongst others. In addition flyers were distributed by specially trained promoters across Lagos state.

Although in most countries of the world, taxation is one of the major sources of government revenue. It attracts execution in its drive and thus explains why an increase or decrease in any area, marginal or otherwise, attracts serious and judicious consideration. But in Nigeria context, tax evasion and avoidance and falsification of account are the problem facing taxation, thereby bringing low volume of revenue accruing to the government. Therefore, The general objectives of this paper is to exhaustively highlight, investigate and identify how an effective and efficient tax system could serve as a source of government revenue for the development of a state. To achieve this objective, the paper will focus on the following specific objectives.

- i. To establish the relationship between revenue generation and tax system
- ii. To ascertain the relationship between revenue generation and state development.

The result of the study will have policy implication to the Lagos State and will also be a source of reference for other state in Nigeria in formulating and implementing the similar concept of effective and efficiency taxation for development of a state. The paper is divided into five sections. Section one introduces and explains the motivation for study. In section two is the literature review. Section three discusses research methodology. Result analysis in section four. While the fifth section concludes.

# 2. LITERATURE REVIEW

#### Taxation and Income redistribution

A fundamental objective of taxation is the redistribution of income and wealth. As the fingers of our hands are not equal, so we all endowed differently in terms of material effects. The role of taxation in this regard is to readjust the equilibrium of the society by adopting 'confiscatory' rates in favour of the poor. Thus the higher the income of the citizen, the higher the tax he pays into the coffers of the government. Similarly, basic consumables which are

required as a matter of necessity by every person are usually exempted from consumption tax. On the other hand the so-called luxury items which are usually patronized by the rich are liable to these taxes. Our Value Added and Consumption taxes are typical examples. In addition, the burden of taxation is invariably heavier on the rich than the masses. Thus the wealth of the well-to-do members of the society is used to pay for social services enjoyed by the less privileged Kehinde, (2005). As a tool of social engineering, taxation goes a long way to keep the society moving. As government gets more revenue and commission more projects, more money is put in circulation, more employment opportunities arise and more business opportunities are created which impact positively on generality of the society. This is how every little contribution to the tax purse helps to keep the economy growing.

# Taxation as a Tool for Infrastructural Development

This is perhaps an area where the role of taxation is very obvious. We all desire quality medical facilities, qualitative education, uninterrupted power supply, security of lives and property, and food production. These are however the practical manifestations of the uses of taxes. Without prompt and accurate payment of our taxes, it will be a Herculean task for the government to finance these projects. Adeola R. Ipaye (2009) special adviser to Lagos state governor on tax and revenue pointed out that infrastructural development is also a useful index of how well the government is performing. They enable the citizens to gauge the use or the misuse of public funds. The degree of fiscal legitimacy directly reflects the confidence that the people show in their government's performance in collecting and spending tax revenue. The credibility of the tax system suffers when expenditure is regressive and widens rather than narrows the gap between rich and poor. There is a direct relationship between the quality of expenditure and the readiness of citizens to meet their tax obligations. According to Michael J. Ross, who is a professor at University of California, Los Angeles, "people may dislike taxes, but they appear to loathe paying more while receiving less form their governments Pandy (2000). Ironically, this loathing may be a good thing: when citizens are faced with an undemocratic government that is charging unreasonably high prices for its services, they tend to demand democratic reforms." Hence, expenditure must be better targeted to improve access to services like water and sewerage, health care and education, for the broad population base. It is when this is done that the government has scored a pass mark.

### Taxation and Accountability

In its September 2008 quarterly magazine, Finance and Development, the International Monetary Fund (IMF) underscored the importance of taxation to economic development, it states that "Tax increases incentive for public participation in the political process and crates pressure for more accountability, better governance, and improved efficiency of government spending. Domestic revenue mobilization can help strengthen fiscal institutions... stronger revenue mobilization (TAX) contributes to economic stability, particularly if countries depend on external financial flows." The effect of the above quotation is that taxation transforms a citizen from a passive bystander in the affairs of his country to active stakeholders. When you see taxpayers' money in action, you know that you are one of the people that made it happen. It even makes you interested in who takes over the rule of government at every level, because you want to see efficiency in the way governments handle your affairs.

As noted above, that tax increases incentives for public participation in the political process and create pressure for more accountability. The question then: what is accountability? In governance, accountability is the acknowledgement and assumption of responsibility for actions, products, decisions, and policies including the administration, governance, and implementation within the scope of the role and encompassing the obligation to report,

explain and be answerable for resulting consequences (Ilesanmi, 2001). In Lagos state, taxpayers have the opportunity to interact with government officials without let or hindrance, both formally and informally. Perhaps for the first time in Nigeria, contacts details of government officials (mobile telephone numbers and e-mail addresses), including that of His Excellency and all his Cabinet Members are made public.

This information is placed at strategic places including publication in national dailies and government diaries. This singular steps goes a long way in making the government to be accountable to the people.

In another bold step, the government has made it a tradition to organize Taxation Stakeholders' Conference on an annual basis. The conference is always an opportunity for taxpayers to have personal interaction with Revenue Officers of the state including the Governor himself. The conference always took place every year with a spectrum of taxpayers' representatives in attendance. At the conference, Lagosians met with officers of the Lagos State Internal Revenue Services, motor vehicle administration agency, Lands bureau, Lagos state signage and outdoor advertising agency, amongst others the general objective of the study is to investigate from the foregoing, how an effective and efficient tax system as mentioned above could serve as a source of government revenue for the Lagos State.

#### 3. RESEARCH METHODOLOGY

The population for the study comprised of all the entire employees of Lagos State Internal Revenue Service's (LIRS) and the tax payers. A sample has been made from the population and the number were One-hundred (100) to represent the whole population of both workers of Lagos State Internal Revenue Service (LIRS) and taxpayers. The study adopted both the primary and secondary data as the instruments for collecting data, above all questionnaire where distributed to all staff at Lagos State Internal Revenue Service (LIRS) and the tax payers in accordance with the specifications of the research questions and hypothesis. Results indicate that 82% of the questionnaire were returned and filled while the remaining 18% were either not filled or not returned.

#### 4. RESULTS

#### Personal Data

Large proportion (40%) of the respondents fall between the ages of 31-40 years. The male constitute 63% of the total respondents, while 37% of the total respondents of the sample selected are female. 32% of the actual respondents were single, 60% were married while divorced were 0% and 8% were widowed. Most of the respondents have HND/BSC degree 40%, this is followed by holders of post graduate degree and above, were 24%, ND/NCE holders were 16%, holders of professional certificate were 20%. Large number of the respondents have spent 6-10 years in services. The percentage of various employments in which the respondent belong to, 40% were self employed, 30% were privately employed 20%, were civil servant while 10% belong to others. Most of the respondents were senior staff with 52% followed by the junior staff of 40%, top management were 8%.

Test of Hypotheses and Interpretation

Hypothesis one

The effectiveness of revenue generation is not dependent on effective tax administration

Table 1: Do you agree that efficient and effective administrative of tax have a positive contribution on government revenue?

RESPONSES	NO OF RESPONSES	PERCENTAGES(%)
YES	80	98
NO	2	2
TOTAL	82	100

Table 2: Frequency table

Variables	Observed Frequency	Expected Frequency	Fo – Fe	$(Fo - Fe)^2$
YES	80	41	39	1521
NO	2	41	-39	1521
TOTAL	82	82	0	3042

From tables 1 and 2:

Where: Fo = Observed Frequency

Fe = Expected Frequency

$$X^2 = 3042 = 74.2$$

With degree of freedom (Df) = V - 1

Where V = Variables

$$2 - 1 = 1$$

The critical value of  $X^2$  0.05 at 1 degree of freedom from the statistical table 3.84. Since 74.2 which is the computed value is greatest than 3.84 which is the statistical value, we reject the null hypothesis and accept the alternative hypothesis. Accepting the alternative hypothesis (H<sub>1</sub>) and rejecting the null hypothesis (H<sub>0</sub>) based on the above statistical analysis means that the effectiveness of revenue generation is dependent on effective tax administration. i.e. H<sub>1</sub> should be accepted.

Hypothesis two

Taxation as a source of government revenue does not serve as a tools for development of a state

Table 3: Do you thing the revenue from tax has any effect on the development of Lagos state?

RESPONSES	NO OF RESPONSES	PERCENTAGES(%)
YES	70	85
NO	12	15
TOTAL	82	100

**Table 4: Frequency table** 

Variables	Observed Frequency	Expected Frequency	Fo – Fe	$(Fo - Fe)^2$
YES	70	41	29	841
NO	12	41	-29	841
TOTAL	82	82	0	1682

From tables 3 and 4:

Where: Fo = Observed Frequency Fe = Expected Frequency  $X^2 = \underline{1682} = 41.0$ 

With degree of freedom (Df) = V - 1

Where V = Variable 2 - 1 = 1

The critical value of  $X^2$  0.05 at 1 degree of freedom from the statistical table 3.84. Since 41.0 which is the computed value is greater than 3.84 which is the statistical value, we reject the null hypothesis and accept the alternative hypothesis. Accepting the alternative hypothesis ( $H_1$ ) and rejecting the null hypothesis ( $H_2$ ) based on the above statistical analysis it means that Taxation as a source of government revenue serves as tools for development of a state. i.e.  $H_1$  should be accepted.

Analysis of Secondary Data for Hypothesis Number Two (2)

# Model Building

Taxation (X) is exogenous variables determined autonomously by the Relevant Tax Authority that is Lagos State Internal Revenue Service (LIRS) and the behaviour of citizen towards the payment of tax. The study specifies the model and treats taxation as the independent variables while other variables as dependent variable. The specification is as follows:

Taxation (X1) is a function of Capital development.

These relationship can be formally written as X1 = F(Y)

To make the relationship empirically testable we make them more specific by suggesting that they are positive and in form of a straight line. To test model (1) above we now represent that yearly data collected from the various bodies as specified on the methodology as shown table 5.

**Table 5: Secondary Data** 

Years	Total Revenue	Revenue from Tax (IGR)	Capital Development
	(#) BILLION	(#) BILLION	(#) BILLION
2007	192,942	83,020	192,721
2008	277,811	129,563	276,570
2009	353,403	178,100	354,886
2010	415,123	205,190	401,201
2011	465,603	241,320	451,308
TOTAL	1,704,864	837,193	1,676,686

Source: Lagos State Internal Revenue Service (LIRS)

How the Variables above are converted into Various Percentage:

**Table 6: Taxation and Total Revenue** 

Years	Revenue from Tax (IGR)	Total Revenue	Variable X%
	(#) BILLION	(#) BILLION	
2007	83,020	192,942	43.0
2008	129,563	277,811	46.6
2009	178,100	353,403	50.4
2010	205,190	415,123	49.4
2011	241,320	465,603	51.8
TOTAL	837,193	1,704,864	241.2

Source: Lagos State Internal Revenue Service (LIRS) with Author modification.

**Table 7: Taxation and Capital Development** 

Years	Revenue from Tax (IGR)	Capital Development	Variable Y%
	(#) BILLION	(#) BILLION	
2007	83,020	192,942	43.1
2008	129,563	277,811	46.8
2009	178,100	353,403	50.2
2010	205,190	415,123	51.1
2011	241,320	465,603	53.5
TOTAL	837,193	1,676,686	244.7

Source: Lagos State Internal Revenue Service (LIRS) with Author modification.

**Table 8: Regression Calculation Table** 

Years	Tax (IGR)	Capital Development	XY(%)	$X^{2}(\%)$	$Y^{2}(\%)$
	X(%)	Y(%)			
2007	43.0	43.1	1853.3	1849	1857.6
2008	46.6	46.8	2180.9	2171.56	2190.2
2009	50.4	50.2	2530.1	2540.2	2520.0
2010	49.4	51.1	2524.3	2440.4	2611.2
2011	51.8	53.5	2771.3	2683.2	2862.3
TOTAL	241.2	244.7	11895.9	11684.4	12041.3

Calculation of Co-Efficient of Correlation

Taxation and Capital Development

Coefficient Correlation Equation

Formula: 
$$r = n$$
  $(\Sigma xy) - (\Sigma x)(\Sigma y)$   $\sqrt{[n(\Sigma x^2) - (\Sigma(x)^2][n(\Sigma y^2) - (\Sigma(y)^2]]}$ 

Where n = 5

r = 
$$\frac{5(11859.9) - (241.2)(244.7)}{\sqrt{[5(11684.4) - (241.2)^2][5(12041.3) - (244.7)^2]}}$$

$$r = \frac{59299.5 - 59021.64}{\sqrt{[(58422) - (58177)][(60206.5) - (59878.1)]}}$$

$$r = \frac{277.86}{\sqrt{(244.6)(328.4)}}$$

r = 277.86

$$\begin{array}{rcl}
 & \sqrt{283.42} \\
 r = & \frac{277.86}{283.42} \\
 r = & 0.9804 & 4.d.p
 \end{array}$$

Test of significance of correlation coefficient

Then 
$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{n-2/n-3}$$
  
 $t = \frac{0.9804}{\sqrt{1 - 0.9804^2}} \times 1$   
 $t = \frac{0.9804}{\sqrt{0.03882}} \times 1$   
 $t = \frac{0.9804}{0.197017359} \times 1$   
 $t = 4.98 \quad 2.d.p$ 

From the above analysis using 5% level of significance at 1 degree of freedom r = (0.98) calculated (12.706) table. Therefore, we reject Ho and accept H1 that says there is significant relationship between taxation and capital development.

Calculation of Constant for Regression Co-Efficient

Formula: 
$$\beta = \frac{n \sum xy - \sum x \sum y}{n \sum x^2 - (\sum x)^2}$$

Where the above table

$$\beta = \frac{5(11859.9) - (241.2)(244.7)}{5(11684.4) - (241.2)^2}$$

$$\beta = \frac{59299.5 - 59021.64}{58422 - 58177.44}$$

$$\beta = \frac{277.96}{244.56}$$

$$\beta = 1.136140638$$

$$\beta = 1.1361 (4.d.p)$$
So therefore: 
$$\alpha = \frac{244.7 - 1.1361406388 (241.2)}{5}$$

$$\alpha = \frac{244.7 - 268.604}{5}$$

$$\alpha = -4.7808$$

$$\alpha = -4.7808$$

$$\alpha = -4.78 (2.d.p)$$

The study dealt with the effect of tax as a source of government revenue for the development of the state in which Lagos state was the case study. It was also gathered that good tax administration is an important factor which determines the level of revenue of any state. This means that revenue generation as well as good tax administration is the most important factor which leads to development.

#### Recommendations

The following are the recommendation as suggested by the current study:

- i. The government should provide law enforcement in order to eradicate tax evasion and to have improvement in tax revenue collection.
- ii. The government should provide improvement in the general administration of tax by training personnel that can implement the tax law (CITA, PITA etc).
- iii. The government should continue to ensure that the tax generated should be use to provide necessary infrastructure facilities for the citizens.
- iv. Employees of the LIRS should be appraised from time to time for effectiveness and efficiency.
- v. Government should try to review the tax law by increasing the amount to be paid for any offences because the amount under tax law are too small where by any offender can intentionally refuse to follow the rule.
- vi. The issue of bribery and production of fake tax clearance should be discouraged and any staff found guilty should be dismissed from job.

#### 5. CONCLUSION

The evidence obtained in this study and analysis has shown through logical deduction assumption and interview that in order for the government to finance its various obligation such as providing basic economic and social amenities, the government needs to source for funds, one of these means of sourcing fund is "TAX". The process of collecting this tax is called taxation. Taxation as a source of Lagos state government revenue is quite encouraging as the Lagos state government ensures efficiency collection of taxes; this in turn leads to capital development in the state. But there are still rooms for improvement if the recommendations are implemented.

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# EMPIRICAL EVALUATION OF CONTRIBUTION OF VALUE ADDED TAX (VAT) TO TOTAL REVENUE GENERATION AND GROSS DOMESTIC PRODUCT (GDP) IN NIGERIA

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#### **ABSTRACT**

The objective of this study is to examine the impact of Value Added Tax (VAT) on revenue generation and Gross Domestic Product (GDP) in the Nigerian Economy. Value Added Tax as a consumption tax has been embraced by many countries worldwide, and because it is a consumption tax it is relatively easy to administer and difficult to evade. This study through an empirical model formulated, tested the relationship between Value Added Tax, GDP and total revenue generated in the country since the inception of VAT. Based on the regression analysis carried out, it shows that a unit change in the Value Added Tax will lead to about 12.54 unit change in the total revenue. Results analysis shows that a unit change in the Value Added Tax for the country will lead to about 0.99 unit change in the growth of the economy (GDP). The R-squared shows about 92% the probability value (0.0000) of the F-statistics further confirms this since it is less than 0.05, the significant level. The study found that VAT significantly influenced the growth and revenue generation of Nigerian economy which led to the decline of the null hypothesis respectively and the acceptance of the positive hypothesis that confirms the study.

**Keywords:** Value Added Tax (VAT), Total Revenue Generation, and Gross Domestic Product (GDP), Federal Inland Revenue Service (FIRS).

#### 1. INTRODUCTION

There is a growing recognition among developing countries of the crucial role of Value Added Tax revenue as an instrument of economic development. Value Added Tax (VAT) revenues are increasingly accounting for significant proportion of government revenue to finance the required level of public expenditure both at federal, state and local government levels. Value Added Tax as a consumption tax has been embraced by many countries worldwide. Because it is a consumption tax, it is relatively easy to administer and difficult to evade (Owolabi and Okwu, 2011). It has been adopted by several countries of the world because of the growing concern about economic efficiency and tax simplicity in a competitive and integrated world economy (Jenkins and Kuo, 1995).

The foundation of VAT could be traced back to the French Economist, Maurice Lauré, in 1954, originally referred to as "taxesur la valeur" (Wikipedia.org). He envisioned a sales tax on goods that did not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer. In France, it is the most source of state finance, accounting for approximately 45% of state revenues. It did not matter how many transactions the goods went through; the tax was always a fixed percentage of the final price. The tax was finally adopted by France in 1954. Upon the formation of the Common Market in Europe (now the European Union) it was decided that one requirement of joining was the imposition of a

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form of VAT. In 1973 the UK joined the European Union and replaced the existing Sales Tax with VAT (BBC Edited Guide Entry, 2005).

The Value Added Tax system in Nigeria was created as a replacement or substitution for the sales tax that was in operation before<sup>4</sup>. It was imposed on all goods that were manufactured in the country as well as goods that had been made outside the country and were selling there. As per the VAT Decree No. 102 1993, certain goods and services have been exempted from the purview of Value Added Taxation. Such goods include all exported goods, medical and pharmaceutical products, products meant for kids, basic food items, commercial vehicles and their spare parts, books and other educational materials, fertilizer, farming machines, agricultural products, farming transportation equipments and veterinary medicines and magazines and newspapers (Owolabi and Okwu, 2011). The Nigeria Federal Government enacted the VAT Amendment Act in 2007.

VAT has been referred to as an 'efficient and fair' system of taxation (IMF, 2002). In order to judge the efficiency of VAT systems worldwide, the IMF conducted a study to ascertain whether countries with VAT systems had higher tax revenues to GDP ratios. The idea behind the study was the fact that if VAT systems did result into higher efficiencies and a consequent lower cost of collection, then countries with VAT systems should be able to collect higher revenues and the study found that countries following the VAT system did have higher general government revenues and grants to GDP, holding other things constant. The impressive performance of VAT in virtually all countries where it has been introduced which includes the United States of America, Britain, Japan and others clearly influenced the decision to introduce VAT in Nigeria in January 1994. Despite the performance of VAT in these countries and the subsequent introduction in Nigeria, does this VAT revenue performance hold in Nigeria? An important question raised is that whether VAT has lived up to its early promise as an efficient, fair source of revenue? Efficiency gains associated with the use of VAT are hard to observe directly, so this study aims to tackle this question through the indirect route of asking whether the country with the advent of VAT tends to have a higher ratio of total tax revenues to GDP. Therefore, the objective of this study is to examine the contribution of value added tax to revenue generation and Gross Domestic Product (GDP) in Nigeria since its adoption as a tax system. The study through empirical and theoretical disposition examines the efficiency of VAT as a system of generating revenue in Nigeria, the trend of the inflow of revenue through VAT.

One of the significance of this study is the impact it may have on the revenue generation and allocation policies of the three tiers of government in Nigeria. The recurrent problems of the three-tiers of government in Nigeria is the continuous dwindling revenue generated as characterized by annual budget deficits and insufficient funds for meaningful growth and viable development of projects. Moreso, the near collapse of the National Economy has created some sort of financial stress for the government. Hence, the adoption of value added tax as an alternative to the existing sales tax in the country was among the means of combating the revenue mobilization crisis being faced by the country. This objective to a large extent has however been achieved though there are some teething problems especially in the distribution formula to be adopted in sharing the VAT proceeds among the federal, states and local governments (Olatunji, 2009; Economy Watch, 2010). Thus, the current study will shed light on the impact and contribution of VAT to the revenue generated by the government in the long run/term.

As a result of the uncommon nature of the VAT system of taxation in Nigeria, majority of the populace perhaps may not be aware of its existence. Consequently, the low credibility of the government makes people scorn the payment and collection of VAT. This study will therefore serve as a watershed for the people on significance of payment and proper administration of VAT revenue in Nigeria. However, since VAT has been declared an "efficient and fair" system of taxation (IMF, 2003) which was judged by the

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<sup>&</sup>lt;sup>4</sup> Introduced through the VAT Act No. 102 of 1993 but actually began in 1994 (Federal Inland Revenue Service, FIRS, 1999).

findings of the IMF conducted on countries that adopted VAT, this study therefore is to re-examine in order to confirm (or not) the results of the previous studies on the contribution of VAT to the Nigerian government revenue since its inception. The incoming researchers who may find it hard to acquire information on VAT and revenue generation will see this study as a part of the body of knowledge which can be reviewed and used to gain more insights in the course of their research work.

### 2. LITERATURE REVIEW

The impressive performance of VAT in virtually all countries where it has been introduced clearly influenced the decision to introduce VAT in Nigeria in January 1994. Specifically, the Federal Inland Revenue Service (FIRS) pointed out that VAT is a consumption tax that is relatively easy to administer and difficult to evade and it has been embraced by many countries world-wide which includes France, Europe, United states of America, Japan, New Zealand, Australia, Canada and others (FIRS, 1993: 4). Evidence so far supports the view that VAT is already a significant source of revenue in Nigeria. For example, actual VAT revenue for 1994 was N8.194 billion, which is 36.5% higher than the projected N6 billion for the year. Similarly, actual VAT revenue for 1995 was N21 billion compared with the projected N12 billion. In terms of contributions to total federally collected revenue, VAT accounted for about 4.06% in 1994 and 5.93% in 1995. Thus, it was an indication that Nigeria would join the growing list of developed countries where VAT contributes at least 20% of total government revenue. Hence, assisting in the diversification of revenue sources and reducing dependence on oil for revenue (Ajakaiye, 1999).

The yield from VAT is fairly accurate measurement of the growth of an economy since purchasing power (which determines yield) increase with economic growth. VAT is a self-assessment tax that is paid when returns are being rendered. In-built in the new tax is the refund or credit mechanism which eliminates the cascading effect that is a feature of the retail sales tax. The input-output tax mechanism in VAT also makes it self-policing. In essence, it is the output tax less input tax that constitutes the VAT payable. It is the equivalent of the VAT paid by the final consumer of the product that will be collected by the government. Value Added Tax, also known as Goods and Services Tax (GST) proves to be beneficial for the government. Through implementation of this tax system, government can raise revenues invisibly, where the tax is not shown on the bill paid by the buyer. VAT differs from sales tax in various aspects. While sales tax is to be paid on the total value of the goods and services, VAT is levied on every exchange of the product, so that consumers do not have to carry the total cost of tax. However, VAT is generally not applied on export goods to avoid double taxation on the final product. However, if VAT is charged on export goods, the tax amount is usually refunded to the tax payer (Ojo, 2003). The individual consumers cannot recover VAT on purchases made by them. However, businesses can recover VAT on the services and materials, which are bought by them in order to continue the supply of the products and services.

Value Added Tax is administered in Nigeria by the Federal Inland Revenue Service (FIRS) through the VAT Directorate located at its Head office Abuja. Thus, jurisdiction of VAT lies with the Federal Government of Nigeria and the proceeds of VAT are distributed among the three-tiers of government in a particular ratio. For instance, the initial policy on the distribution of VAT was that 80 percent of it would be shared among the states and federal capital territory and the federal government would retain 20 percent as administrative charges (Sanni, 2011). However, due to its successful implementation and as reactions to protests from state governments, the distribution of VAT was altered and local governments were included in the distribution formula and it was presently distributed as follows; 15 percent to the Federal Government, 50 percent to the State Governments and the Federal Capital territory, Abuja, and 35 percent to the Local Governments (Sanni, 2011).

Despite the numerous sources of revenue available to the various tiers of government as specified in the Nigerian 1999 Constitution, since the 1970s till now, over 80% of the annual revenue of the three tiers of government come from petroleum. However, the serious decline in the price of oil in recent years, coupled with the fall in demand for Nigerian oil, has led to a decrease in the funds available for spending by the government, and one of the objectives of VAT introduction in Nigeria was that of the advantages that would accrue to governments in the form of higher tax revenues. The government expected that the greater transparency and wider tax net of VAT would result into plugging of taxation loopholes and hence would result into higher revenues for state governments. Now that VAT has been under implementation for many years since its introduction in Nigeria, has this expected objective been achieved? Hence what has been the impact of VAT on the revenues of the Nigerian government?

In order to meet the inescapable need for increased revenue, the Nigerian government introduced the use of external tax consultants under a program known as the Accelerated Revenue Generation (ARG) Program. Consultants/Monitoring agents were appointed on the Value Added Tax and withholding tax in the oil industry, professional import duties administrators for the collection of import duties alongside the custom officials. However, taking a critical scrutiny of these efforts, has the nation really generated the optimum amount of revenue expected from the VAT? Has all this consultants and monitoring bodies been able to reduce the tax evasion and other sharp practices by the tax payers? Therefore, the current study aims to evaluate the contributions of VAT to Nigerian revenue since its inception in the Nigerian economy.

# VAT and Revenue Generated in Nigeria

Observation of the movement in the contribution of VAT to the revenue of the Nigerian government as shown in table 1 reflects that the amount generated from value added tax and its ratio to the revenue of the country has been fluctuating over the years since its inception. For instance, the percentage change in the amount generated from VAT from 1995 to 1996 was about 185.9%, and increasing from N20,761.0m (1995) to N31,000m (1996), the following year (1997). The change from military rule to democratic government further witnessed a positive increase in the compliance by tax payers as the amount generated rose from N36,900m (1998) to N47,100m (1999) amounting to about 27.6% increase. The Figure 1 further compliments the table 1, by showing the trend of VAT to revenue generated in Nigeria. This figure reflects the fact that the direction of its movement have been fluctuating, such that it goes up at some point and falls at other years.

# 3. RESEARCH METHODOLOGY

## 3.1. Sources of data

In order to generate adequate and relevant data for the study, the data requirements for this study are principally secondary data relating to the amount of Value Added Tax and revenue generated and GDP since its inception. Relevant data was sourced from the publications of the Central Bank of Nigeria (CBN) such as the CBN Statistical Bulletin and CBN Annual Statement of Accounts as well as the publications of the Federal Inland Revenue Service (FIRS). An eighteen-year summary 1994 to 2010 (since the inception of VAT) of the revenue generated VAT revenue and GDP which was retrieved from the publications of the Central Bank of Nigeria (CBN) statistical bulletin were used to evaluate the impact of VAT on the revenue generated by the Nigerian government, as shown in Table 2. Although, the authors are aware that eighteen (18) years is not enough for time series analysis, since the rule of thumb is 30 years, but this is due to the data available at the time of this study. The data was regressed using the Ordinary Least Squares (OLS) regression technique to ascertain relationship between the variables of interest.

# 3.2. Model specification and definition of variables

In trying to analyze the contribution of Value Added Tax to revenue generation in Nigeria, the perceived functional relationship between the matrix Value Added Tax and revenue generation is developed as used in the study of Adereti *et al.*, (2011). From microeconomic perspective, the model for this project states that revenue generation depends on VAT revenue. The model as modified from the works of Golit (2008), Owolabi and Okwu (2011) and Adereti *etal.*, (2011) is functionally specified as:

$$G_{Rev} = f(VAT)$$

Where  $G_{Rev} = Government Revenue$ .

VAT = Value Added Tax

 $\alpha_0 + \alpha_1 = \text{Coefficients (indicate constant number)}$ 

 $\mu$  = Stochastic error term

From the above functionally relationship, the stochastic model can be specified as:

$$G_{Rev} = \alpha_0 + \alpha_1 VAT + \mu$$

Model 1

Where  $\alpha_0$  and  $\alpha_1$  are model parameters and  $\mu$  is the stochastic error term.

However, to further evaluate the impact of Value Added Tax on the growth of the economy, a second model of the relation between VAT and economic growth is formulated as:

$$GDP = \beta_0 + \beta_1 VAT + \mu$$

Model 2

Where GDP = Gross Domestic Product.

VAT = Value Added Tax

 $\beta_0 + \beta_1 = \text{Coefficients (indicate constant number)}$ 

 $\mu$  = Stochastic error term

The model 2 above presents the relationship between VAT and Gross Domestic Product (GDP), which is a measure of the growth of the economy, it is also expected that VAT influences economic growth (GDP) positively. However, other explanatory variable cannot be included in the model due to inavailability of data and time constraint.

# 3.3. A Priori Expectation

In line with existing studies See Golit (2008), Owolabi and Okwu (2011) and Adereti *et.al.*, (2011) the *a priori* expectation is that the model parameters (model 1), that is the constant term and coefficient of the independent variable, is positively signed. The implication is that the country is expected to generate some revenue even if no VAT revenue is collected (Adereti*et. al.*, 2011). For model 2, the expected relationship is also positive. Since it is expected that VAT influence total revenue positively and total revenue is a positive component of the growth of the economy, it is also expected that VAT influences economic growth (GDP) positively.

# Research Hypotheses

- 1. **H**<sub>0</sub>: VAT revenue does not significantly influence the revenue generation of Nigeria.
- 2.  $H_0$ : VAT revenue does not significantly influence the growth of the Nigerian economy (GDP).

# 4. RESULTS

4.1. Ordinary Least Squares (OLS) Regression Result

The Impact of VAT on Total Revenue

Dependent variable: Nigerian Government Revenue

Sample: 1994 to 2010

From the result Table 3, the estimated regression equation can be given as:

$$G_{Revenue} = 945123.2 + 12.5375VAT$$

The estimated regression equation above reveals that there has been a significant positive increase in Nigeria revenue over the years. This is shown by the constant term having a positive and significant value. This implies that if for any reason, the value of the nation's Value Added Tax is zero, the country will still have positive revenue from other revenue source available for the country different from the Value Added Tax. This estimate shows a statistical significant result at 10% level, since its estimated probability value is less than 0.10 the significance level. The relationship between Value Added Tax and revenue generation is given by the coefficient of VAT in the above equation. From the result obtained, the 12.53752 coefficient of VAT implies that a unit increase in value added tax for the country will generate about 12.54 unit increase in the revenue generated in the country. In addition, the statistical significance of this estimate is established both at 1% and 5% level of significance since the probability obtained (0.0000) is less than 0.01 and 0.05 (at 1% and 5% significant level respectively).

However, the value of R-squared and the F-statistics shows the statistical fit of the estimated model. The R-squared which is the coefficient of determination used to ascertain the goodness of fit as well as the explained variation of the explanatory variables of the model; shows that about 75.43% of the variation in revenue is explained by the explanatory variable of the specified model (VAT). The F-statistics also meant to show that the coefficients have simultaneous statistical significance or otherwise. However, going by the fact that the model includes only one independent variable, the result of the F-statistics approximates to the R-squared explained above. The probability value (0.0000) of the F-statistics further confirms this since it is less than 0.05, the significant level.

The Impact of VAT on Economic Growth
Dependent variable: Gross Domestic Product

Sample: 1994 to 2010

From the result table 4, the estimated regression equation can be given as:

### GDP = 297181.2 + 0.9969VAT

The estimated regression equation above reveals that there has been a significant positive increase in Nigeria's gross domestic product over the years. This is shown by the constant term having a positive and significant value. This implies that if for any reason, the value of the nation's Value Added Tax (the independent variable in the model) is zero; the country will still have positive GDP which is an indication of growth. This estimate shows a statistical significant result at 5% level, since its estimated probability value (0.0000) is less than 0.05 the significance level. The relationship between value added tax and GDP is given by the coefficient of VAT in the above equation. From the result obtained, the 0.9969 coefficient of VAT implies that a unit increase in value added tax for the country will cause an increase in the value of GDP by about 0.9969 units. In addition, the statistical significance of this estimate is established both

at 1% and 5% level of significance since the probability obtained (0.0000) is less than 0.01 and 0.05 (at 1% and 5% significant level respectively).

Hence, the value of R-squared and the F-statistics shows the statistical fit of the estimated model. The R-squared which is the coefficient of determination used to ascertain the goodness of fit as well as the explained variation of the explanatory variables of the model; shows that about 92% of the variation in GDP is explained by the explanatory variable of the specified model (VAT). The F-statistics also meant to show that the coefficients have simultaneous statistical significance or otherwise. However, going by the fact that the model includes only one independent variable, the result of the F-statistics approximates to the R-squared explained above. The probability value (0.0000) of the F-statistics further confirms this since it is less than 0.05, the significant level.

# Discussion of Findings

The findings of this study agree with the studies of Adereti *et al.*, (2011). The study employed regression analysis among other techniques used in their study and they found that a positive and significant correlation exist between VAT revenue and the growth of the economy. Though they measured the growth using GDP, it is however, established that revenue is a major component of GDP. Hence, the finding of this study conforms to their study. Furthermore, going by the findings of the study by Owolabi and Okwu (2011) in their study on the contribution of VAT to the development of Lagos state economy, their analysis showed that VAT revenue contributed positively to the development of the respective sectors of the state with statistical significant in some sectors. This study's findings support this, though it was carried out on the revenue generation of the entire economy. Finally, it is apparent that the impact of VAT on the economy depends critically on the way VAT able organizations treat the VAT. In the specific case of Nigeria and based on the methodology adopted in this study, the relationship between Value Added Tax and revenue generation estimated using the time series data available in the National publications shows that VAT has been on an increase since its introduction in the country. Also, is the fact that, the sharing formula adopted for sharing the proceeds from VAT has been adjusted several times since its inception to enable equity among states where such revenue is coming from.

#### Future research

Since the reliability of the results is questionable due to eighteen (18) years data available which was used by the study, the study therefore, call for further research in which 30 years (i.e the rule of thumb) would be used.

#### Recommendations

After a close study and review of literature on the subject, the following recommendations are hereby prescribed:

- i. Federal Inland Revenue Service must henceforth perform the management functions of tax administration
- ii. From the above, it is expected that in a given tax system such as VAT, an efficient tax administration would yield maximum revenue with a minimum cost. This however depends on the quality of the machineries for tax administration which include the manpower devoted to tax collection and assessment, the equipment and the VAT decree. When the people come to understand VAT better, its benefit to the economic compliance would be greater and therefore compliance cost would be smaller. On the other hand, when the voluntary compliance is great, the VAT administration would be easier and giving the tax structures the greater revenue yield
- iii. There is need to embark on business enumeration in each state with a view to having data base on business

- iv. Seminars and workshops so far organized on this issue are narrow in scope and design. There should be functional VAT offices in every council area to coordinate a vigorous campaign to educate people and seek their cooperation. This will no doubt erode the negative attitude that some of the consumers have developed towards VAT
- v. The government should adequately make provision for retrieving the proceeds of VAT form companies and other agents of collection
- vi. VAT has a good chance of working in Nigeria if it receives the cooperation
- vii. However, if people continue to evade tax colluding with tax through collectors as witnessed on sales tax, no meaningful achievement would be made
- viii. Again enforcement of penalties and addition returns assessment provision could go along way in enhancing VAT collection
- ix. A good system of taxation must ensure that tax laws which include VAT laws must satisfy the following basic principle:
  - a. The language must be simple and clear so that an average person can understand it. A tax law, which cannot be read and understood, does not serve any useful purpose
  - b. All the existing VAT laws should be confided and made easily available to all concerned
  - c. Every word used must convey its ordinary, everyday meaning. This will enable the VAT payer to know how and where he stands in relations to the returns authority and tax collector. The only accepted departure from this is where, the law itself is combining definition of any technical word
- x. The list of VAT items exemptions should be clearly defined in simple language. This should be properly articulated to ensure that only luxury goods are VATable while all locally manufactured goods items must be exempted.

# 5. CONCLUSION

The objective of this study was primarily to investigate the impact of Value Added Tax on revenue generation in Nigeria. With a view to achieve this, the peculiar feature of the Value Added Tax which serves as a replacement to the abrogated sales tax was evaluated. The study, through the specification of an econometric model explains the relationship between VAT, GDP (the economy) and revenue generation. This model was further estimated and evaluated through the classical linear regression analysis. The following findings are inferred from the analysis:

- i. There is a significant positive relationship between Value Added Tax and revenue generation in Nigeria;
- ii. There has been a positive increase in revenue generated through Value Added Tax in the country over the years, since its inception.
- iii. There is a significant positive relationship between Value Added Tax and the growth of the economy.
- iv. There has been a more effective and balanced distribution of the VAT revenue between the three tiers of government, based on the current sharing formula adopted.

Currently, the impact of VAT on government revenue is significant and as such attempt should be made to increase revenue from this source. However, if the under mentioned recommendation can be given adequate consideration, the burden, which its execution is causing manufacturers and final consumers, will be appropriately ameliorated.

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**Table 1: Movement of Current Revenue and VAT** 

YEAR	Revenue	%change	VAT	%CHANGE	VAT/REV	%CHANGE
1994	201,910.80	-	7,260.80	-	3.60	-
1995	459,987.30	127.82	20,761.00	185.93	4.51	25.51
1996	523,597.00	13.83	31,000.00	49.32	5.92	31.18
1997	582,811.10	11.31	34,000.00	9.68	5.83	(1.47)
1998	463,608.80	(20.45)	36,900.00	8.53	7.96	36.43
1999	949,187.90	104.74	47,100.00	27.64	4.96	(37.66)
2000	1,906,159.70	100.82	58,500.00	24.20	3.07	(38.15)
2001	2,231,532.90	17.07	91,800.00	56.92	4.11	34.04
2002	1,731,837.50	(22.39)	108,600.00	18.30	6.27	52.43
2003	2,575,095.90	48.69	136,400.00	25.60	5.30	(15.53)
2004	3,920,500.00	52.25	159,500.00	16.94	4.07	(23.19)
2005	5,547,500.00	41.50	178,100.00	11.66	3.21	(21.09)
2008	5,965,101.90	7.53	221,600.00	24.42	3.71	15.71
2007	5,715,500.00	(4.18)	289,600.00	30.69	5.07	36.39
2008	7,866,590.10	37.64	404,500.00	39.68	5.14	1.48
2009	4,844,592.34	(38.42)	454,943.30	12.47	9.39	82.63
2010	7,303,671.55	50.76	648,410.90	42.53	8.88	(5.46)

Source: Central Bank of Nigeria Statistical Bulletin (2010)

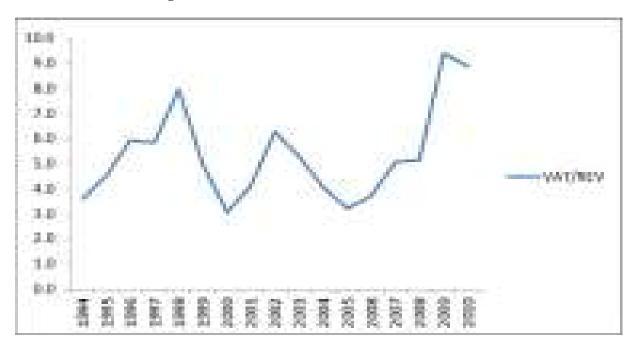


Figure 1: Ratio of Value added Tax to Non-oil Revenue

Source: Central Bank of Nigeria Statistical Bulletin (2010)

**Table 2: Presentation of Data** 

		Value	
	Total Revenue	Added Tax	GDP
Year	{₩'million}	{₩'million}	{₩'million}
1994	201,910.80	7,260.8	275450.56
1995	459,987.30	20,761.0	281407.4
1996	523,597.00	31,000.0	293745.38
1997	582,811.10	34,000.0	302022.48
1998	463,608.80	36,900.0	310890.05
1999	949,187.90	47,100.0	312183.48
2000	1,906,159.70	58,500.0	329178.74
2001	2,231,532.90	91,800.0	356994.26
2002	1,731,837.50	108,600.0	433203.51
2003	2,575,095.90	136,400.0	477532.98
2004	3,920,500.00	159,500.0	527576.04
2005	5,547,500.00	178,100.0	561931.39
2008	5,965,101.90	221,600.0	595821.61
2007	5,715,500.00	289,600.0	634251.142
2008	7,866,590.10	404,500.0	672202.5541
2009	4,844,592.34	454,943.3	718977.335
2010	7,303,671.55	648,410.9	775525.7019

Source: Central Bank of Nigeria Statistical Bulletin (2010)

Table 3: Model 1: The Impact of VAT on Total Revenue

Dependent variable: Nigerian Government Revenue Sample: 1994 to 2010

Variable	Coefficient	t-Statistic	Prob.
CONSTANT	945123.2	2.0787	0.0552
VAT	12.53752	6.7863	0.0000
R-squared	0.7543	F-statistics	46.0532
Adjusted R-squared	0.7379	Probability(F-stat)	0.0000
Durbin-Watson Stat.	0.7342		

Source: Author

Table 4: Model 2: The Impact of VAT on Economic Growth

Dependent variable: Gross Domestic Product Sample: 1994 to 2010

Variable	Coefficient	t-Statistic	Prob.
CONSTANT	297181.2	17.1143	0.0000
VAT	0.9969	13.2000	0.0000
R-squared	0.9207	F-statistics	174.2406
Adjusted R-squared	0.9155	Probability(F-stat)	0.0000
Durbin-Watson Stat.	0.3158		

Source: Author

# APPENDIX I

# REGRESSION ANALYSIS RESULT

# MODEL 1

Dependent Variable: REV Method: Least Squares Date: 06/22/12 Time: 16:40

Sample: 1994 2010 Included observations: 17

Variable	Coefficien t	Std. Error	t-Statistic	Prob.
C VAT	945123.2 12.53752	454663.3 1.847487	2.078732 6.786256	0.0552 0.0000
R-squared Adjusted R-squared S.E. of regression Sum squared resid Log likelihood Durbin-Watson stat	0.754313 0.737934 1338571. 2.69E+13 -262.8790 0.734261	Mean deper S.D. deper Akaike int Schwarz c F-statistic Prob(F-sta	ndent var fo criterion riterion	3105246. 2614785. 31.16223 31.26026 46.05328 0.000006

Source: Author

#### TAX AUDITORS' BEHAVIOUR: A FUTURE FOCUS FOR TAX RESEARCHERS

Izlawanie Muhammad<sup>1</sup> Norasikin Salikin<sup>2</sup>

#### ABSTRACT

The role of an audit program in a modern tax administration extends beyond merely collecting tax revenue (Biber, 2010; OECD, 2006a). Besides having a comprehensive legal framework, well-defined organisational and management processes and compliant taxpayers, the effectiveness of tax audit programs depends as much or more on tax auditors' actions and reactions to the actual tax audit environment (Bahl and Bird, 2008; Long and Swingen, 1991; OECD, 2006a, 2006b). Tax auditors are a tax authority's 'public face' (OECD, 2006b). They possess a great deal of discretionary power; in many instances, tax auditors are in effect prosecutor, judge and jury in tax assessments matters (Roberts, 1995). Despite of tax auditors' important roles in tax administration, studies on tax auditors' behaviour have been dearth. Instead, tax researches have been focusing on taxpayers' compliance behaviour and tax professionals' ethical behaviour. More research on tax auditors needs to be conducted urgently because their behaviour is so intimately intertwined with taxpayers' compliance and tax administration efficiency (Long and Swingen, 1991). This study aims to motivate tax researchers to focus on tax auditors' behaviour. It presents public's negative perceptions on tax auditors, reviews tax auditors' behaviour literature and suggests area of studies for future research.

**Keywords:** tax administration, tax auditors, tax compliance.

### 1. INTRODUCTION

The potential amount of revenue that a tax authority can raise depends in part on the effectiveness of its tax audit programs (Daly and Gravelle, 2005). From the tax authority's perspective, tax audit is an essential tool for ensuring tax compliance. It typically requires tax authorities to examine taxpayers' records and tax affairs to determine whether taxpayers' correct liability is reflected in returns and assessments (IRBM, 2009; OECD, 2006a). Tax authorities have the power to amend taxpayers' original tax returns and impose penalties on taxpayers when they find noncompliance activities (OECD, 2006a). The IRBM, for example, collected 2,870.62 million Malaysian ringgit (RM)—approximately 920.67 million United States dollars (USD)—in additional taxes and penalties in 2010 (IRBM, 2010). The audit collection contributes 3.6 per cent to total net direct tax collection (RM79.54 billion) during a year (IRBM, 2010). This makes audit programs an important tool for securing government revenue.

However, the role of an audit program in a modern tax administration extends beyond merely collecting tax revenue (Biber, 2010; OECD, 2006a). An effective audit program should also have a significantly wider effect on compliance through deterrence (influencing the behaviour of an audited taxpayer or group of taxpayers to be compliant in the future) and prevention (persuading the broader community to comply) (Appelgren, 2008; Biber, 2010; OECD, 2006a). Besides having a comprehensive legal framework, well-defined organisational and management processes and compliant taxpayers, the effectiveness of tax audit programs depends as much or more on tax auditors' actions and reactions to the actual tax audit environment (Bahl and Bird, 2008; Long and Swingen, 1991; OECD, 2006a, 2006b).

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#### 2. TAX AUDITORS' RESPONSIBILITIES

Tax auditors are a tax authority's 'public face' (OECD, 2006b). They are the ones who implement the audit policy, interact with different behaviour of taxpayers and determine audit outcomes (Bahl and Bird, 2008; Long and Swingen, 1991). They possess a great deal of discretionary power; in many instances, tax auditors are in effect prosecutor, judge and jury in tax assessments matters (Roberts, 1995). In addition to their primary role of scrutinising taxpayers' records and documents, tax auditors are often required to interpret complex tax law and carry out extensive examinations of taxpayers' books and records (Isa and Pope 2011; OECD, 2006a). Tax auditors' tasks might become complicated when audit issues encroach on the grey area separating tax evasion<sup>3</sup> and acceptable tax avoidance<sup>4</sup>—for example, lack of audit evidence due to a paperless system (Gilbert et al., 2001).

Moreover, in the new millennium, Tanzi (2000) asserted that tax authorities are facing more challenging issues with the globalization that require tax authorities to have different structures of tax system. He classified globalization issues as "fiscal termites" and reviewed the possible impact to tax revenue. Eight "fiscal termites" identified by Tanzi (2000) was electronic commerce and transactions, use of electronic money, intra company trade, off-shore financial centres and tax havens, derivatives and hedge funds, inability to tax financial capital, growing foreign activities, and foreign shopping. He strongly believed that these fiscal termites would affect the revenue from various taxes and the tax systems of the future will have different structures and probably lower levels than those of today. For example, the growing importance of multinationals trade in different countries creates for tax authorities deriving from the potential use and abuse of transfer-pricing. Although OECD (1995)<sup>5</sup> provides guidelines and suggestions on how to conduct transfer pricing arrangements, Mihaly (1998) and Reynolds (2007) argued that procedural rules of transfer pricing may vary significantly depending on the nature of the case (e.g. the business's country of ownership). These issues require tax auditors to understand taxpayers' business intentions and use suitable audit strategies in determining the correct amount of tax. Their behaviour and decisions reflect how tax law is actually implemented.

Tax authorities normally issued the code of ethics to the tax auditors in ensuring the tax audit process is conducted professionally. For example, the Inland Revenue Board of Malaysia (IRBM) issued the Tax Officers' Guidelines and Work Ethics as a general work ethics procedure. The guidelines are shown in Table 1 below.

Table 1: The IRBM Tax Officers' Guidelines and Work Ethics (IRBM, 1999, p.5)				
DOs	DON'Ts			
<ul> <li>Honest, diligent, trustworthy, discipline and responsible</li> <li>Professional, efficient and committed in providing a fair and quality service</li> <li>Vigilant to the changes related to the profession</li> <li>Continuous learning</li> </ul>	<ul> <li>Corruption and any dubious act</li> <li>Any act that may conflict with organisation interest</li> <li>Abuse of power</li> <li>Extreme involvement in any activities outside the scope of IRBM 's core affairs</li> <li>Any act that may emphasize on self</li> </ul>			

<sup>3</sup> Tax evasion is illegal arrangements where liability to tax is hidden or ignored by taxpayers, For example, a taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities (OECD, 2013).

<sup>&</sup>lt;sup>4</sup> Tax avoidance is the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow. It also often involves contrived, artificial transactions that serve little or no purpose other than to produce a tax advantage (OECD, 2013).

<sup>&</sup>lt;sup>5</sup> The Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations were originally approved by the OECD Council in 1995. They were completed with additional guidance on cross-border services, intangibles, costs contribution arrangements and advance pricing arrangements in 1996-1999.

- Helpful, tolerance with no discrimination and team spirit
- Innovative and creative to enhance the quality service
- Consistent improvement of quality and productivity
- Give priority to organization's interest by adapting to the task assigned
- Keep secret the confidentiality of the Government and organisation materials

interest and ignore the public duty

- Any discreditable act to the organisation
- Involvement in gambling and misconduct
- Disobey the superior's instructions

In performing their specific tasks as tax auditors, auditors must adhere to the tax audit framework guidelines (IRBM, 2009). The audit framework stipulates that tax auditors must carry out their duties in the following manner:

- professional, well mannered, trustworthy, honest and acting with integrity,
- always ready to give explanations of tax audit objectives and taxpayers' rights and responsibilities,
- knowledgeable and fair in administering tax laws,
- co-operative and always ready to give advice and guidance to taxpayers,
- ensuring that tax audits are carried out smoothly with minimal disruption to taxpayers,
- explaining the proposed tax adjustments and providing reasonable time for taxpayers to respond to issues raised and
- ensuring that the rights and interests of taxpayers and tax agents and the documents of taxpayers are safeguarded.

An audit officer is prohibited from doing the following:

- having any personal or financial interest in the business of a taxpayer being audited,
- recommending to a taxpayer that a certain tax agent be appointed as agent for an audit case and
- abusing his position or power in carrying out his duties as indicated in s. 118 of the *Income Tax Act 1967* (IRBM, 2009).

Tax auditors also have the power to make an assessment based on a taxpayer's estimated income. Best judgment assessment is under the provision of s. 90(2) of the *Income Tax Act 1967*. Instances where best judgment assessment is made are as follows:

- No assessment has been made because the taxpayer failed to lodge a return as required by law
- An annual return form has been submitted, but in the tax auditors' opinion, it is incorrect or incomplete—for example, a means test revealed that net assets accumulated over a period are not commensurate with the income returned for that period.
- There is dispute over the taxability of a certain income source, such as gains from rental income held to be taxable under s. 4(a) (Business Income) or s. 4(d) (Rental Income) of the *Income Tax Act 1967*. Both types of income have a different tax calculation method.

Before tax auditors can raise a best judgment assessment, they must consider the following factors:

- quantum of income assessed in the previous year or years,
- nature and size of trade.
- individual cases should be differentiated from those of companies—in individual cases, accretion of capital over the years could be compared with income returned using a means test,
- average rate of profits made by taxpayers carrying on a similar trade within a certain locality and
- specific information that could be in tax auditors' possession (Kasipillai and Shanmugam 1996).

### 3. PUBLIC'S PERCEPTIONS ON TAX AUDITORS

Around the world, taxpayers and tax professionals witnessed different tax auditors' behaviour. Stalans and Smith (1992) conducted the first post-tax audit procedural justice<sup>6</sup> research in the United States. Their objective is to describe the perceived fairness of the procedures involved in decision-making and the perceived treatment taxpayers received from tax auditors. Stalans and Smith found that taxpayers had dissimilar experience dealing with the IRS auditors. Some taxpayers received fair treatment from tax auditors; tax auditors were helpful, competent and gave dignified treatment (e.g. polite and friendly) and explanations. However, the majority of the respondents had bad experienced. Some respondents mentioned that the auditors were rude, insulting, hostile or belligerent, and disrespectful. Tax auditors also treated taxpayers as they were uneducated and taxpayers had a hard time convincing tax auditors about their business transactions motives.

Stalans and Lind (1997) examined taxpayers and tax professionals' perceived fairness of tax audit. Stalans and Lind found that taxpayers and tax professionals held negative views on tax auditors. They claimed that tax auditors did not treat honest taxpayers with dignity, unable to understand taxpayers' business, and had a preconceived mind that taxpayers are wrong. Cummings (2007) supported these negative views. As a tax professional, who always communicate with tax auditors to resolve taxpayers' audit cases, Cummings (2007) asserted that tax auditors had a "tunnel vision" – viewing all taxpayers' business transactions in tax savings as abusive. Cummings (2007) believed that tax auditors also failed to measure taxpayers' intentions thus difficult for all tax audit participants to achieving a favourable outcome in resolving tax audit cases.

Some tax auditors had excellent attitude, but they were hardly notified by the public. In a one-page article by Rose (2008), he reported that some tax practitioners believed that IRS' tax auditors were very reasonable, dedicated and fast in completing the audit. Some respondents considered that tax auditors were underpaid as they had to do multiple tasks (e.g. bank reconciliation, documents checking and writing reports). Rose also (2008) suggested that taxpayers should engage tax professionals if they have difficulties in resolving issues with tax auditors.

Murphy (2003) conducted a procedural justice study on taxpayers audited by the Australian Tax Office (ATO) auditors. Taxpayers regarded the letters sent by tax auditors as too technical (full of tax jargons), unsympathetic (letters sent near to festival days), and demanding (need prompt reply) that left taxpayers feeling overwhelmed, confused and angry (Murphy, 2003). Taxpayers also reported that some tax auditors accused taxpayers as tax cheat and did not offer for a help or find a fair solution. Instead, tax auditors made their own decisions. Taxpayers asserted that high tax liabilities, which comprise of penalties and accrual of interests, were due to tax auditors' delaying the audit settlement. Some taxpayers chose to disengage from the tax system due the negative experiences. For example, a taxpayer used more cash transactions, which provide opportunities for unreported income, in business.

In Malaysia, the public tends to have negative perceptions of the IRBM tax auditors' behaviour. In regular meetings between the IRBM and members of the Chartered Tax Institute of Malaysia (CTIM),<sup>7</sup> the CTIM made several complaints to the IRBM regarding its tax auditors (CTIM, 2003). The CTIM claimed that the audit process conducted by the tax auditors lacks transparency and consistency. Moreover, the CTIM perceived that the IRBM's tax auditors do not carry out tax audits in a professional manner, adopt different treatments for the same subject matter, refuse to accept

<sup>&</sup>lt;sup>6</sup> Procedural justice theory is used to describe the perceived fairness of the procedures involved in decision-making and the perceived treatment one receives from the decision-maker (Lind and Tyler, 1988, Tyler, 1994, Tyler, 2000).

Previously, the CTIM was known as the Malaysian Institute of Taxation (MIT).

commercial justification even though supporting documents are provided, lack accounting and business knowledge, and are unable to provide convincing rationales for tax audit adjustments (CTIM 2003, 2005, 2007). Findings from empirical studies by Choong and Lai (2009) and Choong et al. (2012) supported the CTIM's complaints. They found that tax agents felt the tax audit process took too long to finalise. The main problems faced by tax agents were that tax auditors were not happy with taxpayers' explanations and that taxpayers had to provide tax auditors with various documents that were not used or reviewed. Tax agents believed that tax auditors intend to find fault to impose penalties for incorrect returns or understatement of income during the tax audit. The study also reveals several tax audit weaknesses, particularly regarding the tax audit approach, audit processes and tax auditors' competency and mentality (Choong et al., 2012; Choong and Lai, 2009). An unpublished study by Abdul Wahab et al. (2005) found that IRBM tax auditors tended to make emotional judgments and show less concern about being fair to the other party. A recent study by Isa and Pope (2011) found that corporate taxpayers perceived IRBM tax auditors as more being interested in finding fault and penalising a company for wrongdoing than helping them comply with tax law.

The public's negative experience and perceptions on tax auditors signify that it is imperative for tax authorities to address issues regarding tax auditors' efficiency to gain the public's respect and confidence. Furthermore, the failure to subject tax collectors to serious study has resulted in undermining tax authorities' ability to understand not only tax administration efficiency but the behaviour of all parties (taxpayers and tax agents) since their conduct is so intimately intertwined (Long and Swingen, 1991).

### 4. PRIOR STUDIES ON TAX AUDITORS' BEHAVIOUR

Tax auditors have not been treated as a proper subject of research in tax administration and tax compliance studies. The popular stereotype of the taxman is an official who collects 'revenue through the process of detecting noncompliance and imposing penalties' (Braithwaite, 2003, p. 15). However, Braithwaite (2003, p. 35) argues that this stereotype provides a simplistic account of the realities of modern tax administration. A modern tax administration, she claimed, is characterised by detecting noncompliance and meeting with responsiveness 'that recognizes and deals with the wrongful act, but at the same time works to bring the more co-operative motivational postures to the fore'. Indeed, implicit in many existing studies is that regulators such as tax officials are highly dedicated and committed in their work and differ only in their approaches to getting their jobs done (Tang et al., 2003). However, it is doubtful whether the same assumptions apply to tax auditors. At the time of this research, there are only nine published studies on tax auditors' behaviour, shown in Table 2.

Table 2: Prior Studies on Tax Auditors' Behaviour

Author(s)	Objective	Findings
Smith and Stalans (1994)	To examine tax auditors' negotiation strategies in resolving disputes	Tax auditors used different negotiation strategies according to the phases of negotiation:  • First phase—convergence-oriented  • Second phase—compromise by finding new correct solution  • Final phase—hold firm and stick with their decisions.
Roberts (1995)	To examine tax auditors' judgment and decision making behaviour.	Tax auditors' judgment and decision making behaviour was influence by taxpayers' education level, size of audit adjustment, number of years of tax returns involved and whether or not the taxpayer was represented by a Certified Public Accountant (CPA)

Pentland and Carlile (1996)	To gather tax auditors' experience in conducting tax audit cases	Tax audit is an 'expression game'. Tax auditors and taxpayers entered into a game whereby taxpayers' 'facts' were negotiated. While tax auditors used the tax Code to prove the 'facts' were true, taxpayers challenged the 'facts' as they certainly knew when they had committed fraud.
Hite and Sawyer (1998)	To examine criteria of choosing audit cases from tax investigators' perspective	The likelihood for commercial tax service preparers was lower than for returns prepared by chartered accountants.  Most tax investigators believed that tax agents caused more aggressive tax reporting than did taxpayers and that CPAs were more aggressive than commercial tax service preparers.
Hite and Sawyer (2000)	To examine the effect of verbal and numerical standards on tax auditors' judgment and decision- making	Team leaders assessed relatively more penalties than their counterparts when the reporting standards were numerical.
Hasseldine and Hansford (2003)	To examine tax auditors' attitudes to the specific tax auditing process	Initial interview: a crucial information-gathering stage. Final interview: their motives were to reach a final settlement and avoid the case being taken to appeal.
Job and Honaker (2003)	To gather tax auditors' experience on the introduction of CM	A major change under CM was that tax auditors have open communication and negotiation with taxpayers and inter-staff. Some agreed that CM was useful and improved the quality of communication. Some staff did not have the communication, negotiation and decision-making skills; thus, adopting CM was a big challenge.
Waller (2007)	To examine the challenges that come with introducing responsive regulation into tax administration	Using evidence from a qualitative study of ATO 'walk-ins' with used car dealers, the authors found the unintended consequences that can occur without institutional integrity at the level of design and at the level of everyday ATO field-officer practises.
Muhammad (2013)	To explore tax auditors' enforcement regulatory styles in resolving audit settlement disputes.	Tax auditors apply different enforcement regulatory styles—firm, explain and educate, bargaining and threatening. This study also has identified 'avoiding' as tax auditors' enforcement regulatory style when dealing with the public.

Smith and Stalans (1994) examined the IRS auditors' enforcement regulatory approach in resolving disputes. The authors used enforcement regulatory theory to hypothesise that tax auditors allowed limited negotiation before they asserted their decision-making power and issued final determinations, regardless of citizens' views on audit issues. Figure 1 shows five possible negotiation strategies used by tax auditors to resolve disputes: to persuade to go along, to convince that the tax auditors were

right, to find compromise, to find a new correct solution and to change opinion. If tax auditors chose not to negotiate, they would hold firm with their decisions.

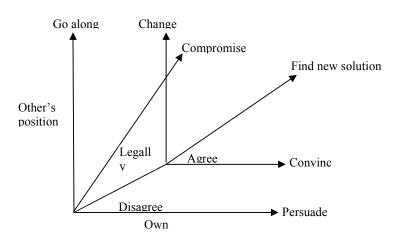


Figure 1: Negotiation Strategies (Smith and Stalans 1994, p.349)

Smith and Stalans (1994) conducted semi-structured interviews with 48 IRS tax auditors. They found that the tax auditors did not stick to one negotiation strategy in resolving tax disputes, but used different negotiation strategies according to the phases of negotiation. During the first phase, the tax auditors chose convergence-oriented strategies more likely to convince taxpayers that they were right. If that strategy did not work, they moved to the negotiation phase, where the tax auditors would compromise by finding a new correct solution. When both parties still did not reach an agreement, at the final phase of negotiation, the tax auditors would hold firm and stick with their decisions. This finding showed that the tax auditors could not easily close audit cases without taxpayers' agreement. The tax auditors would compromise by offering alternative solutions and if the taxpayers still did not agree, the auditors would finalise the cases using their power. Smith and Stalans' (1994) study set a precedent for future studies on tax audit negotiation. They suggested more work should be done on how the nature of disputes and the disputants' roles affect the relationship between this motivational dimension and the preferred strategies.

Roberts (1995) was the first to investigate tax auditors' judgment and decision-making (JDM). One hundred IRS tax auditors participated in an experiment examining the factors that influence tax auditors' assessment of taxpayers' negligence penalty. They were given a series of 16 cases that contained variations of the four factors tested: taxpayers' education level, size of audit adjustment, number of years of tax returns involved and whether or not the taxpayer was represented by a Certified Public Accountant (CPA). The results demonstrated that the hypothesised interaction of the four factors was significant. Three of the factors were significant as main effects: taxpayers' education level, size of audit adjustment and the number of years of tax returns involved. In general, the size of the audit adjustment had the largest effect on the decision to assess a negligence penalty and representation by a CPA had the least effect. The main weakness of Roberts' (1995) study was its concentration on subjective judgments. He failed to incorporate tax auditors' objective uniform application of tax law or accounting that Smith and Stalans (1994) expected in terms of how tax auditors would perform in their tasks. Perhaps due to a major disadvantage of using the experimental approach, Roberts (1995) had to place a limit on the number of factors examined in his study.

Pentland and Carlile (1996) explore IRS audit process. From their interviews with one hundred and forty two IRS tax auditors, Pentland and Carlile (1996) found that the tax auditors were in favour of practicality and informal judgments. The tax audit game implies that tax auditors and taxpayers contested the 'facts' to determine the 'truth' of taxpayers' returns. While the tax auditors used the tax Code to prove the 'facts' were true, taxpayers challenged the 'facts', as they knew when they had committed fraud. Both parties had strengths and weaknesses in terms of power, time, resources and information; therefore, the best outcome was for them to tolerate each other. As a result, the IRS tax auditors let the audited taxpayers walk away from some portion of their tax burden as a way of getting the job done and encouraging voluntarily compliance in future. Pentland and Carlile (1996, p. 284) asserted that 'the revised tax assessment is merely good enough for all practical purposes'. They concluded that tax audit is an 'expression game'. In the expression game, taxpayers attempt to maintain a front as honest, compliant citizens while tax auditors attempt to maintain as a front as fair, competent professionals just doing their job. However, Pentland and Carlile (1996) were perhaps overambitious in their claims, concluding as though all tax audit cases are resolved using this game. Their study might have been more convincing if they had considered different types of taxpayers (e.g. corporate and individual taxpayers) and explained the issues in dispute.

Hite and Sawyer (1998) examined New Zealand Inland Revenue Department (NZIRD) auditors' behaviour in selecting audit cases. Eighty-two auditors completed a tax audit case, which had a three levels of independent variable for type of preparer – self, commercial tax service or chartered accountant. The results indicate that tax auditors were likely to select tax returns prepared by commercial tax service preparers than for returns prepared by chartered accountants. Experienced auditors believed that the factors in the case were likely to be associated with noncompliance (high income, high level of education, balance due and a questionable deduction).

Hite and Sawyer (2000) examined the effect of verbal (for example 'about as likely as not') and numerical (for example '51 per cent') standards on the NZIRD auditors' decisions. One hundred and sixteen tax auditors' participated in the experimental study. They were required to assess a penalty rate on an ambiguous hypothetical case. Team leaders<sup>9</sup> were included as the control variable. Hite and Sawyer (2000) found that the team leaders assessed relatively more penalties than their counterparts (i.e. tax auditors) when the reporting standard was numerical. In contrast, when the reporting standard was verbal, the team leaders were not as willing to recommend a penalty. Similar to Roberts' (1995) study, the experimental approach omitted other contributing factors that could possibly influence tax auditors' behaviour.

Hasseldine and Hansford (2003) examined tax auditors' attitudes to the three stages of the tax auditing process: the initial interview with the taxpayer (planning stage), collection of private account details (execution stage) and the final interview with the taxpayer (judgment formation stage). They adopted a mixed-methods approach in their questionnaire survey, conducting group discussions and telephone interviews with both tax agents and tax auditors. They found that tax auditors' motives in the final interview were to reach final settlement and avoid the case being taken to appeal. Tax auditors needed to close the file and move on to other audits, and the final interview was seen to be beneficial in terms of both cost and time. The authors supported Pentland and Carlile's (1996) notion of the 'expression game'. They suggested that more studies on tax auditors' behaviour and the audit process were necessary to ensure the efficiency and effectiveness of tax programs in tax administration.

Job and Honaker (2003) were concerned with tax auditors' reactions to the newly implemented CM in the ATO. The researchers interviewed 14 ATO auditors and found that tax auditors' personality

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<sup>&</sup>lt;sup>8</sup> The expression game is a less formal model for strategic interaction, where the parties involved in face-to-face communication join together to sustain normal social interaction. In expression game, it is not just the 'facts' that are at stake: the identities of the participants are being tested and negotiated (Goffman 1969).

<sup>&</sup>lt;sup>9</sup> Team leaders are responsible for overseeing and handling administrative details. They are often consulted on ambiguous issues and their approval is required before penalties can be recommended. It is believed that the team leaders may react differently from the average IRD investigator. Given their important role in an organisation, team leaders with experience of assessing relatively high levels of penalties were separately analysed by Hite and Sawyer (2000).

influenced their behaviour in settlement of audit cases. Tax auditors with a 'rulebook' mentality are confused with the idea of helping and educating taxpayers in the CM. They are uncomfortable with the idea of using higher levels of personal judgment that would contribute to losing their specialised skills and ability to maintain the quality of their auditing work. Audit work has traditionally been regarded by the ATO as the real work of a tax administration. Auditors have had a particular status within a tax office and been seen as members of an elite club. Audit staff possess specialised skill sets, often developed through formal education or training as well as on the job. Further, auditors have competed with each other to raise revenue. The auditor who raised the highest amount of revenue during the year would receive organisational recognition and a 'good-like' reputation (Job and Honaker 2003). They have been used to command and control administration and have had difficulties striking a balance between being an enforcer and an educator at the same time. Contradicting specialist and generalist roles create conflict for tax auditors. One devastating finding was that some staff used personal judgment rather than following policy and established guidelines (Job and Honaker 2003).

Waller (2007) examined tax officials' challenges in performing fieldwork after the implementation of responsive regulation<sup>10</sup> by the ATO. Some of the respondents in Waller's study were tax auditors. Using evidence from a qualitative study, the authors found that field officers seemed to be receiving mixed messages on how to do their jobs. On the one hand, they are encouraged to be flexible in their approach, asking additional questions if anything seems amiss. On the other hand, they are constrained by the ATO's quality assurance requirements, which translate into pressures on field officers to stick to written procedures. This commitment to the written procedures seems contrary to the spirit of responsive regulation, which uploads flexibility of approach. Moreover, the study shows that sticking to the procedures limits the opportunity to detect non-compliance, and also has the unintended consequence of reducing taxpayer trust and confidence in the tax system.

Muhammad (2013) explored IRBM auditors' enforcement regulatory styles using the grounded theory methodology. The researcher conducted in-depth interviews with forty-nine IRBM tax auditors that explored their enforcement regulatory styles in resolving audit settlement disputes, reasoning and underpinning beliefs. Consistent with enforcement regulatory theory, the analysis of data shows that tax auditors apply different enforcement regulatory styles—firm, explain and educate, bargaining and threatening. This study also has identified 'avoiding' as tax auditors' enforcement regulatory style when dealing with the public.

# 5. DISCUSSIONS AND CONCLUSIONS

Tax auditors possess a great deal of discretionary power; in many instances, tax auditors are in effect prosecutor, judge and jury in tax assessments matters (Roberts, 1995). Other than studies of the public's negative perception of tax auditors' behaviour that influences taxpayers' compliance and the tax administration system's inefficiency, scholars have given little attention to tax auditors' behaviour. This is in contrast to other fields such as regulatory justice, where agents are treated as proper subjects of research. The failure to subject tax auditors to serious study has resulted in undermining our ability to understand not only the government's behaviour but the behaviour of all parties (i.e. taxpayers and tax agents) since their conduct is so intimately intertwined (Long and Swingen 1991, p. 673).

The review of literature clearly shows that various areas of study on tax auditors' behaviour are still unexplored or required further analysis. An important area of study is tax auditors' compliance behaviour towards audit framework/procedure. Compliant to tax audit framework is vital to ensure the

<sup>&</sup>lt;sup>10</sup> Responsive regulation is an approach that moves away from a command-and-control approach (Braithwaite, 2003) and moves regulators towards having several acts (Ayres and Braithwaite, 1992). Regulators are expected to adopt a suitable enforcement style according to a regulatee's compliance behaviour. Ayres and Braithwaite (1992) suggest that regulators using responsive regulation should start with a persuasive style and switch to escalating punishments only when regulatees consistently refuse to co-operate.

successful – detect noncompliance and inculcate future compliance – of tax audit program and to avoid corruption. Future researchers can adopt the organisational behaviour theory to measure tax auditors' level of compliance and to examine factors that influence their compliance behaviour.

Future researchers also can extend Roberts' (1995) study on tax auditors' judgment and decision-making behaviour. Tax researchers can examine tax auditors' fairness in making decisions and other factors (for example, gender of tax auditors, taxpayers' compliance behaviour and managers' control) that influence tax auditors' judgement and decision-making. Researchers can give suggestions to tax authority policies to ensure consistency in decision-making.

Tax auditors' early dispute resolution behaviour is another important area of study that should be a focus for future tax researchers. Smith and Stalans (1994) had identified that tax auditors used different strategies in resolving disputes. However, they failed to explain factors that influence tax auditors' dispute resolution behaviour. Future studies should identify the factors by adopting experimental research approach.

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# FINANCIAL STATEMENT PRESENTATIONS FOR TAKAFUL: ADAPTING TO ACCOUNTING STANDARDS AND SHARIAH REQUIREMENTS

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## **ABSTRACT**

Takaful is the Shariah compliant version of conventional insurance and it is not excluded from the convergence wave of International Financial Reporting Standards (IFRS). Malaysia's convergence to IFRS has been effective as from January 1, 2012. In relation to Islamic financial transactions, the key challenge has been to find a relevant accounting framework that will allow for comparability with conventional finance as well as international comparability without affecting the Shariah compliance. It is questioned as to whether IFRS could adequately address the reporting of takaful operators, or whether the transactions are so unique that some other form of accounting framework would be required. The current development of financial reporting requirements for takaful has led local standard setters, regulator and professional body to make improvements to existing financial reporting practices to best meet the IFRS Framework. This paper presents a discussion of issues highlighting local accounting regulatory requirements that guides takaful operators in being both IFRS and Shariah compliant. The objective is to outline the issues, not necessarily to resolve them, and to consider the implications they have for pursuing IFRS convergence in the context of takaful industry.

**Keywords:** *Takaful*, accounting regulation, Shariah principles, financial statements

## 1. INTRODUCTION

*Takaful* or some may call it Islamic insurance, is a relatively young market with a potentially huge customer base (KPMG, 2009). In *The World Takaful Report* by Ernst & Young (2012), it has been reported that Global *takaful* contributions had grew by 19% in 2010 to USD 8.3billion. It is expected that the global *takaful* contributions to reach USD12 billion by 2012. Additionally as reported in the same report, Saudi Arabia remained the largest market for *takaful* in the Gulf Corporation Countries.

According to the Bank Negara Malaysia's *Annual Takaful Statistics 2012*, the number of registered *Takaful* Operators has grown from eight in year 2008 to 12 in year 2012 with a total of fund assets worth RM19.05 billion (BNM, 2012). The *takaful* industry has come a long way since the first Islamic insurance company that was set up in Sudan in 1979 and in Malaysia in the year 1984 (Bhatty, 2010; Lim, J *et al.*, 2010). This starting point was spurred by the issuance of Fatwa in 1972 by the National Council for

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Islamic Religious Affairs of Malaysia that life insurance is not lawful as it contains *gharar*, *maysir* and *riba* (Engku Ali & Odierno, 2008).

Apart from the significant growth outside the current major *takaful* markets of the Middle East and Malaysia, a large number of *takaful* business are reporting under International Financial Reporting Standards. Such application gives rise to complex accounting and reporting issues (KPMG, 2009). The reason for this complexity can be tracked back to the fundamental differences between *takaful* and conventional insurance models, which is the existence of donation (*tabarru*') feature in *takaful*.

ACCA and KPMG (2010), PricewaterhouseCoopers (2010) and AOSSG Research Report (2010) highlighted a few key issues with the adoption of IFRS that may compromise Shariah requirements, such as whether the definition of 'insurance contract' include *takaful*; the classification and measurement of *qard* in the financial statement of the *takaful* operator and *takaful* fund; the recognition of participants' contribution as revenue or liability; and whether the presentation of financial statements of *takaful* operator and *takaful* fund be consolidated or separated or combined, etc.

Therefore, this paper seeks to examine the development of accounting standards and guidelines in relation to *takaful* operations in its attempt to reconcile issues and accommodating Shariah principles within the IFRS framework. The main focus of this paper is on the issues related to the presentation of financial statements of *takaful* operators.

## 2. LITERATURE REVIEW

# 2.1 Takaful and Conventional Insurance

Islamic Finance and *Takaful* have its appeal for the strong ethics of the system of fairness, transparency, distribution of wealth leading to social goodness and environmentally focus for generating economic activity (Bhatty, 2010). This is because the Shariah discourages creating money from money and hence prohibits interest. As such, Islamic financial transaction links deposits and investments to real underlying assets. With these principles, the Islamic financial institutions have managed to maintain more consistent returns, even during the economic downturn. However, the industry was not totally immune to economic fallouts, especially from non-performing loans and depressed real estate assets.

Takaful is not dissimilar to conventional insurance (i.e. that is non-mutual insurance), and yet it has distinct differences (Bhatty, 2010). It compensates financially for protection against unforeseen risks just like conventional insurance. However, it functions based on risk sharing rather than risk transfer of that by conventional insurance. Takaful is bound by and based on same scientific rules and actuarial approaches to mortality rates, morbidity rates, loss ratios, claims experience and discounted cash flows for calculating price of risk and evaluation of liabilities. It can be said that takaful is like conventional mutual insurance as its participants conceptually own the co-operative takaful pool but takaful also has shareholders to support the development and expansion plans which is different from mutual companies.

It is important to highlight what makes conventional insurance forbidden from Shariah perspective. Firstly, in conventional insurance, the insurer accepts premiums from the insured at a level which it anticipates will cover claims and result in a profit. This process of anticipation is akin to *maysir* (speculation). Secondly, the insured pays premium to the insurer in exchange for indemnity against risk that may not occur. This process of ambiguity is akin to *gharar* (uncertainty or ambiguity). Lastly, the insurer engages in investments that may derive their income from interest and or prohibited industries. Therefore, this process is akin to *riba* (usury) and or relates to *haram* (prohibited) activities.

Takaful is allowed by Shariah due to its concept of social solidarity, cooperation and mutual indemnification (ta'awun) (Engku Ali & Odierno, 2008; Ernst & Young, 2010). It is a pact amongst a group that agrees to donate contributions to a fund that is used to jointly indemnify covered losses incurred by the members. What makes takaful Shariah compliant is the existence of a contract of donation with a condition of compensation. This is not evident in the conventional insurance as it is mainly based on the contract of sale (indemnity or protection) and purchase of insurance policy (premium paid by participants).

## 2.2 Financial Reporting Standards and Guidance for Takaful

There are various initiatives for ensuring consistency in reporting for *takaful* companies at the international as well as local arena. At the international level, the International Accounting Standards Board (IASB)was established on 1 April 2001, is responsible to develop International Financial Reporting Standards (IFRS), which are accounting standards promulgated after 2001, and to enforce the use of each standard. Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). The accounting standards put forth for use by *takaful* operators is known as IFRS 4 *Insurance*. It is made effective for use in Malaysia on 1 January 2012.

Another international accounting standard setting body, Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI) was established in 1990 in order to cater for Islamic financial institutions (IFIs). The accounting standards are specific in nature as it focuses on the financial instruments used by IFIs, such as *Ijarah*, *Mudarabah*, *Murabaha*, *Salam*, *Islamic Insurance* etc.. Countries such as Bahrain, Dubai, Jordan, Lebanon, Qatar, Sudan and Syria have adopted AAOIFI's standards. It is difficult to say that AAOIFI has gain popularity and acceptance at the global arena as most of the countries that adopt are middle-eastern countries where IFIs are mostly located. Further, the proponents of AAOIFI opines that AAOIFI's accounting standards are more relevant for the use by IFIs rather than adopting IFRS that may not portray the true nature of Islamic financial instruments.

The accounting standard setting in Malaysia is spearheaded by Malaysian Accounting Standards Board (MASB). Malaysia has had a comparatively easy journey towards convergence since it has been incorporating the provisions of (International Accounting Standards) IAS into local accounting standards since 1978 (Zainal Abidin, 2008). The current Financial Reporting Standards (FRSs) issued by the Malaysian Accounting Standards Board (MASB) are already compliant with IFRS. On 19 November 2011, the MASB had issued a new accounting framework, the Malaysian Financial Reporting Standards (MFRS) Framework. This issuance was made in conjunction with the MASB's plan to converge with IFRS in the year 2012. The MFRS Framework comprises standards as issued by the IASB which are effective as from 1 January 2012. It also comprises new/revised standards recently issued by the IASB that will be effective after 1 January 2012 such as Standards on financial instruments, consolidation, joint arrangements, and fair value measurement and employee benefits, among others. Therefore, for the case of discussion, IFRS 4 is similar to MFRS 4 *Insurance*.

In year 2011, MASB in its effort to ensure accounting standards for the *takaful* industry is at par with the global trend of IFRS Framework and at the same time adheres to Shariah principles, issued the Discussion Paper *i-1 Takaful*. The Discussion Paper discussed seven areas of contentious issues in applying IFRs to *takaful* operations. Then, in 2012, MASB issued a Feedback Statement which comprised of the feedback received from nine respondents consisting of governmental and professional bodies, takaful and insurance entities, a bank, an actuary and a foreign regulator.

Bank Negara Malaysia (BNM) as the regulator of *takaful* operators is steadfast in regulating the operations as well as the reporting of *takaful* operators. In year 2010, BNM had issued *Guidelines for Financial Reporting for Takaful Operators* (BNM/RH/GL 004-6). This guideline provides guidance on

the disclosure requirement for financial statements of *takaful* operators apart from guidance on the compliance to Financial Reporting Standards, measurement of *qard*, etc. In June 2013, BNM has updated this guideline in line with the issuance of the Islamic Financial Services Act 2013 that is made effective in July 2013. The new guideline titled *Financial Reporting for Takaful Operators* (BNM/RH/GL 004-24) emphasized the need to comply with the MFRS Framework apart from the above mentioned content. There is not much difference on the part of presentation of financial statements of *takaful* operator, except for the measurement of *qard*.

Malaysian Institute of Accountants (MIA) had issued implementation guidance in May 2013 titled Guidance on Special Matter No. 2 Presentation of Financial Statements for Takaful Companies; and Classification and Measurement of Qard. The suggestion put forth is to assist preparers of account for takaful operators in applying MFRS 4 Insurance and regarded this guideline as best practice to complement the reporting requirements in MFRS 4 Insurance.

# 2.3 Shariah issues for Presentation of Financial Statements for Takaful

Modern *takaful* arrangements are designed to offer participants protection that is comparable with conventional insurance whilst adhering to *Shari'ah* principles. *Takaful* is established on the concept of *tabarru'* (donation) and *ta'awun* (mutual cooperation), that is the *takaful* participants pay contributions to a fund to mutually indemnify each other instead of purchasing insurance from an insurer. This is different from conventional insurance which is based on the sale of the protection by the insurer in return for premium as consideration from the policyholder. From Islamic perspective, the above mentioned sale contract is prohibited because it contains elements of *gharar* (uncertainty), *riba*(excess or usury), and *maisir* (gambling).

According to Morshed (2003), the nature of *takaful* operations, in terms of detailed accounting, is largely similar to that of conventional insurance operations except for areas such as method used to remunerate *takaful* operator, the nature of mitigating risks and the nature of investments made by the *takaful* operator. The point of view proposed by Morshed (2003) considering the *takaful* operation within the ambit of Pakistani regulatory environment. From the Malaysian scenario, MASB had conducted discussion with the industry players and issued Discussion Paper *i*-1 on *Takaful* as well as Feedback Statement containing public comments on the accounting issues raised when applying MFRS 4 *Insurance* for *takaful* operations.

The application of MFRS 4 *Insurance Contracts* has aroused various *Shari'ah* issues for *takaful* operators as mentioned below:

- i. The definition of *takaful* may not be covered in MFRS 4. This raises the question of whether there is an element of acceptance of significant risk or not.
- ii. The classification and measurement of *qard* (interest free loan) that is provided by the *takaful* operator to cover for the shortfall in the *takaful* fund.
- iii. The presentation of financial statements of the *takaful* operator. This raises the question as to whether the financial statements should reflect a separation of the assets and liabilities of the *takaful* fund from the *takaful* operator.
- iv. The inclusion of *retakaful* contract in MFRS 4. This raises the question of whether *retakaful* is similar to reinsurance.
- v. The recognition for participation feature in *takaful* contract as liability. This raises the question of timing of recognition.
- vi. The recognition and presentation of revenue of the *takaful* operator. This raises the question of whether only agency fees and return on investment should be recognised in the separate financial statements of the *takaful* operator and whether participations' contribution can be considered as revenue in the consolidated financial statements.

The focus of this paper is to discuss the current developments in the regulatory requirement for item iv that is the presentation of financial statements for *takaful* operators. The disclosure on the financial position and performance of *takaful* operators is important to attract future investments from potential shareholders. More importantly *takaful* operator should be transparent to the participants about the management of the donation (*tabarru*') fund and the return on investment made using the contributions from the participants.

## 3. RESEARCH METHOD

Library search was conducted to analyse the developments in the accounting standards and guidelines as issued by AAOIFI, MASB, BNM and MIA to accounting for *takaful*. These standards were chosen as it provides an indication as to the accounting principles or stand that each standard setter upholds and believes. For instance, standards issued by AAOIFI are based on Shariah principles and advocate contractual obligations or legal form over economic substance. On the other hand, MASB and MIA and BNM tends to be more of supporting the notion of economic substance over form where economic substance of a transaction is deemed as more true and fair in reflecting rights and obligations of the reporting entity rather than the legal form or contractual obligations.

Content analysis was performed by analyzing the suggestions provided in the accounting standards and guidelines issued by the respective standard setters, regulator and professional body. The accounting standards and guidelines analyzed covers MFRS 4 *Insurance*, MASB Discussion Paper *i-1 Takaful*, BNM's *Financial Reporting for Takaful Operators*, *MIA's Guidance on Special Matter No. 2 Presentation of Financial Statements for Takaful Companies; and Classification and Measurement of Qard* and lastly, AAOIFI's FAS 12 *General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies*. The main discussion revolves around the issue of presentation of financial statements, whether the *takaful* operator should prepare separate financial statements for its operation and the participants' fund or consolidate both accounts.

### 4. RESULTS

The MASB (2011) in its Discussion Paper *i*-1 on *Takaful* highlighted that the structure of a modern *takaful* undertaking consists of a normal shareholder-owned company which includes the participants' fund that is considered to be the property of the participants, but which does not have a separate legal personality. Therefore, fund segregation would prevail whereby not all the assets of the participants' fund can be utilized to meet the *takaful* operator's general obligations such as rent, salary and others. As a result of this distinctive nature of the participants' fund and the *takaful* operator, in some jurisdictions, there may be presentation and disclosure requirements that emphasize separate financial statements for the funds that the *takaful* operator manages.

Both of Bank Negara Malaysia's (2013; 2010) Financial Reporting for Takaful Operators (BNM/RH/GL 004-24) and Guidelines for Financial Reporting for Takaful Operators (BNM/RH/GL 004-06) require separate financial statements to be prepared for the participants' fund even though the fund is not a separate legal entity and is not registered under the National Trust Fund Act 1988. This presentation requirement would be in compliance with the Shariah view that the participants' fund is distinct or separate from and 'independent' of the takaful operator.

However, the MASB noted that BNM is cognizant of the fact that certain aspects of the modern *takaful* arrangement create a relationship between the operator and the participants' fund that may not be

adequately conveyed through separate statements alone. As such, the *BNM guideline* also alludes to aggregate financial statements to be prepared as evidenced in its *Appendix* which provides for the elimination of entries in the preparation of aggregated financial statements. In this *guideline*, BNM no longer specifies the format that these aggregated statements must take, and while some stakeholders are amenable to the presentation of consolidated financial statements as required by MFRS 127, others have indicated a preference to retain the combined financial statement presentation required under the previous BNM guideline, that is *Garis Panduan Takaful*, *Takaful* 6 (GPT-6).

The requirement of AAOIFI (2010) in paragraph 39 of FAS 12 General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies requires that:

"Disclosure should be made on the face of the statement of financial position of the following assets, with separate disclosures in the notes to the financial statements, of assets jointly financed by the owners' equity and policyholders' equity, and those exclusively financed by each of them wherever possible ..." (AAOIFI, 2010, FAS 12, Paragraph 39).

Paragraph 40 of FAS 12 requires similar disclosures for the various items of liabilities, and paragraph 2 of AAOIFI FAS 12 considers separate statements for participants' revenues and expenses to be part of "the complete set of financial statements that should be prepared by the company". Such disclosure and presentation are not required by current IFRS; and indeed are absent in the financial statements of many conventional insurance companies. However, respondents in the AOSSG Research Report (2010) opined that without such separation, the formal structure of a takaful set-up would be obscured. They may argue that since not all the assets of the legal entity are available to meet all the liabilities – for example the participants' fund is not available to pay the salaries of the staff – it would be misleading simply to consolidate the various asset pools.

The AOSSG Research Report (2010) also noted that an unusual presentation results from combining the separate statements of the *takaful* operator and the participants' fund when *qard* is treated as a receivable. In the *takaful* operator's financial statement, the *qard* disbursed by the *takaful* operator to participants will be recorded as receivable in the *takaful* operator's financial statement, whereas in the participants' financial statements, the *qard* received is used to off-set a deficit in the participants' fund. Then, upon combination of the financial statements, the cash entries would contra-off resulting in the combined entity to have a receivable due from itself. Consequently, this would result in an item of 'revenue' being self-generated.

The MASB (2011) in its Discussion Paper *i*-1 on *Takaful* discusses three alternative views on how the financial statements of a *takaful* business should be presented, as follows:

(i) Takaful operator and the takaful fund should present separate financial statements

It is argued that the *takaful* operator is distinct from the participants' fund it manages and the pools of assets are only available to meet the liabilities of that specific pool. This argument goes back to the notion that recognition of the participants' fund as being separate from the *takaful* operator is fundamental to the concept of *takaful* and as such separation has to be preserved in the presentation of financial statements.

(ii) Takaful operator and the takaful fund should present combined financial statements

There is an economic relationship between the *takaful* fund and the *takaful* operator, especially in the activities of managing the fund and providing top-up in case of deficit in the participants' fund. Thus,

there is some merit to an aggregated presentation. These combined statements would aggregate the *takaful* operator's and the participants' fund's income, expenses, assets and liabilities. The MASB also highlighted that there will be intra-group balances that are not eliminated, namely *qard* that would result in a surplus (i.e. revenue as highlighted by the AOSSG Research Report 2010) that is bigger than it really is, or that could even be masking a deficit. The MASB suggested that by eliminating the intra-group *qard* transaction under a consolidation approach, the group statement would show the actual surplus (or deficit), which would provide useful information for financial statement users.

# (iii) Takaful operator and the takaful fund should present consolidated financial statements

The participants' fund should be consolidated with the *takaful* operator because the operator controls these funds through management and decision making responsibilities, such as setting the contributions that should be paid by the participants and deciding how those funds are to be managed. Control exists when the parent (i.e. *takaful* operator) has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities (MFRS 127, paragraphs 4 and 12). The discussion paper further mentioned that the *takaful* operator would consider its involvement in creating and managing the participants' fund, and setting fees obtained from these funds as evidence of the existence of control.

Based on the above alternative views, the MASB Discussion Paper *i*-1 provided a tentative conclusion that the *takaful* operator is required to present consolidated financial statements for itself and the participants' fund that it controls in accordance with MFRS 127 *Consolidated and Separate Financial Statements*. The Discussion Paper *i*-1 also highlighted that the *takaful* operator can provide additional disclosures about the separate individual funds if it finds it important for financial statement users. The MASB reminded that additional disclosures are not prohibited under IFRS, as long as all the IFRS reporting requirements are met.

In the MASB (2012) Feedback Statement, respondents provided mixed views on whether the *takaful* operator should present a consolidated financial statement for itself and its participants' funds. Some preferred separate or combined statements by arguing on the grounds of participants' funds are not a separate legal entity.

The MIA Draft Guidance (2013) suggested a solution that would adhere to both MFRS 4 Insurance and BNM Guidelines (2013). The *takaful* company's financial statement is to be prepared on a consolidated basis and presented in a tabular format identifying the *takaful* operator, each of the *takaful* funds and *takaful* company (on consolidated basis). As such, the assets and liabilities of the operator and participants are presented separately and in the end it is consolidated at the company's level by eliminating any inter-group's transaction and balances, such as *qard*. This format is applicable for the statement of financial position, statement of comprehensive income and statement of changes in equity.

In addition, the MIA Draft Guidance (2013) reminded preparers of account the following items:

- i. Income and expenses as well as assets and liabilities should comply with the recognition and measurement principles of MFRS;
- ii. Deficit of *takaful* fund should be reported as a loss in the financial statements of *takaful* fund and *takaful* company in accordance to the "Conceptual Framework for Financial Reporting"
- iii. Intragroup transactions and balances should be eliminated upon full consolidation.

The Draft Guidance (2013) also provided some illustrative statements of financial position, statement of comprehensive income and statement of changes in equity. When compared to the financial year 2012 of

one locally based *takaful* company, such presentation is already being practiced, that is the tabular format identifying the *takaful* operator, each *takaful* funds and the *takaful* company.

In general, the MIA Draft Guidance has provided suggestions that try to best satisfy both the requirements of MFRS and BNM Guidelines. With such suggestion, participants would obtain an overview of both the *takaful* operator's operation and performance as well as how the *takaful* operator manages the contribution received from the participant, whether there is surplus or deficit that has aroused.

## 5. CONCLUSION

This paper implied that the current development in the presentation of financial statements of *takaful* operator in Malaysia showed attempts made to align both the IFRS Framework and Shariah requirement. Local standard setters, regulator and professional body have shown commendable efforts to safeguard the interests of both participants and shareholders in complying with Shariah principles and ensuring comparability of financial statements. The MIA's proposed best practice of having tabular column presenting both the *takaful* operator's financial position and performance with the participants' fund would allow greater transparency. Future studies should investigate further the actual practices and problems faced on the ground by the *takaful* operators and perceptions by stakeholders on the usefulness of the financial reporting of *takaful* operators. It is crucial for *takaful* operators, regulator, standard setter, Shariah advisors and academicians to collaborate in identifying the practical solution in applying IFRS without compromising the respective Shariah principles. Inputs and feedback should be provided to IASB so that Shariah point of view would also be taken into consideration when IASB issue new or revised/amendments to the existing standards.

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# HUMAN CAPITAL AND ECONOMIC GROWTH IN SUB-SAHARAN AFRICAN (SSA), ORGANIZATION OF ISLAMIC COOPERATION (OIC) MEMBER COUNTRIES

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#### **ABSTRACT**

The poor state of health care facilities in Sub-Saharan African (SSA) countries has attracted series of debate in recent times. Pooling data on Health and education for sub-Saharan Africa (SSA), Organization of Islamic cooperation (OIC) in relation to economic growth over the period 1990-2010, the Hausman test suggests the use of the fixed effect model. After correcting for time invariance, the result reveals that health represented by life expectancy at birth is positive but insignificantly related to economic growth. Education represented by secondary school enrolment seems to be the only significant variable explaining economic growth. The result shows that economic growth would increase by 2.5% if school enrolment increases by 1%. Albeit labour force and gross capital formation are positive, both are insignificant. Therefore, there is a dire need for an increase in health spending by the governments of these countries to offset the low level of health care which might indirectly influence economic growth. The labour force need to be equipped with requisite skills and modern technology to improve their output levels. Infrastructural development has been lacking over the years in this region and this can explain the reason behind the low level of investment attracted thus far. For meaningful growth to be noticed among these countries, enabling environment must be created for investment to thrive.

**Keywords**: Health, Education, Economic growth

## 1. INTRODUCTION

In the history of development economics, labour has been one of the key factors in explaining economic growth. The level of human capital represented by high education and good health status plays fundamental role in determining country's output level. Economic growth theories recommended that the role of human capital is important for growth process. Grossman, (1972) used the theory of human capital to explain demand for health care. He argued that people invest in themselves by demanding health and education in order to increase their income level. Recently, researchers have shown an increased interest in education as well as health as one of the fundamental aspects of human capital and thus economic growth. In the new global economy, health care has become a central issue for all countries especially poor countries. Basically, country with high health level labour force tends to have higher productivity than other country with lower level labour force. Furthermore, healthy people have more ability to continue their education and get more skills. Illness reduces the number of healthy days and income for individuals and therefore, the total loss due to health problems will be very big in poor countries which have low healthcare.

People living in sub-Saharan Africa have the worse health, on the average, in the world; the region has 11% of the world's population but carries 24% of the global disease burden (IFC, 2012). Diseases ranging from HIV/AIDS, Tuberculosis and Malaria have contributed to increased infant mortality and maternal mortality over the years. Education exists in shamble in most countries due to limited availability of medium and long term investment for capital investment. The question is: can all these problems be attributed to the low level of economic growth in this region in general and the OIC members particularly?

The aim of this paper is to examine the role played by health care in 21 members of Organization Islamic Cooperation (OIC). The main focus of the study is Sub-Saharan African countries members of OIC except Somalia due to insufficient data. Although, few studies have investigated the relationship between health and economic growth in OIC, but low health status in Sub-Sahara African (SSA) OIC countries is very disturbing. For example; (Peykarjou, Gollu, Gashti and Shahrivar, 2011) investigated the impact of health on growth in some OIC countries. They came out with positive link between growth and life expectancy at birth. However, they related low growth rate to high fertility in OIC countries. This study critically examines the effect of life expectancy at birth on GDP per capita. The role of improved life expectancy is discussed widely and found to be positively related to growth (Barro, 1996). Although, (Acemoglu & Johnson, 2007) argued that life expectancy has no relationship with economic growth and that maybe to some extend acceptable in case of poor countries with low life expectancy, but not justifiable for countries with high level of health status as in life expectancy. This paper commences with a brief overview of the healthcare and education of SSA OIC countries as related to economic growth. Secondly, discussion on the theoretical and empirical literatures in relation to health and economic growth were explained. The third part focused on data and methodology, followed by result and discussion and finally, the conclusion.

**Table 1: Decade Life Expectancy of SSA OIC Member Countries** 

Table 1. Decade the Expectancy of SSA OTC Wellber Countries						
Country	1990	2000	2010			
Benin	48.7	52.5	55.6			
Burkina Faso	48.5	50.2	54.9			
Cameroon	53.3	50.8	51.1			
Chad	50.7	48.5	49.2			
Comoros	55.6	57.9	60.6			
Cote d'Ivoire	52.6	50.2	54.7			
Djibouti	51.4	53.9	57.5			
Gabon	61.3	59.6	62.3			
Gambia	53.1	55.2	58.2			
Guinea	43.7	48.1	53.2			
Guinea Bissau	42.8	44.9	47.7			
Mali	44.2	47.2	50.9			
Mauritania	55.9	56.9	58.2			
Mozambique	43.2	47.2	49.7			
Niger	41.4	48.3	54.3			
Nigeria	45.6	46.3	51.4			
Senegal	53.2	55.7	58.9			
Sierra Leone	38.7	39.7	47.4			
Sudan	52.5	56.9	61.1			
Togo	52.9	54.8	56.6			
Uganda	47.4	46.0	53.6			

Source: World development indicator, 2010

Table 1 reveals the life expectancy among the SSA OIC countries. It shows that very few countries have performed well to increase the level of life expectancy over twenty years. This is an indication that most of the people in these countries never live up to their full potentials. Therefore, economic growth is likely not to perform better.

### 2. LITERATURE REVIEW

Technology depends on economic factors and capital labour relationship (Romer, 1986). An increase in labour and capital will increase income and explain the ability to maintain high growth rate in the long run. (Ehrlich & Lui, 1991) argued that an increase in life expectancy stimulate economic growth through encouraging human capital investment in future generations. (Mankiw, Romer and Weil, 1992) mentioned the significance of including health with education to analyze the role of human

capital. (Barro, 1996) emphasized that economic growth enhanced by higher initial health and education level expressed by life expectancy and education as one of most important determinants of growth. He argued initial level of health seems to have greater impact on growth. In other words, high level of health is very crucial in order to stimulate economic growth.

In more recent times, literatures have discussed the relationship between health care and economic growth. (Bhargava et al., 2001) investigated the effects of health indicators such as adult survival rates (ASR) and Total fertility rate on GDP growth rates at 5-year intervals in 92 developing and developed countries. The findings indicated that fertility rate to have a statistically negative effect on economic growth. In addition, adult survival rate is found to significant positive effects in explaining economic growth. (Echevarr, 2003) found that increases in life expectancy leads to higher growth rates only if they are accompanied by simultaneous increments in the working period. Therefore any increase in life expectancy represents an enlarged working period, thus increasing the return on human capital investment. (Echevarría & Iza, 2006) examined the impact of life expectancy and economic growth in existence of social security system with considering the role of education. The main finding of this study is that, increases in life expectancy imply changes in schooling and retirement age which imply changes in the growth rate. (Lucian et al. (2007) studied the relationship and causality between economic growth and diseases in Europe. They argued that the higher the economic growth, the higher the usage of hospital services and then reduces disease rates, while the prevalence of the diseases influence economic growth negatively.

In attempt to analyse the role of health care on economic growth, (Leung & Wang, 2010) found health care has a positive effects on output when life expectancy is high. They argue that when life expectancy is high people tend to save more, thus; increase saving boosts total output and welfare. (Peykarjou et al., 2011) studied the relationship between health and economic growth in Organization Islamic Conference member countries by using health indicators such as life expectancy and fertility rate. Generally, the results state that GDP and life expectancy have a positive and significant impact on economic growth. However, fertility rate has a negative and significant impact on economic growth. Thus, most likely fertility rate and population growth in OIC member countries decreases economic growth.

Analysing the short run and long run causality between economic growth and health in ASIAN countries, (Djafar & Husaini, 2011) found that causality between GDP and health is more likely to occur in the long-run than in the short-run indicated that changes in economic growth may not cause health instantly and vice versa. The countries may also have only short-run causality or only long-run causality. The long run causality from GDP to health is likely to dominate the causality relationship between GDP and health. (Pradhan, 2011) investigated the casual relationship connecting health spending and economic growth in 11 OECD countries. By using panel unit root test, panel cointegration method and error correction model, the results show that health spending has long run relationship with economic growth. That is, health spending causes economic growth in OECD countries.

(Majdi, 2012) also examined the relationship between health and economic growth by testing the impact of life expectancy and health expenditure on growth using panel data for 15 countries of the north and south bank Mediterranean. The result revealed positive effects for health expenditure on growth. The elasticity of the growth of the GDP with regard to healthcare costs equal to 0.86 in the (Countries North Bank Mediterranean) and 1.27 in the (Countries South Bank Mediterranean). In addition, life expectancy shows positive impact on growth in all countries. The author argued that improvement in life expectancy encourage saving for pensions. These savings enhanced liquid assets for the investment. (Granados, 2012) studied the relation between health progress, as measured by annual gains in LEB (Life Expectancy at Birth) (or declines in mortality), and economic growth during the years 1840-2000 in England and Wales. He found a negative relation between GDP growth and health progress. In years in which the economy grew slowly or even contracted, gains in LEB were greater than in periods of faster economic growth. This negative association of economic growth

with health progress occurs at very short lags, it is present for both males and females, and is particularly noticeable in the first half of the 20th century.

## 3. DATA AND METHODOLOGY

Based on economic growth theories the relationship between economic growth and health can be specified in Cobb-Douglas production function as:

$$y = Ak^{\alpha}l^{\beta}.....(1)$$

Where y output per capita of the economy, A is total factor productivity, l is labour per capita stock and k is capital stock per capita.

According to human capital theory (Becker, 1964) and (Grossman, 1972) productivity would increase through the impact of human capital. Let assume total factor productivity is affected by health H and education E, and the other variables are exogenous:

$$A = f(H, E) \dots (2)$$

Substituting equation 2 in to equation 1 produces:

$$y = HEk^{\alpha}l^{\beta}.....(3)$$

#### **Econometrics Model**

Expressing the variables in natural logarithms produces:

$$lnGDP_{it} = \beta_0 + \beta_1 lnLE_{it} + \beta_2 lnSER_{it} + \beta_3 lnCF_{it} + \beta_4 ln LF_{it} + u_{it}$$
(3)

Where: lnGDP is log of real GDP per capita (constant 2000 US\$), lnLE is the natural logarithm of life expectancy at birth as proxy of health care, lnSER is gross secondary school enrolment, lnLF is the log of total labour force, and lnCF is gross capital formation as percentage of GDP. The data is collected from World Bank data base 2012.

**Table 2: Panel Results for SSA OIC Member Countries** 

Variable	Pooled OLS	Random Effect	Fixed Effect
-Constant	-0.4707	4.8002***	4.262***
LLE	1.988***	0.4230	0.2080
SER	0.337***	0.2857***	0.2551***
LCF	0.0337	0.0196	0.0112
LLF	-0.1725***	-0.0978	0.0030
Breusch-Pagan LM test	(0.0000)		
Hausman test		(0.00)	

Values in parenthesis denote p-value, \*\*\* indicate significance at 1% levels. Raw values are coefficients

#### 4. RESULTS AND DISCUSSION

The OLS result is found to be inconsistent and inefficient. The LM test has revealed very strong evidence that random effect is preferred against pooled OLS and therefore, the null hypothesis is simply rejected. In order to get reliable findings, the random effect and fixed effect models were estimated. The Hausman test was used to compare between random effect model and fixed effect model. The result of Hausman has shown the p-value is less than 0.05 implying that fixed effect model is more appropriate to this study and thus fixed effect is used for conclusion. It is obvious from table 2 that only secondary school enrolment (SER) is positively correlated and significant to economic growth. The most striking result to emerge from the data is that life expectancy (LLE) is not significant in explaining GDP per capita in this particular study. In addition, neither gross capital formation (LGCF) nor labour force (LLF) is significant in determining the level of economic growth is Sub-Saharan African countries member of OIC.

Only few studies from previous literatures found no association between life expectancy and economic growth. (Acemoglu & Johnson, 2007) found no relationship between economic growth and improvement in life expectancy at birth. (Sanso & Aísa, 2006) in their study, suggest causality running from economic growth to life expectancy but not the other way round. Our findings shade light on the relationship between economic growth and human development indicators (i.e. Education and Health) among sub-Saharan African OIC member countries. Health status in these countries has been very poor generally compare to high income countries. For example, life expectancy is ranging from 47.4 year to 62.28 in 2010 in Sierra Leone and Gabon respectively. This might explain the reason for the dwindling economic growth among the countries.

It is interesting to note that education represented by secondary school enrolment is the only significant variable in explaining economic growth. The result suggests that more educated people are, the more the country's income. In terms of elasticity, a 1% increase in secondary school enrolment will led to 0.26% increase in GDP per capita. Although the level human capital is quiet low but education is a very influential variable to determine economic growth in these countries. Surprisingly, panel data analysis did not show any significant relationship between GDP per capita with either investment or labour force. The expected sign for both variables were as suggested by the theory of economic growth. Both variables are positive but insignificantly related to economic growth. It seems possible that these results are due to inefficient investment and quality of labour force in among these countries. Investment can be insignificant due to many reasons such as low level of infrastructures, skilled labour and also the level of corruption or political instability. On the other side, labour force is affected by numerous factors such as low quality of education and health care. All these are possible explanations for the insignificant relationship between investment and labour force in Sub-Saharan African OIC countries members.

#### 5. SUMMARY AND CONCLUSION

This paper seeks to investigate the importance of healthcare and education to economic growth for SSA OIC members. It will also contribute to the bulk of literatures that relates health and education to economic growth. More precisely, the aim of this study is to determine the impacts of healthcare and education on economic growth in 21 Sub-Saharan African OIC members; Somalia is excluded due to insufficient data. The study used life expectancy at birth as proxy for health, secondary school enrolment to represent education, gross capital formation and labour force to check their effects on GDP per capita. The study used panel data analysis and fixed effect is chosen according to Hausman test to achieve the desirable results. The study revealed that life expectancy is not associated with economic growth in Sub-Saharan African OIC countries. Secondary school enrolment is found to be positive and significant. However, gross capital formation and labour force are both positive but insignificantly related to economic growth.

In conclusion, the outcomes of this study indicate that the healthcare in Sub-Saharan African OIC countries members is too low to the extent that it cannot contribute meaningfully to economic growth. There is a dire need for an increase in health spending by the governments of these countries to offset the low level of health care which might indirectly influence economic growth. The evidence from this study suggests that education plays a very decisive role in rising income level. However, more spending is needed in the educational sector in terms of research and development to further raise the level of economic growth. This also applies to investment and labour which they are not effective factors to determine economic growth in this study. The labour force need to be equipped with requisite skills and modern technology to improve their output levels. Infrastructural development has been lacking over the years in this region and this can explain the reason behind the low level of investment attracted thus far. For meaningful growth to be noticed among these countries, enabling environment must be created for investment to thrive.

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Source of data: ww.data.worldbank.org

http://www.oic-oci.org/member\_states.asp

# CURRENCY CONUNDRUM AND INTRA-OIC TRADE: THE CASE OF MUSLIM ECONOMIES IN EAST AFRICA

Mohamed Ibrahim Nor<sup>1</sup> Tajul Ariffin Masron<sup>2</sup>

#### **ABSTRACT**

American dollar has been used for decades as a medium of international trade exchange but the adverse effects of using the dollar is increasing over time as it is valued differently in different countries. The purpose of this study is to examine the effect of using the dollar as a medium of trade exchange among the economies in the Muslim world. While modeling the prices of goods traded among Muslim countries, the study found that adoption of US dollar as a medium of trade exchange among OIC economies poses a considerable currency conundrum, which affects both exporting and importing economies adversely. The results of this study imply that OIC will face difficulties to achieve its target of strengthening intra Islamic economic and trade cooperation as long as the dollar remains the medium of trade exchange among its economies.

Keywords: OIC economies, conundrum, prices of goods, medium of trade exchange

## 1. INTRODUCTION

To enhance trade amongst the Muslim world, many programs have been implemented by Organization of Islamic Cooperation (OIC). These programs range from research, training, raising awareness, and bringing traders and policy makers together to discuss on this matter. Though a significant contribution has been made by OIC to improve the trade among OIC member states, trade statistics illustrate the volume of intra-OIC trade (export and import) remains very small.

Apart from common challenges of production such as access to skilled human capital and suitable infrastructure, trade among OIC member states is suffering from lack of efficient and stable medium of exchange. US dollar is used as a medium of trade exchange among OIC member states but neither exporters nor importers use this currency in their local market. As most of OIC member countries use a floating exchange rate regime, the bilateral exchange rate between their local currencies and the US dollar fluctuates overtime. According to Robert Mundell, the 1999 Nobel Prize winner for Economics, exchange rate is the single factor that could lead to the collapse of a country (Chwialkowska, July 25, 1998). One of the main objectives of a foreign exchange market is to support the real sector by providing stable currency exchange services for traders and business people. In order for currency exchange markets in the Muslim world to be supportive to the intra-OIC trade, it has to be stable in a way that traders can manage their exchange rate risk and hedge the potential losses of their business. Without stable currency, national trade will suffer and export oriented businesses will not be able to effectively operate and efficiently compete in the global market.

In the context of OIC member states in East Africa, traders have been suffering from exchange rate risk due to the multiple currencies used to run their trade and the volatility of the local foreign exchange markets. Traders in these counties are not only worried about volatilities of their currencies but also

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volatilities of the currencies of their trading partners (OIC member states). As the currencies of the states in OIC such as Bangladesh, Pakistan, Turkey, Malaysia, and Indonesia are not actively traded in the markets of the OIC member states in East Africa, traders in low income OIC countries such as Somalia, Sudan, Djibouti, and Uganda use the US dollar to facilitate their trade. Since US dollar is used to facilitate intra-OIC trade, the volatility of US dollar is an essential determinant of the prices of goods imported from OIC member states.

Alternatively, despite the domestically-driven inflation, there is an imported inflation in OIC-East African states, which is more destructive to the economy and to the purchasing power of the people particularly poor and low-income households. This imported inflation is classified into two kinds; dollar-imported inflation and trade-imported inflation. While dollar-imported inflation is inherent in the use of US dollar, trade-based inflation is the inflation incorporated in the imported goods. However, both of them contribute to the deterioration of the local purchasing power.

Trade in OIC member states in East Africa has been suffering from immature and volatile foreign exchange markets. And since neither the exporter nor the importer's currency is accepted by both parties, the use of US dollar as a medium of exchange of the trade among OIC member states has become dominant. As different currencies are involved in each transaction, intra-OIC traders are enforced to consider changes in the markets of their trading partners as well as the changes in the US dollar. As Intra-OIC traders are exposed to these challenges, they are enforced to conceive different rates of inflation at once. This currency conundrum might be one of the reasons behind the poor performance of intra-OIC trade. The purpose of this paper is to examine the impact of using US dollar as a medium of trade exchange among economies in the Muslim world. This study models such events and examines potential adverse effects of such events to OIC member states in East Africa.

#### 2. REVIEW OF THE LITERATURE

Inflation has been a common issue in Africa for the past 20 years due to the excessive devaluation of local currencies. Inflation is generally defined as "devaluation of local currency" but some people do mix between inflation and the effect of inflation. Inflation is an outcome of an uncalculated human action which leads to a general price increase and at the same time to the weakening of the purchasing power of the people. According to Friedman (1977), "Inflation is always and everywhere a monetary phenomenon". This means inflation occurs due to problems in monetary policies and there would be no inflation if there were no money (King, 2001). Though inflation is driven by monetary side miscalculations, its effect on financial sector is less than its effect on the real sector. When inflation hits the real sector, the purchasing power of the people erodes until people cannot make the ends meet. Whilst Milton Friedman's famous proposition about inflation has been challenged by some studies (Willard, Guinnane and Rosen, 1996; Smith and Smith, 1997; McCandless, 1996), Burdekin and Weidenmier (2000) has offered new proof that Friedman proposition is entirely correct. Friedman's proposition reveals that drastic change in the quantity of money leads to a similar drastic change in the price level.

The current global monetary crisis has negatively affected global foreign exchange markets through different channels. Nonetheless, the adverse effects of these crises on least developed countries (LDCs) is severe. Since foreign currency markets are essential for these countries, crisis in foreign exchange market is almost equal, to them, losing both domestic and international trade leading into critical economic situation. This critical economic condition might reach in some countries a level of human crisis where people cannot afford basic livelihoods. In addition to droughts and armed conflicts, increasing food prices is contributing to the massive humanitarian crisis in East African countries such as Somali, Djibouti, Ethiopia and Kenya (IRIN, July 2011)<sup>3</sup>. Since the fall down of the Bretten Woods systems in 1973, foreign exchange markets in general have been highly volatile (Arize, Osang, & Slottje, 2000).

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<sup>&</sup>lt;sup>3</sup> Retrieved June 19<sup>th</sup> 2013: http://www.irinnews.org/report/93142/kenya-somalia-drought-decimates-livestock-hits-incomes

Subsequent to the collapse of fixed exchange rates, a central question was how such dramatic paradigm shift affects the growth of international trade.

Inflation remained an active phenomenon in Africa for decades because of poor monetary policies that pushed the creation of an active parallel market in the continent. Even when African governments such as Ghana wanted to improve the quality of their national currencies, they could not do it because of the existence of an active parallel market as prices quickly adjust in the parallel exchange rate (Chhibber & Shafik, 1990). Apart from local inflation, Africa is suffering from intra-and inter-continental transmission of inflation. Whilst measuring the intra-and inter-continental transmission of inflation in Africa, Jeong, Philip Fanara, and Charlier E. Mahone (2002), reported that USA is the leading producer of inter-continental inflation in Africa.

To reduce the level of inflation, some researchers have proposed the use of common currency that can at least contribute to the stability of prices of the goods traded among the countries in the same monetary area. Though it has been emphasized on establishing a currency union among trading partners to reduce adverse effects of using foreign currencies such as US dollar in their bilateral trade, researchers are in different opinion. While using data from over 200 countries, Glick and Rose (2002) found that countries left currency unions experience significant declines in bilateral trade economically and statistically. Moreover, Glick and Rose (2002) found that there is an economically and statistically significant effect of currency union on trade and their estimates indicate that bilateral trade increases when a pair of countries form a currency union. According to (Masron & Yusop, 2009), while the economic integration of ASEAN countries is anticipated to come up with a positive results, the integration can be strengthened through monetary integration. For them, having a common medium of exchange is important to facilitate bilateral trade in ASEAN countries.

Organization of Islamic Conference (OIC) was established in 1969 with the aim of ensuring and protecting the interest of the Muslim world in the spirit of promoting international peace and harmony. In 2011, the organization changed its name from Organization of Islamic Conference (OIC) to Organization of Islamic Cooperation (OIC). OIC is a strong organization as it's the collective voice of the Muslim world and has a permanent delegation to the United Nations (UN). Regarding to the economic interest of the Muslim world, OIC established several frameworks to strengthen intra Islamic economic and trade cooperation (Kusuma, 2010). This economic and trade cooperation is expected to facilitate the establishment of an Islamic common market. The Protocol on the Preferential Tariff Scheme (PRETAS) is among these frameworks and this is instituted to reduce trade restrictions among member states to ultimately promote trade and growth (Kusuma, 2010).

Though OIC has been trying to improve the intra-OIC trade, trade among Muslim world is not as anticipated. Even OIC countries in Gulf Cooperation Council (GCC) did not achieved their unified economic policy as the intra-regional trade among these countries (United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait) is still at a modest level (Sahib & Kari, 2012). On the other hand, Ahamat (2009) found that intra-OIC trade still remains low in terms of its volume and its proportion (compared to other trade systems). Moreover, Ahamat (2009) identified that intra-OIC trade is concentrated in few OIC countries and in certain types of products. As shown in table 1, the average intra-OIC trade needs to be revolutionalized to increase trade among OIC member states. Apart from Djibouti and Somalia, the intra-OIC trade of the sample countries is less than 30%. Indonesia, Malaysia, Bangladesh, UAE and Uganda have the lowest trade (export and import) with OIC member states. More interestingly, Somalia and Djibouti have the highest percentage in Intra-OIC exports (80% and 73% respectively) but have less than 30% of intra-OIC imports.

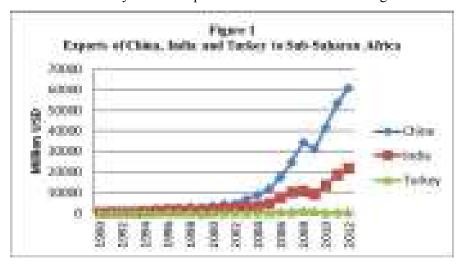
**Table 1: Intra-OIC Trade (1970-2011)** 

No.	Country	Geographical Zone	Export (% Mean)	Imports (% Mean)	Trade (% Mean)
1	Bangladesh	South Asia	14	14	14.0
2	Djibouti	East Africa	73	21	47.0
3	Indonesia	South East Asia	6	9	7.5
4	Malaysia	South East Asia	6	7	6.5
5	Oman	Middle East and North Africa	20	30	25.0
6	Pakistan	South Asia	26	30	28.0
7	Somalia	East Africa	80	28	54.0
8	Sudan	East Africa	21	26	23.5
9	Turkey	Europe	22	18	20.0
10	Uganda	East Africa	7	8	7.5
11	UAE	Middle East and North Africa	15	13	14.0

Source: SESRIC

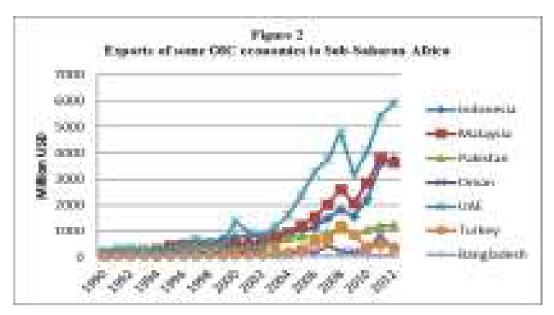
The trade and investment competition in low-income countries such as East African countries has increased due to the interest of the emerging economies such as China and India to these countries. The link between China and Sub-Saharan Africa has been growing rapidly in trade, investment and aid and Chinese involvement in Africa is driven primarily by the quest for material inputs necessary for Chinese infrastructure investments and flourishing manufacturing sector (Kaplinsky, McCormick, & Morris, 2007). Likewise, India has remained interested in Africa and its involvement in West Africa has increased drastically due to India's fierce competition from the West and other countries to secure West Africa resources (Singh, 2007). Apart from securing resources in Africa, India wants to make West Africa one of its long-term energy sources. Though India's quest for energy in West Africa is not currently a principal component, India invests in these countries as one of its bid to diversify energy sources (Singh, 2007).

Apart from China and India, Turkey is strongly striving to position itself in Africa. Turkey is taking part in the competition in Africa. Turkish relation with Africa has been evolving since 1998 and it has come as a passive attempt after Turkey decided to strengthen its links with Africa following Turkey-Africa Cooperation Summit (Ozkan, 2008). Though Turkey is trying to penetrate African markets, its exports to Sub-Saharan Africa are very small compared to China and India. See figure 1.



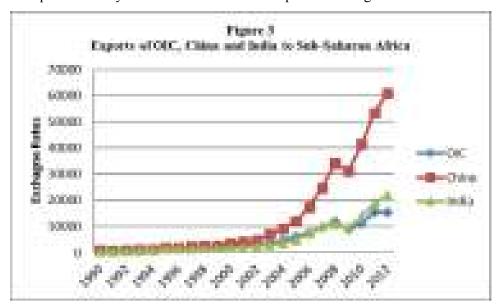
Source: IMF - Direction of Trade Statistics

Since the interest of OIC countries such as Turkey is increasing drastically for the purpose of having Africa as a source of input and a profitable market, OIC member states should have their currencies traded in African foreign exchange markets. Because this could reduce the current currency conundrum among trade partners within OIC economies. Figure 2 depicts exports of OIC member states in Sub-Saharan Africa are increasing overtime.



Source: IMF - Direction of Trade Statistics

Despite the fact that exports of OIC member states to Sub-Saharan Africa are increasing but the volume of the exports is small compared to China and India. The volume of exports made by seven OIC exporting countries (Indonesia, Malaysia, Pakistan, Oman, UAE, Turkey, and Bangladesh) is less than the volume of exports made by China or India in the same period. See figure 3.



Source: IMF - Direction of Trade Statistics

Due to the currency conundrum in OIC countries, the objectives of Islamic economic system that have been propagated by Islamic economists are coming under threat. Apart from other goals such as economic well-being and socio-economic justice, stability in the value of money is an indispensible goal in the Islamic economic system because of the unequivocal stress of Islam on honesty and fairness in all human dealings (Chapra, 1985). The increasing inflation in low-income OIC countries such as Somalia, Sudan, Uganda and Djibouti is not only contributing to the money erosion but also weakening the ability of OIC traders to compete in the global market. This will finally lead poor OIC member states not to achieve the other goals of Islamic economic system such as economic well-being and socio-economic justice.

Since money is a measure of value, any constant and significant erosion in its real value may be regarded as corrupting the world because of the adverse effect that this erosion will have on social justice and welfare (Chapra, 1985). One way to stabilize money is to ensure the stability of exchange rate markets because money is traded in this market. Having a sound monetary policy is fundamental for an exchange rate to be stable. According to Kaleem (2000), the ultimate goal of good monetary policy to achieve sustaining real economic growth, increase employment and minimize inflation. These targets can be accomplished under Islamic monetary system if suitable monetary instruments, which are in line with the teachings of Islam, are deployed (Kaleem, 2000).

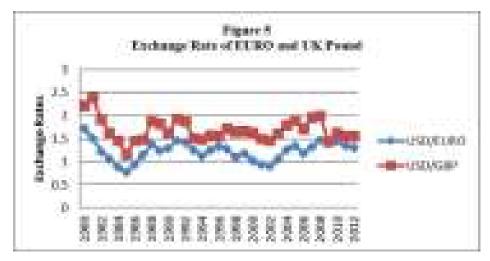
As shown in figures 4, exchange rates of most of the OIC member states have fluctuates over time. Out of the seven Asian OIC countries, only two (UAE and Oman) have had a stable currency. However, the currency behavior of these two countries might not reflect the true value of the currency. On other hand, out of the four East African OIC member states, only Djibouti has had a stable currency. Nevertheless, this trend might not reflect the real value of Djibouti frank. The historical currency data indicate that currencies in OIC member states have been volatile over time. The volatility of exchange rates affects both the traders and consumers; thus, reducing the ability of traders to engage in business activities and limiting the capacity of consumers to purchase their needs.

Whilst an extensive body of theoretical and empirical literature has investigated the link between exchange rate uncertainty and international trade flows, neither the theoretical nor empirical studies provide an absolute answer (Baum & Caglayan, 2012). However, the general provision is that an increase in exchange rate volatility will have an adverse effect on trade flows and as a result the overall vitality of the global economy.



Source: SESRIC

Due to immature currency markets in East African OIC countries, US dollar has been the most active foreign currency in these countries; thus, it has been used as a medium of trade exchange. Nonetheless, the US dollar itself is not free from fluctuation and it is also hit by the global economic events. As depicted in figure 5, the US dollar has been fluctuating against British Pound and EURO. Whilst US dollar is facing such fluctuations against other currencies, its adoption as a medium of trade exchange is yet to be challenged in East Africa OIC countries because the currencies of other OIC exporting countries such as Turkey, Pakistan, Malaysia, Indonesia, UAE, Oman and Bangladesh are not actively traded in East African markets.



Source: WM/Reuters

Though American currency (the dollar) has been using in East African OIC countries as a medium of trade exchange for decades, the use of US dollar to facilitate intra-OIC trade is threatening traders in East African OIC due to the volatility of the national and international currencies. Alternatively, traders in these countries (Djibouti, Somalia, Sudan, and Uganda) need to convert their national currencies into US dollar and then the US dollar into the national currency of their trading partner (Turkey, Bangladesh, Malaysia, Indonesia, Pakistan, Oman, and UAE). Consequently, East African traders are enforced to conceive several exchange rate fluctuations (inflations), which is not only disappointing these traders but also making OIC imported goods cannot compete in these markets. This paper examines the effect of such currency conundrum on the trade among Muslim world.

## 3. METHOD AND MATERIAL

The purpose of this study is to examine the effect of currency conundrum on intra-OIC trade. The study uses four East African OIC countries, namely, Djibouti, Somalia, Sudan and Uganda and seven of their OIC trading partners, namely, Bangladesh, Indonesia, Malaysia, Oman, Pakistan, Turkey and United Arab Emirates. The following are the basic assumptions of the study:

- 1. These seven countries are the trading partners of the four countries
- 2. Currencies of these seven countries are not actively traded in East Africa
- 3. Currencies of East African economies are not also traded in these seven countries
- 4. US dollar is used as a medium of trade exchange between these seven economies and East African OIC states
- 5. The availability of hedging service/facility is limited in East African OIC states

- 6. Cost of trade is constant (c)
- 7. Profit Rate is constant (p)
- 8. Risk reduction rate is also constant (e)

To comprehensively understand the effect of the currency conundrum an intra-OIC trade, the study simulates seven possible scenarios that can take place while importing goods from on OIC economy to East African OIC countries. East African traders, who are importing from an OIC member states must consider the following three factors:

- 1. Price of goods in the domestic markets of the OIC trading partner (OICTP)
- 2. The value of US dollar in the markets of the OIC trading partner
- 3. The value of US dollar in East African OIC markets.

If these three factors are taken into consideration, the basic pricing model for imported goods from OIC trading partners looks like the following:

$$\mathbf{Y}_{EAp} = \left[ \frac{\mathbf{Y}_{OICp}}{S_{OICc}^{\$}} \times S_{EAc}^{\$} \right] + C + P + \varepsilon$$

where  $Y_{EAp}$  is the price of a good in the markets of East African OIC countries,  $Y_{OICp}$  is the price of a good in the markets of OIC trading partners,  $S_{OICc}^{\$}$  is the exchange rate of a US dollar in the markets of OIC trading partners,  $S_{EAc}^{\$}$  is the exchange rate of a US dollar in the markets of East African OIC member states, C is the cost of trade, P is the profit of trade and E is the risk reduction amount.

Other things being equal, a change of a price of a good in East Africa  $(Y_{EAp})$  is dependent on changes in the factors of the basic pricing model in equation 1. Changes in  $Y_{EAp}$  can be expressed algebraically as follows:

$$\Delta Y_{EAD} = \Delta Y_{OICD} \div \Delta S_{OICC}^{\$} \times \Delta S_{EAC}^{\$} + C + P + \varepsilon$$

whereas  $\Delta$  is the change that can happen in each factor. From our simulations, we have found the following seven changes that can occur while trading a good among OIC member states:

1. Change of the Prices of the goods in the markets of the trading partners

$$D_{lm}^{OICc} = \left[ \frac{EP_{OICc} \div S_{OICc}^{\$}}{OP_{\$}} \right]$$

whereas  $D_{lm}^{OICc}$  is the changes of prices of the goods in the exporting economy,  $EP_{OICc}$  is the extra price that has to be paid by the local people,  $S_{OICc}^{\$}$  is the Spot Rate of a US dollar in the market of OIC trading partner and  $OP_{\$}$  is the Original price of the good in US dollar. While taking this change into consideration, there will be the following new pricing model:

$$\mathbf{Y}_{EAp} = \left[1 + \frac{EP_{OICc} \div S_{OICc}^{\$}}{OP_{\$}}\right] \times \left[\frac{\mathbf{Y}_{OICp}S_{EAc}^{\$}}{S_{OICc}^{\$}}\right] + C + P + \varepsilon$$

2. Change of the value of US dollar in the OIC trading partners' market (USD vs OIC currency)

$$D_{OICc}^{\$} = \left[ \frac{S_{-1}^{\$} - S_{0}^{\$}}{S_{0}^{\$}} \right]$$

Whereas  $D_{OICc}^{\$}$  is the devaluation of a US dollar in an OIC Currency,  $S_{-1}^{\$}$  is the previous spot exchange rate of a US dollar in an OIC Currency and  $S_0^{\$}$  is the current spot exchange rate of a US dollar in an OIC Currency. If this is considered, the new price will look like the following:

$$\mathbf{Y}_{\mathit{EAp}} = \left[1 + \frac{S_{-1}^\$ - S_0^\$}{S_0^\$}\right] \times \left[\frac{\mathbf{Y}_{\mathit{OICp}} S_{\mathit{EAc}}^\$}{S_{\mathit{OICc}}^\$}\right] + C + P + \varepsilon$$

3. Change of the value of the US dollar in East African OIC states (USD vs East African Currency)

$$D_{EAc}^{\$} = \left[ \frac{S_0^{\$} - S_{-1}^{\$}}{S_{-1}^{\$}} \right]$$

Whereas  $D_{EAc}^{\$}$  is the devaluation of an East African currency against US dollar. After considering this, the new pricing model can be expressed as follows:

$$\mathbf{Y}_{EAp} = \left[1 + \frac{S_0^{\$} - S_{-1}^{\$}}{S_{-1}^{\$}}\right] \times \left[\frac{\mathbf{Y}_{OICp} S_{EAc}^{\$}}{S_{OICc}^{\$}}\right] + C + P + \varepsilon$$

4. Change of Prices of the goods and value of US dollar in the exporter's market simultaneously

$$D_{lm}^{OICc} + D_{OICc}^{\$} = \left[ \frac{EP_{OICc} \div S_{OICc}^{\$}}{OP_{\$}} \right] + \left[ \frac{S_{-1}^{\$} - S_{0}^{\$}}{S_{0}^{\$}} \right]$$

If this event happens, the new pricing model can be expressed as follows:

$$\mathbf{Y}_{\mathit{EAp}} = \left[ \left( \frac{\mathit{EP}_{\mathit{OICc}} \div S_{\mathit{OICc}}^\$}{\mathit{OP}_\$} \right) \times \Delta S_{\mathit{OICc}}^\$ + \left( \frac{S_{-1}^\$ - S_0^\$}{S_0^\$} \right) \right] \times \left[ \frac{\mathbf{Y}_{\mathit{OICp}} S_{\mathit{EAc}}^\$}{S_{\mathit{OICc}}^\$} \right] + C + P + \varepsilon$$

Whereas 
$$\Delta S_{OICc}^{\$} = \frac{S_{-1}}{S_0}$$
.

5. Change of Prices in exporter's market and value of US dollar in East African markets concurrently

$$D_{lm}^{OICc} + D_{EAc}^{\$} = \left[ \frac{EP_{OICc} \div S_{OICc}^{\$}}{OP_{\$}} \right] \times \left[ \Delta S_{EAc}^{\$} \right] + \left[ \frac{S_{0}^{\$} - S_{-1}^{\$}}{S_{-1}^{\$}} \right]$$

Whereas 
$$\Delta S_{EAc}^{\$} = \frac{S_0}{S_{-1}}$$
.

If these changes are incorporated into the price, the pricing model will be as follows:

$$\mathbf{Y}_{EAc} = \left[ \left( \frac{EP_{OICc} \div S_{OICc}^\$}{OP_\$} \right) \times \left( \Delta S_{EAc}^\$ \right) + \left( \frac{S_0^\$ - S_{-1}^\$}{S_{-1}^\$} \right) + 1 \right] \times \left[ \frac{\mathbf{Y}_{OICp} S_{EAc}^\$}{S_{OICc}^\$} \right] + C + P + \varepsilon$$

6. Change of the value of US dollar in exporter's market and East African markets simultaneously

$$D_{OICc}^{\$} + D_{EAc}^{\$} = \left[ \frac{S_{-1}^{\$} - S_{0}^{\$}}{S_{0}^{\$}} \right] \times \left[ \Delta S_{EAc}^{\$} \right] + \left[ \frac{S_{0}^{\$} - S_{-1}^{\$}}{S_{-1}^{\$}} \right]$$

While considering these changes, the new price can be expressed as follows:

$$\mathbf{Y}_{EAp} = \left[ \left( \frac{S_{-1}^{\$} - S_{0}^{\$}}{S_{0}^{\$}} \right) \times \left( \Delta S_{EAc}^{\$} \right) + \left( \frac{S_{0}^{\$} - S_{-1}^{S}}{S_{-1}^{\$}} \right) + 1 \right] \times \left[ \frac{\mathbf{Y}_{OICp} S_{EAc}^{\$}}{S_{OICc}^{\$}} \right] + C + P + \varepsilon$$

7. Change of all factors concurrently (prices, value of US dollar in both market)

$$D_{OICc}^{\$} + D_{lm}^{OICc} + D_{EAc}^{\$} = \left[ \left( \frac{S_{-1}^{\$} - S_{0}^{\$}}{S_{0}^{\$}} \right) \times \left( \Delta S_{EAc}^{\$} \right) \right] + \left[ \left( \frac{EP_{OICc} \div S_{OICc}^{\$}}{OP_{\$}} \right) \times \left( \Delta S_{EAc}^{\$} + \Delta S_{OICc}^{\$} \right) \right] + \left[ \frac{S_{0}^{\$} - S_{-1}^{\$}}{S_{-1}^{\$}} \right]$$

After considering changes in the three factors, the new price can be modeled as follows:

$$\mathbf{Y}_{EAp} = \left\{ \left[ \left( \frac{S_{-1}^{S} - S_{0}^{0}}{S_{0}^{S}} \right) \times \left( \Delta S_{EAc}^{S} \right) \right] + \left[ \left( \frac{EP_{OICc} \div S_{OICc}^{S}}{OP_{S}} \right) \times \left( \Delta S_{EAc}^{S} + \Delta S_{OICc}^{S} \right) \right] + \left[ \frac{S_{0}^{S} - S_{-1}^{S}}{S_{-1}^{S}} \right] + 1 \right\} \times \left[ \frac{\mathbf{Y}_{OICp}S_{EAc}^{S}}{S_{OICc}^{S}} \right] + C + P + \varepsilon$$

## 4. RESULTS AND DISCUSSION

# 4.1 Results

Whiling using the pricing models developed in the methodology section, the results of all possible scenarios are reported here. In the hypothesized findings, a good is assumed to be imported from OIC exporting economies to East African OIC countries. If the seven potential scenarios are employed to incorporate the potential changes of the three factors, the following price change will take place. This is based on the assumption that goods are imported from an OIC exporting economies whose national currency is different from US dollar. While assuming hypothetical good, this paper assumes that one unit of good is traded between OICc1800 and OICc2000 depending on the exporter's domestic market. On the other hand, \$1 is traded between OICc38 to OICc28 depending on the historical rates of exporter's foreign exchange market, while \$1 is traded between AEc12,000 to EAc34,000 on the basis of East Africa's historical exchange rates. This scenario analysis is based on an assumption that traders from East Africa continue importing goods from their OIC trading partners regardless of changes in commodity and currency markets. For this analysis, the cost, profit and risk reduction rates are ignored.

# 4.1.1 Normal Situation: Original Price

Other things being equal, the price of the hypothesized good will be in OIC East African countries about **568,421** in East African currency. In terms of US dollar, this price is equivalent to **\$47.37**.

$$Y_{EAp} = \left[ \frac{1800}{38} \times 1200 \right] = EAc568,421$$

# 4.1.2 Scenario I: Change of the Price of the OICTP Goods (from 1800 to 2000)

While assuming the basic prices have changed in exporter's local market, East African traders will be affected by this change and it will be incorporated in East African local markets. This change is captured in the following pricing model:

$$Y_{EAp} = \left[1 + \frac{200 \div 38}{47.37}\right] \times \left[\frac{1800}{38} \times 12000\right] = EAc631,579$$

As shown in the above model, the price will be **631,579** of OIC currency, which is equal to **\$52.63**. Analytically, OICTP local consumers will pay OICc2000 (11%) whereas the price of the same product in East Africa will also go up by the same percentage (11%) due to the price changes in the original/source market. Assuming a constant exchange rate, it can be inferred from the analysis that the 11% price increase affects all economies that import from these countries, thus, everyone will pay the additional price rise. This concludes that the price rise in an exporting country will be imported to all of its trading partners.

# 4.1.3 Scenario II: Change of the value of US dollar in the Exporter's market

In the second scenario, the value of US dollar changes in the market of the OIC exporters. This change will affect the pricing model in East Africa as the change is incorporated. As shown in the model below, the new price will be 771,429 and \$64.29 East African and US currencies respectively.

$$Y_{EAp} = \left[1 + \frac{38 - 28}{28}\right] \times \left[\frac{1800}{38} \times 12000\right] = EAc771,429$$

Mathematically, East Africans will pay 36% additional to the price paid by the people in OIC exporters. This happens when the value of dollar devaluates against OIC exporters' currency. Furthermore, while the value of a US dollar in East Africa remains the same, East African consumers pay more due to the usage of US dollar as a medium of trade exchange. This implies the inflation of the US dollar is imported into East African OIC states even if the price of goods and currencies in OIC states are stable.

# 4.1.4 Scenario III: Change of East African Currency

This scenario assumes the value of US dollar is changed in East African OIC states from 12000 to 34000. If such scenario takes place, the new price will be **EAc1,610,526** with an equivalent to \$47.37.

$$\mathbf{Y}_{EAp} = \left[ 1 + \frac{34000 - 12000}{12000} \right] \times \left[ \frac{1800}{38} \times 12000 \right] = EAc1,610,526$$

As shown in model 4, the price of the imported goods will change due to devaluation of East African currency against US dollar. The price of the imported goods will go up in East Africa by 183%, while its price remains the same in the exporter's Market. East African consumers are facing this challenge due to the devaluation of their domestic currency.

# 4.1.5 Scenario IV: Change of Prices and value of USD in Exporter's market simultaneously

In this scenario, two factors are assumed to be changing simultaneously. The price of the hypothesized good changed from 1800 to 2000 and the value of US dollar changed from 38 to 28. If prices of the goods

and value of US dollar happen to change concurrently in the exporter's market, the price of the imported goods in East Africa is anticipated to be about 857,143 East African currency, which is similar to \$71.43.

$$\mathbf{Y}_{EAp} = \left[ \left( \frac{200 \div 38}{47.37} \right) \times \frac{38}{28} + \left( \frac{38 - 28}{28} \right) + 1 \right] \times \left[ \frac{1800}{38} \times 12000 \right] = EAc857,143$$

Both the value of US dollar and price of goods have changed in exporter's market but the value of US dollar in East Africa remains the same. In this case, East Africans have to pay 51% extra price due to two effects: domestic price and exchange rate changes. Despite the fact that the price increase in exporter's domestic market is only limited to 11%, the price increased in East Africa by 51% due to the usage of US dollar as a medium of trade exchange.

4.1.6 Scenario V: Change of Prices in the Exporter's Market and value of USD in East African
If the price of the hypothesized good changes in the exporter's market from 1800 to 2000 and the value of
US dollar changes in the East African markets, the new price will be EAc1,789,474 with an equivalent
USD of \$52.63.

$$\mathbf{Y}_{EAc} = \left[ \left( \frac{200 \div 38}{47.37} \right) \times \left( \frac{34000}{12000} \right) + \left( \frac{34000 - 12000}{12000} \right) + 1 \right] \times \left[ \frac{1800}{38} \times 12000 \right] = EAc1,789,474$$

After having assumed that East African traders will observe these changes, the price of the imported goods will go up in Africa by 215% while there is only 17% price increase in the exporter's market. This drastic change is driven by the drastic change in the value of USD in East Africa.

4.1.7 Scenario VI: Change of the value of USD in Exporter's Market and East Africa
Assuming the value of the US dollar changes in exporter's market from 38 to 28 and in East African market from 12000 to 34000, the new price is expected to be **EAc2,185,714**, which is similar to \$64.29.

$$\mathbf{Y}_{EAp} = \left[ \left( \frac{38 - 28}{28} \right) \times \left( \frac{34000}{12000} \right) + \left( \frac{34000 - 12000}{12000} \right) + 1 \right] \times \left[ \frac{1800}{38} \times 12000 \right] = EAc2, 185, 714$$

If the value of the dollar changes in the two markets, the pricing model will change and the new price for the same product will change. Due to this change, consumers in East African will pay 285% additional money. More interestingly, African people pay 285% additional money on the same product, while its price remains unchanged in exporter's markets. Thus, the use of US dollar as a medium of exchange is causing such drastic changes to the intra-OIC trade.

4.1.8 Scenario VII: Change of all factors (price, value of USD in OICTP and East Africa)
This scenario simulates a case in which the three factors change. Price of the goods change from 1800 to 2000, value of US dollar changes in the exporter's market from 38 to 28, and the value of US dollar change in East Africa from 12000 to 34000. If such changes takes place, the new price will be EAc2.428.571, which is equal to \$71.43.

$$\mathbf{Y}_{\mathit{EAp}} = \left\{ \left[ \left( \frac{38 - 28}{28} \right) \times \left( \frac{34000}{12000} \right) \right] + \left[ \left( \frac{200 \div 38}{47.37} \right) \times \left( \frac{34000}{12000} + \frac{28}{38} \right) \right] + \left[ \frac{34000 - 12000}{12000} \right] + 1 \right\} \times \left[ \frac{1800}{38} \times 12000 \right] \pm 3\% = \mathit{EAc2}, 428, 571$$

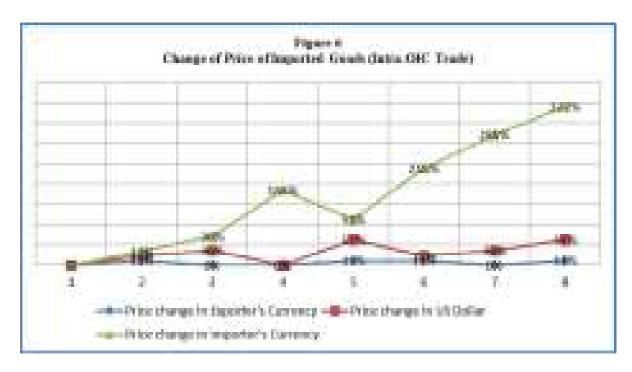
If the changes of all factors are considered, the price of the product will change in East African markets. Due to changes in both East African markets as well as the exporter's market, the price increases from

**568,421** to **2,428,571**(327%). Apart from 11% that is caused by the exporter's domestic inflation, the remaining 316% is caused by the fluctuation of the US dollar. It can be argued that East African consumers are victimized because they are using US dollar as a medium of trade exchange.

## 4.2 Discussion

As shown in the hypothesized results of the pricing model developed in this study, it is obvious that prices of goods imported from OIC trading partners to East Africa might go up without any price increase that takes place in the source market. After having analyzed the seven scenarios, the study found the following imperative results: firstly, due to exchange rate fluctuation, prices of goods imported from OIC trading partners rise in East African markets while the prices of the same goods are stable in the exporter's market. Secondly, prices of goods imported from OIC trading partners will go up in East Africa if the prices of the same goods increase in the exporter's domestic market. The price rise observed in exporter's market and imported to East Africa can come from a local economic shock or an external shock that is transmitted to the exporter's market by international markets. Thirdly, the study identified that prices of goods traded within OIC member states may change due to a change in the value of US dollar in the exporter's market. Again, this change can take place due to an economic strength recorded in the exporter's domestic economy or a general depreciation facing the US dollar worldwide. Fourthly, this study argues that prices of goods traded within Muslim world may increase due to changes that are taking place in importer's market. For example, the value of US dollar may change in Somalia or Uganda due to either domestic factors or externally transmitted factors.

Figure 6 shows that prices of goods imported from OIC trading partners can extremely go up in East African OIC states indicating that prices in these markets do not follow all times the prices of its trading partners. This is due to the use of US dollar as a medium of trade exchange. In the seventh scenario, the price of good increases in East Africa by 285%, while it is price is unchanged in the exporter's market. If the three factors happen to change, the price will go up in the importer's market by 327% and in the exporter's market by only 11% because US dollar do not determine the domestic prices of the exporter's market. Due to exchange rate mismatches, prices do not go down in East Africa when it's going down in the exporter's market.



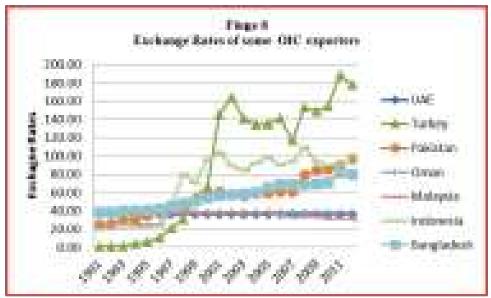
As figure 7 shows there is an exchange rate mismatch among OIC member states, which indicates there is no comovement between exchange rates of OIC states and its trading partners. This is another important phenomenon as this exacerbates the case of using US dollar as a medium of trade exchange. It is observed that sometimes East African currencies (such as Somali shilling) are losing against USD while the currencies of its trading partners are gaining against USD leading into more price increase in the local market. Alternatively, such events are making OIC goods less competitive in East African markets.



Source: SESRIC

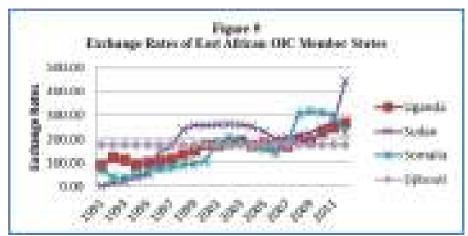
On the other hand, figure 8 indicates that currencies in OIC exporting economies are not commoving and each currency behaves on its own pattern. This also shows that goods imported from these countries will have different prices in East Africa if such trend persists. The trend of the currencies of these countries

points out that trade within these economies will also suffer from the same currency conundrum as long as US dollar is used as a medium of trade exchange. Nevertheless, the trend of currencies in OIC exporting economies illustrate that using US dollar as a medium of exchange in intra-OIC is not contributing to the strategies of OIC and to the objectives of an Islamic economic system.



Source: SESRIC

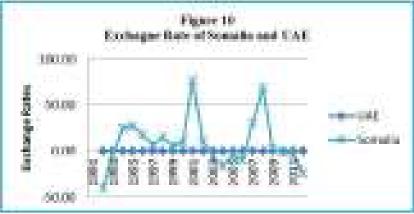
Equally, currencies in East Africa OIC states are valued in US dollar differently. As shown in figure 9, except for Djibouti, East African OIC currencies do not commove; thus, goods imported from an OIC trading partner is priced different in every country depending on the volatility of domestic currency against US dollar. This implies that trade within East African OIC economies is also suffering from currency conundrum because the value of US different differs among these countries.



Source: SESRIC

Someone may argue that the assumptions of this paper are not realistic as it is assuming something that is oddly happen. Nevertheless, the available historical data shows that the assumptions of this paper are not unrealistic. The real data shows that value of US dollar is changing in the exporting economy, whereas the same change is not followed by importing economy and the opposite is true. Figure 10 shows that the value of US dollar in Somali behaves different from the value of US dollar in United Arab Emirates (one

of Somalia's trading partners). As shown in figure 11, similarly, the value of US dollar behaves differently in Bangladesh and Somalia. This shows the existence of a significant currency mismatch between Somalia and its trading partners.



Source: SESRIC



Source: SESRIC

Similar to the currency mismatches between Somalia and its trading partners, there is also a significant currency mismatches between Uganda and its OIC trading partners (Turkey and Oman) as shown in figure 12 and 13. This provides an evidence of how OIC economies in East Africa are suffering due to the use of US dollar as a medium of trade exchange.



Source: SESRIC



Source: SESRIC

The same currency conundrum is suffered by the trade between Pakistan and Djibouti in one side and Sudan and Bangladesh on the other side. As illustrated in figure 14 and 15, the value of US dollar in the exporting country does not match the one in the importing country, which contributes the existence of big price gaps between the exporting and importing markets.



Source: SESRIC



Source: SESRIC

The data shown in these figures illustrates that volatility of exchange rates differ between East African OIC economies and its OIC trading partners. While the value of US dollar appreciates in East African, it value is going down in OIC exporting economies or there is no changes in the value of US dollar while it is changing in East Africa. This partially explains the reason behind the huge price gabs between East African markets and their trading partners. All these mismatches are directly affecting the prices of imported goods as the dollar is used as a medium of trade exchange. This makes US dollar a vital determinant of prices of goods traded among OIC member states

# 4.3 Policy Implications

This study has imperative policy implications to OIC economies because the existence of huge price gaps among OIC member states exacerbates the trade relations among these countries. This is also a big challenge to the accomplishment of OIC targets. OIC has established several frameworks to strengthen intra Islamic economic and trade cooperation, which is expected to facilitate the establishment of as Islamic common market (Kusuma, 2010). Nevertheless, if such currency conundrum persists among OIC member states, the achievement of trade and economic cooperation will be impossible. On the other hand, it has been observed that the victims of such drastic price changes are the consumers rather than traders because in most case traders adjust the prices and they let the public feel the pain. Since exporting and importing economies of OIC do not know the monetary policies guided by the US dollar, they cannot have any contribution to its stability.

To achieve its goal of strengthening economic and trade cooperation in the Muslim world, OIC should come out with strategies to overcome such currency conundrum among OIC member states and develop a medium of exchange that is suitable to intra-OIC trade. Likewise, countries in the Muslim world should find a solution for this matter to achieve the central goals of an Islamic economic system. Finding a suitable solution for this matter is beneficial to both exporting and importing OIC economies. Importing OIC economies can achieve stable prices, while goods of the exporting OIC economies will become more competitive in the importing economies such as East Africa.

# 5. CONCLUDING REMARKS

The purpose of this paper was to examine the impact of using US dollar as a medium of trade exchange among economies in the Muslim world (OIC member states). The findings suggest adoption of US dollar as a medium of trade exchange among OIC member states has an adverse effect on the prices of goods exported to East African OIC economies. The use of US dollar as a medium of trade exchange among OIC countries does not promote the intra-OIC trade and consequently OIC member states cannot achieve a greater economic and trade cooperation. OIC member state should find a suitable solution for this matter. Achieving such kind of solution is important for both exporting and importing economies. Importing economies will achieve relative price stability, while exporting countries will gain competitive advantage in the importer's market.

# 6. LIMITATIONS AND FUTURE STUDIES

There are some limitations that should be addressed by future studies. Firstly, as this study employed only 11 OIC member states (seven exporting and four importing), future studies should increase the sample of both exporting and importing countries. Secondly, this study has only modeled for the exports to East African OIC states but future studies should also model exports from East African OIC states to other OIC countries. Thirdly, future studies should also examine goods imported from an OIC country and then exported to a third country, which might increase the number of currencies involved. Lastly, future

studies should examine the real prices of the goods traded within OIC member states and how they are fitted in these models.

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# IMPACT OF TURKEY'S ZERO PROBLEM POLICY UPON TRADE WITH THE NEIGHBORING ISLAMIC COUNTRIES AND COMPARISON WITH THE PREFERRED TRADE BLOCS: AN EMPIRICAL ANALYSIS 1992-2011

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#### ABSTRACT

Turkey holds a special place in one of the most strategic regions in the world and connects the European and Asian continents. It also has important advantages in terms of commercial activities thanks to naval transportation facilities to the North African countries. Despite the geographical advantages, its trade with the neighboring countries has remained limited up to early 2000s. One of the primary reasons for this lack of improved trade is the failure in the Turkish foreign policy to focus on the Middle Eastern countries due to its traditional policy of Westernization. Since the remarkable changes in the identity of Turkish foreign policy and adoption of the zero-problem policy with the neighboring countries, trading activities have intensified and Turkey has improved its economic relations with the Islamic countries in the last decade. The global economic crisis that erupted in 2007 in the US has influenced almost the entire European continent whereas its impacts have remained limited upon Turkey thanks to its improved ties with the Middle Eastern countries. However, the developments associated with the Arab Spring process have led to serious criticisms towards the zero-problem policy. Turkey has been negatively influenced by the process as evidenced in the decline in the volume of trade with these countries. The trajectory of the developments in the years to come remains unclear. However, the general conviction tells that the people will become more assertive and decisive in the political stage in Arab countries and this will boost economic demand in the region, serving the economic interests of Turkey. This study examines the impacts of the zero-problem policy upon Turkey's economic relations with the Islamic countries and further analyzes the economic consequences of the future political developments.

**Keywords**: Zero problem policy, foreign trade with border neighbor islamic countries, Turkey

# 1. INTRODUCTION

Since late period of the Ottoman Empire, Turkey has been impressed by the economic development in the Western countries; in consideration of this, Turkey has adopted a policy of Westernization in an attempt to attain similar economic success and performance. The young republic which turned to the Western world in an effort to benefit from its technological and economic advantages maintained loose relations with the Islamic countries despite historical and cultural ties. The weakened political relations also led to decline in the economic relations as well. However, advanced Western states have huge amount of trade with their neighboring countries. They even create regional and international trading blocs and zones to improve the economic and trade ties.

Up to early 2000s, the trade with the neighboring countries, particularly the Arab and Islamic countries has remained limited. Even the border trade with the Islamic countries, rich of

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global energy and raw material resources, was limited. Turkey which has been trying to improve its relations with the neighboring countries in recent years has taken significant steps to enhance the commercial relations. Visa requirements were lifted with many Arab countries; measures were taken to enhance the tires with the peoples in the region. This change in the foreign policy style influenced the trade volume with these countries. The EU countries hold an important place in Turkey's exports. Half of the exports is made to these countries. The economic uncertainty in the EU zone becomes a graver issue, raising serious doubts on the viability of the EU as one of the most important successes in the history of global integration. The EU countries are currently experiencing serious political and economic problems (Ustaoğlu, 2013). It does not seem possible that they would preserve their common currency and adopt a common fiscal policy in the near future. The ongoing recession in the EU negatively affects Turkish economy. On the other hand, the Arab Spring that started with the popular uprising in Tunisia and Egypt remains the biggest obstacle before achievement of stability in the Middle East. The uprisings which led to regime changes in many Islamic countries revealed the fault lines between the communities in these countries. The recent developments that concern Turkish foreign policy including the growing tension with Israel, the situation in Syria and the worsened relations with Azerbaijan raise discussions and questions on the effectiveness of the zero-problem policy approach. It is apparent that the ongoing political instability will inevitably influence the economic relations as well.

#### 2. LITERATURE REVIEW

# 2.1 Turkey's political relations with the neighboring Islamic countries

Turkey's political relations with the neighboring Islamic states have historically been timid. It could be argued that Turkey's Western orientation in the Cold war era was the main reason for Turkey's indifference to the Islamic world and the MENA region (Çakmak & Güneysu, 2013). This state of indifference could be linked to the security concerns that Turkey held back then. These concerns could only be addressed by involvement in Western institution and alliance. As a result of this choice, Turkey generally remained reluctant to interact with the neighboring states.

However, this started to change in the 2000s for several reasons. The primary reason is the radical change in the priorities and content of Turkish foreign policy. This change does not refer to an axis of change; but it is of course visible that Turkey has adopted a new style of policy which now recognizes the importance of its near abroad and of the Islamic world as well. Another reason for this change is Turkey's ambition to broaden its set of relations. In the new approach, Turkey understands that it is important to act as a strong state that is able to mediate in the regional problems and also have good relations with the West at the same time. As a result of this new approach, the neighboring states gained importance in Turkish foreign policy. This led to strong ties of friendship and cooperation in many fields.

# 2.2 Zero problem policy

The zero problem policy seeks to change the mutual perceptions between Turkey and its neighbors in respect to security threats and concerns. A similar pattern is being followed in the policies devised in line with this overall goal and purpose. For this reason, joint cabinet meetings were held with the participation of Turkish delegation and the respective neighboring state representatives. The joint cabinet meetings as well as the high level cooperation councils created in the relations with the neighboring states could be seen as ambitious steps to change the mutual perceptions held by the two parties in respect to the

threats posed by each other and replace them with a new perception of cooperation and friendship in the field of diplomacy, politics and economy (Abramowitz & Barkey, 2009). In case this is achieved, the complex bilateral issues will also be resolved eventually. This is the overall idea of the zero problem policy (Kirişçi, 2011).

At this point, the psychological impact of such attempts upon the administrators of the neighboring states is pretty important. To this end, no particular attention is paid to specific bilateral issues in the type of relationship that emerged around this pattern because it is obvious that problem-oriented approach has not obviously worked properly. Unlike this traditional and conventional approach, a new style seeking to build confidence and focusing on common economic interests is being devised within the framework of zero problem policy. This has been the main difference and new item in the Turkish foreign policy in the new era (Abramowitz & Barkey, 2009).

The zero problem policy should be evaluated from this perspective. Of course, this approach does not seek to resolve the problems by focusing on the problems themselves. On the contrary, this seeks to achieve a serious and dramatic transformation in the bilateral relationships with respect to the content of the external relations through confidence-building measures and moves that would address the current threat perceptions.

# 2.3 Turkey's economic relations with the neighboring Islamic countries

The introduction of zero problem policy has been extremely influential in the foreign policy making in Turkey. By virtue of the change associated with this new style of policy making, Turkey's relations have gone through radical transformation. This has been particularly visible in the economic relations with the neighboring countries. The announcement of zero problem policy has been promising for many states in the area; the policy has built confidence between Turkey and the neighboring countries. This was reflected in the change of the composition of the economic relations and in the increased amount of foreign trade volume between Turkey and its neighbors. The impact of the zero problem policy upon Turkey's economic relations with the neighboring states has been radical (Abramowitz & Barkey, 2009). While the EU has been the main foreign trade partner of Turkey up until 2000s, this started to change in the aftermath of the introduction of the zero problem policy and Turkey's opening to the Middle East. The overall share of the Middle East states in Turkey's foreign trade has dramatically increased in the period where the zero problem policy has been implemented whereas the share of the EU has visibly declined. Even though this could be partly attributed to the economic crisis in the EU region, the influence of the zero problem policy should also be acknowledged.

The business associations and private sector players have been the major drivers in the change where Turkey's trade with the MENA countries has increased. However, the role of the state in this change should also be considered for analytical purposes. The state created high level cooperation councils that would facilitate interaction between players from different backgrounds in both Turkey and the neighboring states.

# 3. METHODOLOGY AND DATA COLLECTION

# 1.1. Research Goal

The purpose of this study is to examine Turkey's foreign policy vis-à-vis the neighboring Islamic countries in recent years and analyze the reflections of this foreign policy style upon economic relations. The period between 1992 and 2011 will be empirically tested. Due to lack

of data on the foreign trade volume of neighboring Islamic countries of Turkey, only quarterly terms were included in the tests.

**Table 1: ADF Unit Root Test Results** 

			Level	First Different		
Variable		intercept	trend & intercept	intercept	trend & intercept	
azm		-2.083569	-2.842684	-9.277.613	-9.226664	
azx		1.741706	-0.484216	-3.088.762	-3.640648	
irm		0.624761	-1.215616	-8.409.490	-3.420180	
irx		2.154540	4.270169	-13.06651	-14.03804	
surm		-4.551070	-4.993641	-12.24.313	-8.889854	
surx		0.727278	-1.067480	-10.84.967	-11.11083	
turm		0.071956	-2.016857	-4.814.478	-5.017836	
turx		0.569671	-1.843050	-18.43.050	-6.252480	
Critical	%1	-3.515536	-4.078420	-3.516676	-4.080021	
Value	<b>%</b> 5	-2.898623	-3.467703	-2.899115	-3.468459	
, 42.20	<b>%10</b>	-2.586605	-3.160627	-2.586866	-3.161067	

#### 3.2. Data Collection

The statistical data used was collected mainly through internet sources: the Turkish governments' official statistical webpage TurkStat (Turkey's import and export to the Azerbaijan. Iran and Syria quarterly period of 1992-2011), The World Bank (Real GDP growth of Turkey, Iran, Azerbaijan and Syria quarterly period of 1992-2011) and Central Bank of Turkey (Turkey's foreign trade volume and real GDP growth quarterly period of 1992-2011) web data catalogs.

# 3.3.1 ADF Unit Root Test

The ADF unit root test results reveal that not all variables are static at level; however, they are static at 5 pct of significance level at first different. It is observed that all series are I(1) and that they are static at the same level.

Test results also tell that unit root should be considered because the Toda-Yamamoto test tests the causality in the series that static at the first degree; and there is no need for co-integration between the series. For this reason, whether or not the series are co-integrated is not investigated in the paper.

# 3.3.2 Toda-Yamamoto Causality Analysis

Toda-Yamamoto (1995) show that the result of this test used for the Granger causality test may not be applicable since the traditional F-statistics cannot have standard distribution in case where the series are not static in the system (Yavuz, 2006; Toda & Yamamoto, 1995). The causality relationship between the series was first tested by the Granger (1969) causality test. Because the causality test developed by Granger was implemented by Sims (1972), it was called Granger-Sims causality test. It was observed that the Toda-Yamamoto (1995)

enhanced the causality tests; it has been popularly used in many articles and studies since then.

In periods where Granger (1969) causality test was used, the level values of the series were included in the models because no attention was paid to the notion of static. However, many studies proved that most macroeconomic series were not static at the level. On the other hand, Granger and Newbold (1974) show that in case the series are processed in their non-static standing, fake regression problem may be encountered and therefore the regression results may not show the reality.

The regression analyses run with the non-static time series may only reflect a genuine relationship if there is a co-integration relationship between these series. F test may be used in the testing of the causality in the error fixing model which is a restricted VAR model. In this causality test developed by Engle and Granger (1987), the condition that the series where causality relationship will be investigated should be co-integrated makes this test dependent upon the co-integration tests.

Table 2: Toda-Yamamoto Causality Analysis Results

Table 2. Four Tanamoto Causanty Tanaysis Results								
Variables (H <sub>0</sub> hypothesis)	X <sup>2</sup> statistics	prob	result					
$TURX \rightarrow AZM$	51.61	0.0000	Ho rejected					
TURX→ AZX	73.45	0.0000	Ho rejected					
TURX→ IRM	23.13	0.0052	Ho rejected					
$TURX \rightarrow IRX$	22.48	0.0063	Ho rejected					
$TURX \rightarrow SURM$	11.222	0.1540	Ho accepted					
TURX→ SURX	5.384	0.6154	Ho accepted					
TURM→ AZM	30.001	0.0008	Ho rejected					
TURM→ AZX	56.25	0.0000	Ho rejected					
TURM→ IRM	39.29	0.0001	Ho rejected					
TURM→ IRX	37.72	0.0004	Ho rejected					
TURM→ SURM	10.571	0.1831	Ho accepted					
$TURM \rightarrow SURX$	5.569	0.5908	Ho accepted					

The test results depicted at the table show that there is no causality between Turkey's exports and Syria's imports and exports. In addition, there is no causality relationship observed between Turkey's imports and Syria's imports and exports. The political stability in 2000s had positive impacts upon Turkish economy. Turkey's competitiveness increased in the aftermath of the customs union agreement in 1996 in international arena. The amount of exports to Iran and Azerbaijan has increased as a result of the improved political relations. Iran and Azerbaijan have become visible beneficiaries of the trade relations with Turkey because of oil and energy exports. Turkey's energy need grows because of the growing industrial production; Turkey acquires a substantial part of its energy materials from Iran and Azerbaijan. The zero problem policy contributed to the transportation of the oil and natural gas via the pipelines to the EU countries over Turkey. In the exports and imports with Syria, a growth in parallel to the real GDP growth is observed. Syria has no oil or natural gas resources. For this reason, the volatility in the global oil prices in 2000s positively affected Iran and Azerbaijan whereas this did not lead to any contribution to Syria's economic performance. Despite overall increase in its foreign trade volume, Turkey's bilateral trade with Syria did not show a similar trend. The primary reason for this is lack of import items in

Syria that Turkey needs whereas Turkey does not have a lot to export to Syria. The zero problem policy of Turkey has positively affected the volume of trade with the neighboring countries up until the Arab Spring. However, the recent political crisis with Syria will inevitably deteriorate the trade relations between Turkey and Syria.

In 1995, Toda and Yamamoto developed a causality test by using the VAR model whose delay was enhanced. There was no co-integration relationship between the series in this test; however, it was sufficient to know the degree of the maximum integration level of the variables in the model and to identify the model properly. In this study, the bilateral trade between Turkey and its neighboring countries including Azerbaijan, Iran and Syria were investigated. The trade relations between Turkey and Iraq were suspended due to the embargo imposed after the Gulf War; for this reason, the bilateral trade volume with this country was considered zero and was not included in the scope of the study. In this study, Granger (1969) and Toda-Yamamoto (1995) causality tests were used to analyse the relationship between the imports and exports, and the size of foreign trade. Granger causality is sensitive at the static level of the series. Unless series are I(0), it does not yield to effective results. The Toda-Yamamoto test, on the other hand, is applicable regardless of the static levels of the series. For this reason, it is pretty useful and suitable.

The following equations may be taken as bases in the Toda-Yamamoto (1995) causality test:

$$Y_{t} = \alpha_{0} + \beta_{1i} \sum_{i=1}^{k} Y_{t-i} + \beta_{2j} \sum_{j=k+1}^{d_{\text{max}}} Y_{t-j} + \gamma_{1i} \sum_{i=1}^{k} X_{t-i} + \gamma_{2j} \sum_{j=k+1}^{d_{\text{max}}} X_{t-j} + \varepsilon_{1t}$$
(1)

$$X_{t} = \alpha_{1} + \lambda_{1i} \sum_{i=1}^{k} X_{t-i} + \lambda_{2j} \sum_{j=k+1}^{d_{\max}} X_{t-j} + \delta_{1i} \sum_{i=1}^{k} Y_{t-i} + \delta_{2j} \sum_{j=k+1}^{d_{\max}} Y_{t-j} + \varepsilon_{2t}$$
(2)

As evidenced by the equations above, expanded VAR equations were obtained by addition of expanded lags to the standard VAR equations. In this way, for the causality test, a VAR model at the degree of  $k + (d_{max})$  can be estimated. Here, k refers to the optimal lag length of the estimated VAR model whereas  $d_{max}$  to the maximum integration level of the variables in the model, in other words, to the maximum static level.

One important feature of this method offered by Toda and Yamamoto is that pre-estimation tests like unit root and co-integration were not necessary. In this case, the risk in connection with the error in identifying the integration level on the estimation of the model is minimized.

The following causality hypotheses are obtained by using the equations (1) and (2):

For equation (1);

 $H_0$  hypothesis:  $\gamma_{1i} = 0$  (X is not cause of Y)  $H_a$  hypothesis:  $\gamma_{1i} \neq 0$  (X is cause of Y) For equation (2);

 $H_0$  hypothesis:  $\delta_{1i} = 0$  (Y is not cause of X)  $H_a$  hypothesis:  $\delta_{1i} \neq 0$  (Y is cause of X)

Here, a standard Wald test is applied by neglecting the coefficients corresponding to the lags added to the optimal lag length. The Wald test is calculated as follows:

$$W = \frac{SSR_R - SSR_{UR}}{SSR_{UR} / n}$$

If the calculated  $X^2$  statistics is greater than table value or the prob value is smaller than the significance level, the zero hypothesis is rejected. In this case, there is causality relationship between two variables. Its graphic depiction is  $X \to Y$  and X variable is the cause of Y.

The stages of the test take place as follows:

- First, the series are subjected to the static (unit root) test. From this, the highest level of integration level of the series  $(d_{max})$  is obtained.
- At the second stage, standard VAR analysis is run. The lag which displays normal distribution without auto-correlation and changed variance is identified as optimal lag. This lag is referred to as "k" in the literature.
- At the third stage, "k+ d<sub>max</sub>" delayed expanded VAR model is predicted.

Finally, causality tests are run via the expanded lag VAR model. The coefficients in the causality analysis are subjected to the Wald test. However, not all coefficients but the coefficients of the standard VAR model are subjected to the WALD test.  $X^2$  statistics and the prob value are calculated.

# 4. CONCLUSION

The 1990s are referred to as wasted years in Turkey due to many chronic political and economic problems and their repercussions. The public investments stopped; huge problems were experienced with the neighbors; and economic crises erupted because of the populist policies in connection with political problems and political instability. No political stability was achieved in the 1990s; and Turkey was governed by coalition governments. Because these governments acted like short term election administrations, no strong

measures that would be proper for long term were taken to address prominent political and economic problems. This led to grave economic crises in following years. The financial crisis in 2001 has been particularly disruptive and harmful to Turkish economy; in the first election held after the crisis, the political parties represented in the government were unable to gain representation in the parliament. The most important development that affected Turkey's economic performance in the 1990s was the customs union agreement signed in 1996. By this agreement, the national economy started to renew its industry and production items and went through a process of structural change. Even though many firms have experienced serious problems at the beginning in respect to the strong competitiveness, they have gone through a process of transformation from labor-intensive production to capital-intensive production thanks to technology transfer. Many exporting sectors of Turkey have achieved structural transformation and accomplished high level of efficiency and productivity. The increased productivity and efficiency enhanced competitiveness and increased the amount of exports. The textile sector, one of the most important export sectors in the 1990s, was replaced by the automotive sector in 2000s.

For Turkey, the general elections in 2002 represented a turning point. The single party administration that won a landslide election in the election maintained political stability; this facilitated the decision making that was extremely important and relevant to the identification of economic problems vital for the national economy. Thanks to the strong measures, the amount of exports increased to \$135 billion in 2007. The crisis in 2007 negatively affected the United States and the European Union; Turkey barely experienced the impacts of the crisis thanks to the opening to the new markets in foreign trade.

Turkey which had minimal interaction with the neighboring countries in 2000s; as a result, the level of foreign trade with these states remained at low levels. However, in the aftermath of the zero problem policy with the neighboring countries, the size of foreign trade with these countries rose as a result of bilateral trade agreements. Iran and Azerbaijan, net exporters of oil and natural gas, were positively influenced by the fluctuations in the energy prices and price increases in these commodities. For this reason, the contribution by the partnership agreements with these two countries has been great to the bilateral trade with Turkey. It is observed that the demand for the Turkish goods in these countries has been on rise in the last decade. Turkey's neighboring countries face serious political and economic problems. Turkey is the most stable and economically strongest state in the region. For this reason, Turkey's foreign trade volume with the neighboring countries has been on the rise

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# INCIDENCE OF HEALTH SERVICES ON DIFFERENT INCOME GROUPS IN PAKISTAN

Badshah Nawab<sup>1</sup>

#### **ABSTRACT**

This study investigates the incidence of health services on different income groups in Pakistan using HIES data set 2001-02. This study uses Kienzle (1981) index to measure the incidence of such services for overall Pakistan its rural-urban segments and four provinces of Pakistan. The findings of the study are that health services are pro-poor employing that the lower income classes enjoy the benefits which can hopefully improve the relative income positions of the beneficiaries. This study further confirms the previous results by estimating Gini index of gross income and after adding the health services expenditures. The results are bootstrapped in order to build confidence intervals for the estimated indices as the interval estimates are reliable for policy prescriptions.

**Keywords**: Incidence, public goods, government expenditure on health.

#### 1. INTRODUCTION

Income inequalities do prevail almost in every society with in a variety of degrees. It stems social disharmony among people. In this regard it is the responsibility of every welfare state / government to generate sufficient revenues and also to cater for the needs of lower income groups in order to bring harmony among people. Negative income taxation and /or transfer payments such as infaq money are the ways to address this problem. To supplement the efforts mentioned above the basic social services provided to people such as health due to which the relative income position can be improved.

The main issue is to trace / pinpoint the beneficiaries of this social service which needs distributional analysis in the economy of Pakistan. If these social benefits accrued to the lower income strata are progressive, then their relative income position can definitely be improved. Several indices have been implied in the literature like Kienzle (1984) following the widely used tax distributional index of Suits (1977) which are based on Lorenz Curve and Gini Coefficient. The empirical work on this theme in developed and developing countries are Kakwani (1976), Reynolds et.al (1977), Paul (1991), Seldon et.al (1992), Devarajan et. al (1995), Vanquez- Martinz (2001), Pinar (2004), Johannes (2005) and Berg (2005) who have different methodologies to analyze fiscal incidence and / or education and health benefits incidences on different income classes. The estimates of these indices shall exhibit progressivity or regressivity for overall Pakistan, its rural-urban segments and of four provinces. The estimated values of the index are point estimates which are hardly beneficial for policy purposes. This problem can be handled by constructing the standard errors of the estimated index values for all the region of analysis in order to build confidence interval at a reasonable level of significance.

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The organization of the study is as follows:

Following introduction, Section II outlines methodology of the study. Section III describes data sources while Section IV elaborates the results and discussions. Lastly two appendices and references are placed.

#### 2. METHODOLOGY OF THE STUDY

The methodology adopted for the allocation of health expenditures to individuals who are actually receiving these benefits is taken from the HIES data 2001-02. The data on health per unit cost for all the regions of analysis are taken from Sustainable Policy Development Centre (SPDC) Karachi 2001.

The net income distribution is constructed by applying the following methodology.

Net or Adjusted Income of the Household = Household's Market Income + (All Government Spending on health – All Tax Burdens)

The beneficiaries are traced and the allocations are made according to the level and regional classification.

Similarly the health expenditures are allocated by using the following expression:

$$XH_{i} = \sum_{j=1}^{6} HH_{i} \left( \frac{EH_{j}}{TP_{i}} \right) * W_{j}$$

Where  $XH_i$  equals the amount of expenditures / benefits on health received by i<sup>th</sup> household; where the household consists of age-wise distribution of individuals at different levels.  $EH_j$  stands for total public expenditures on health on j<sup>th</sup> age group and  $TP_j$  is total number of patients in j<sup>th</sup> age group in a particular region;  $HH_i$  is the i<sup>th</sup> household member of being patients who attend public hospitals for treatment.  $W_j$  stands for weight for j<sup>th</sup> age group. In addition, residents less than ten years and above sixty years old and females with in the age limit of fifteen to fifty years have been allocated double weight. The weight for male/female patients below the age of ten and above sixty years and females within the age group of fifteen years to fifty is double as they are more vulnerable to diseases. (According to recent World Health Organization (WHO) report the reproductive age of females are between 15 to 49 years. So it justifies our weight structure that they face more health problems during this age group). While male within the age group between ten and sixty and females within the age group between ten to fifteen year and above fifty

to sixty year are given single weight. Note that  $\frac{EH_j}{TP}$  is the unit cost per patient at different regional levels e.g. at overall and provinces levels.

# 2.1 DATA SOURCES

The data used in this study is known as Household Income and Expenditure Survey 2001-2002, which is conducted by the Federal Bureau of Statistics having sample size of 14767. The benefit of this type i.e., micro data is an ideal option that enables a researcher to manipulate the data according to the need of the research problem. In addition, micro data files contain weighting factors that are designed to obtain the nationally representative estimates of population. Tax rates on customs duty, central excise, and sales tax rates are taken from CBR sources. The income tax rates are implied from the notifications for various income brackets of Ministry of Finance Government of Pakistan for the two years 1992-93 and 2001-02

with the information that Rs.50, 000 in 1992-93 and Rs.80, 000 was exempted from the tax.. The information whether a good or service is taxed or otherwise is taken from CBR Year Book of the year 2001-02. The data on public expenditure provided by the government such as education are taken from the Demand for Grants at National and Provincial levels for the year 2001-02 and rates on health that is per unit cost of the provision of region wise health from the SPDC Karachi for the year 2001.

# 3. RESULTS AND DICUSSIONS

The results are reported in the following Table 1. The value of the Kienzle index is negative for all the region of analysis for both the government provided services. It shows that health is progressive which favor the low income classes in the year 2001-02. But the degree of progressivity differs across regions. For example health expenditures are also progressive throughout. These expenditures are strongly progressive in the Province of Sindh as the index value is -0.654 followed by Pakistan—urban. Overall Pakistan is number third followed by NWFP and Punjab. The second and third last regions according to progressivity are Pakistan-rural and the Province of Baluchistan.

# 3.1 CONFIDENCE INTERVAL FOR THE KIENZLE INDEXES 2001-02

TABLE.1: KIENZLE INDICES SHOWING PROGRESSIVITY OF HEALTH FOR THE YEAR 2001-2002

	Pakistan – overall	Pakistan - Rural	Pakistan - Urban	PUNJAB	SINDH	KPK	BALOCHISTAN		
Expenditure s	KIENZLEINDICES								
Health	-0.330	-0.280	-0.353	-0.299	-0.654	-0.307	-0.224		

Sources: Author's estimation by using HIES data 2001-02 and applying Kienzle index.

In Table 1 each value represent a single value or a point estimate which can hardly to be used for policy purposes, hence confidence intervals are built to make it more reliable estimates. The standard procedure which has been followed is known as bootstrapping contributed by Efron (1979). Table.2 reports the bootstrap results of the above mentioned estimates for the 2001-02.

TABLE.2: BOOTSTRAP RESULTS OF KIENZLE INDICES OF HEALTH FOR THE YEAR 2001-2002

Regions of Analysis		Pakista n – overall	Pakistan -rural	Pakistan – urban	PUNJAB	SINDH	KPK	BALOCHISTA N	
	Unit of analysis		KIENZLEINDICES						
	Bootstrap Estimated Kienzle Inde	0.090	-0.020	0.050	-0.030	-0.210	0.010	-0.020	
Н	Standard Errors	0.030	0.040	0.040	0.030	0.040	0.030	0.040	
Health	Lower (9 Bound	0.030	-0.090	-0.100	-0.100	-0.280	-0.060	-0.090	
	5 % Upper CI Bound	0.160	0.050	0.030	0.030	-0.140	0.070	0.060	

Source: Author's estimation by applying 250 replications using HIES data 2001-02.

Table. 2 reports the mean bootstrap estimates of Kienzle index of health expenditures for all the regions of analysis. Among the seven four possesses negative signs while three bear positive signs having negligible magnitudes Next row shows the standard errors of the estimates followed by lower and upper bounds at 95% confidence level for the health expenditures.

# 3.2 DIAGRAMMATICAL REPRESENTATION OF THE INCIDENCE OF HEALTH EXPENDITURES ON INCOME GROUPS IN THE YEAR 2001-02.

Figure 1 through 7 placed in the Appendix 2 show the distributional impact/ incidence of health for overall Pakistan. Similarly, health facilities are also enjoyed by the lower income groups as well. The figures of the remaining regions of analysis have been placed in the Appendix of the study. This Appendices shall also comprise up the expression of Kienzle index and other theoretical issues.

To confirm the results already obtained Table 3 shows that the inequality of gross income is slightly more than the after inclusion of education and health expenditures of the government of each region. It implies that education and health expenditures are pro poor in Pakistan in the year 2001-02. The diagrammatical representation has been placed in the Appendix 3.

TABLE. 3: SHOWING THE GINI INDEX OF INCOME BEFORE AND AFTER HEALTH FOR THE YEAR 2001-02

Region	Pakistan- Overall	Pakistan- Rural	Pakistan- Urban	PUNJAB	SINDH	NWFP	BALOCHISTAN
Gini index ( before)	0.565	0.592	0.532	0.581	0.562	0.593	0.546
Gini index (After)	0.562	0.588	0.528	0.579	0.560	0.587	0.545
Difference	-0.003	-0.004	-0.004	-0.003	-0.002	-0.006	-0.001

Sources: Author's estimations

# 4. SUMMARY AND CONCLUSIONS

The aim of this study is to analyze the distributional impacts of public health being a social service provided by government on various income groups using HIES micro data set of 2001-02. This category is related to the allocable government expenditures. The beneficiaries of the said expenditures on health is traced by using the above mentioned data. Per unit cost of service approach for the allocation of these benefits have been used. On the average out of total number of surveyed 16179 households, 15524 households benefit from public health facilities provided by the government. And the percentage participation rate of health is approximately 96 percent.

The results show that health is progressive in nature in all regions of analysis. The results also suggest that apart from other measures of government, the provision of health can probably lesson income disparities in Pakistan. The results are further confirmed by estimating the Gini index of gross income before and after the inclusion of this service. This study investigates the overall situation about the distributional nature of the said social service hence effective rates estimation for each income group might be worked out in future.

#### APPENDIX: A

# A. 1: Expenditures Progressivity/ Regressivity:

An expenditures / benefits structure is progressive or pro-poor if the lower income deciles receive most of the expenditures / benefits or receive larger share in the public expenditure than their income share of the total population. And this will be called income equalizing or pro-poor expenditures / benefits structure. The expenditures / benefits structure is regressive if the upper income deciles receive most of the expenditures / benefits or receive larger share in the public expenditure than their income share of the total population, implying regressivity of the expenditures structure or income non-equalizing or pro-rich expenditures / benefits structure. It will be proportional if all the income deciles receive the same percentage share in the public expenditure in accordance with the share of their incomes, then it is termed as distributionally neutral expenditure of benefit system.

# A.2: PUBLIC EXPENDITURE / BENEFIT DISTRIBUTIONAL INDEX

This index of expenditure / benefit progressivity / regressivity (E) suggested by Kienzle, (1981) is nothing but a replication of the well-known Suits index by replacing tax with public expenditures or benefits.

$$E = (X - Y)/X = 1 - (Y/X)$$
(A.1)

or the mathematical formulation of the above expression is as follows:

$$E = 1 - \left(1/5000\right) \int_{0}^{100} E(Y)dy \tag{A.2}$$

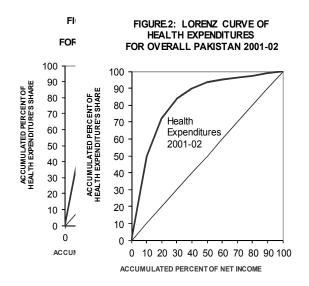
Where Y and E(Y) are the cumulative percentage of total income and the corresponding cumulative percentage of expenditure / benefit. The (1/5000) term in the above expression comes from the area of the triangle below the perfectly equality line whose both sides are equal to 100 each. While, in reality the cumulative distribution of E(Y) is often available for only a few discrete values of Y. To use this index (E) practically, the studies divide the distributions of income and expenditures e.t.c., into classes or groups. In this study the entire data set of the two reference years has been grouped into deciles. So this discrete approximation of the Suits index is given by the following expression:

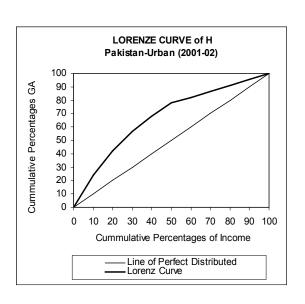
$$E = 1 - \left(\frac{1}{5000}\right) \int_{0}^{100} E(Y)dy \approx 1 - \left(\frac{1}{5000}\right) \sum_{i=0}^{n=10} \left(\frac{1}{2}\right) \left[E(Y_i) + E(Y_{i-1})\right] Y_i - Y_{i-1}$$
(A.3)

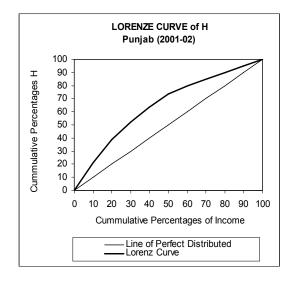
Where n shows the total number of income or taxpayer's classes or deciles. The two extreme values of index E are to equal -1 and +1. If E equals -1, it shows (extreme progressivity), and that the lowest income group / class receive the entire public expenditure / benefit. When E equals 1, it shows (extreme regressivity), that the uppermost group / class receive the total public expenditure / benefit. A 0 value of the index (E), shows that the expenditure / benefit structure is proportional. It is also important to be careful in its application because the proposed measure may encounter the problem of "crossover". It is possible that some expenditure structure may be progressive over one range and regressive over another range and the net result may show a value of index equals 0 implying proportionality.

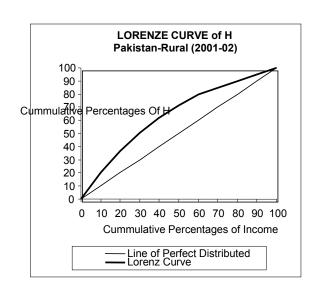
# Appendix: B

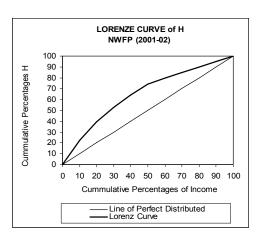
# LORENZ CURVES OF EDUCATION AND HEALTH FOR ALL REGIONS OF PAKISTAN FOR THE YEAR 2001-02.

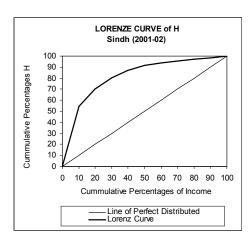


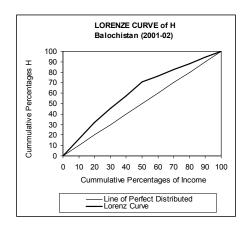












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