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Jeddah 22332-2444
Kingdom of Saudi Arabia
Tel: (00966-12) 636 1400 Fax: (00966-12) 637 8927
Email: irti@isdb.org
www.irti.org

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Tel: (00966-2) 636 1400 Fax: (00966-2) 637 8927
Home page: http://www.irti.org. Email: irti@isdb.org

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Proposed *waqf* crowdfunding models for small farmers and the required parameters for their application

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Hassan Azganin, Salina Kassim and Auwal Adam Sa'ad
IIUM Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia, Kuala Lumpur, Malaysia

Abstract

Purpose – Small farmers are considered one of the most affected communities worldwide due to poverty. Hence, this paper aims to study how the proposed waqf crowdfunding models are intended to provide alternative sources of funds for the waqf institutions and farmers.

Design/methodology/approach – The present study employed a qualitative method by analysing the relevant literature on crowdfunding, waqf cash, waqf and agriculture, together with the primary sources of the *Ḥadīth*.

Findings – This paper provides the conceptual framework of two waqf crowdfunding model (WCM) and the required parameters for their application. It is found that crowdfunding can bring immense benefits to the agriculture sector and farmers if it is integrated with waqf. This system will enable underprivileged farmers to meet their necessities and participate in their country's economic development.

Research limitations/implications – Future research may consider a waqf crowdfunding integrated model targeting other businesses.

Originality/value – This study provides the required parameters for the application of the proposed models. Four areas were analysed and discussed: the regulatory compliance parameters, the shariah compliance parameters, the risk management parameters and, finally, waqf governance parameters. To the best of the author's knowledge, this is the first proposed waqf and crowdfunding integrated model for agricultural financing.

Keywords *Waqf*, Cash *waqf*, Crowdfunding, Agriculture, Small farmers, Parameters

Paper type Research paper

1. Introduction

In Africa, despite the fact that the poverty headcount ratio decreased from 53.3% in 1990 to 41% in 2013, the poor still live much further below the extreme poverty threshold compared to other regions (Union, 2017). The Islamic Development Bank (IsDB) reported that IsDB member countries are home to almost one-third of the world's multidimensional poor people, where 504 million people live in multidimensional poverty (Alpay *et al.*, 2016). The agriculture sector is one of the most powerful industries that have the potential to end extreme poverty and feed around 9.7 billion people by 2050. Growth in this industry is two to four times more effective in increasing incomes among the underprivileged population. Furthermore, this sector accounted for contributing one-third of the global domestic product in 2014

JEL Classification — D25, D64, N70, Q14 **KAUJIE Classification** — E22, E23, I69

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(World Bank, 2020). Since this is the issue, an alternative viable financing solution is required to enable small farmers to access funds, end poverty and address several other problems such as food security and hunger. In this sense, one of the main practised philanthropical concepts throughout Muslim history is *waqf* (Islamic endowment), which has contributed tremendously towards addressing economic and social issues in various sectors, including agriculture.

Waqf is a continuous charitable act that was established to serve different types of humanitarian purposes, such as community development, education, aid to the disabled and the poor and financing orphanages. Hasan (2006) affirmed the importance of *waqf* funds which have been successfully adopted and implemented in many social and human development-related fields, such as urban services, education, health and hygiene. With regards to the agriculture sector, no entity can deny its significance for its nation's livelihood. It can be a lucrative industry if it is cultivated with full dedication and commitment, considering the embedding of *waqf* assets (cash and non-cash *waqf*) and new financial technology solutions, such as crowdfunding.

The use of crowdfunding in the agricultural sector has attracted entrepreneurs and researchers worldwide. Tens of crowdfunding platforms have been established to provide fund seekers with seamless access to financial means. It is the fastest technological solution that can afford opportunities to *waqf* organisations to enhance their business process management and attract more waqifs. Yusof *et al.* (2014) argued that improved Internet banking facilities and young people of this generation, literate in information technology, are important factors in successfully promoting online *waqf* and motivating the users of Internet banking to give charity. The participation of this group would enable trustees to generate more funds in an Islamic way.

Thaker *et al.* (2018) proposed a developed "*waqf* crowdfunding model" (WCM) that has been found to finance the development of *waqf* lands and to solve the liquidity issue encountered by the *waqf* institutions. Similarly, Kuppuswamy and Bayus (2017) found that people participate in crowdfunding projects if they believe that their contributions will significantly impact beneficiaries' livelihood. Whereas other studies have revealed that project content and website quality are essential to attract users to online charities (Liu *et al.*, 2017). Therefore, according to several studies, crowdfunding is an attractive platform for the crowd to contribute to and invest in due to the quality and efficiency of the online facilities.

This study focuses on donation-based crowdfunding instead of investment crowdfunding. This is due to the fact that an integrated cash *waqf* is a philanthropical act, where the donors or the waqifs are not expecting anything in return from the beneficiaries or business owners. Second, philanthropical crowdfunding platforms are successful and efficient in raising a larger portion of funds. LaunchGood is an example of a successful donation-based crowdfunding platform that has successfully raised $186 million in the last eight years since its establishment in 2013 [1]. The amount raised by LaunchGood is 33% larger than the amount raised by Ethiscrowd (investment crowdfunding), one of the leading real estate investment crowdfunding platforms established in 2014 [2].

2. Literature review

2.1 Overview of Waqf

Al-Zubidi (1965), in his book "Sharh Al Qamus", defined *waqf* as the preservation or holding of a specific continuous charity to forbid any use or disposition of the asset outside the defined purposes to which the property is dedicated in such a way that it cannot be sold. According to Raissouni (2019), the contemporary definition of *waqf* is to stop or detain the original asset and the release of its profitable returns, or it is the *Habs* [3] of the *waqf* asset where the realised benefit is distributed accordingly among the beneficiaries.

Waqf is considered as a pious endowment, which involves the dedication of an asset in perpetuity either for specific purposes (*waqf khas*) or for general purposes (*waqf'am*) (Sait and Lim, 2005). The institution of *waqf* has played a vital role throughout Islamic history since the time of the prophet peace be upon him (PBUH) until today. This philanthropical act had a significant role in contributing to human civilisation, enhancing their educational and economic system and strengthening their religious practices.

As an innovative idea in the early Islamic period of the prophet (PBUH) in al Madinah, he (PBUH) asked if there was someone who could buy the well of water known as Bi'r Rumah and declare it as a free drinking water utility for the public (Shirazi, 2014). Furthermore, he also advised "Umar Ibn Al Khattab to give his most valuable land in Khyber as *waqf* for the needy and the poor (Kahf, 1992). Another companion who practised *waqf* was Abu Talha. This companion owned a great property of palm trees in al Madinah. In spite of Baytuha", which was his dearest property, as it was located in front of the mosque, he declared it as *sadaqah* for the will of Allah SWT (Mohsin, 2010). Furthermore, many actions have been taken by the prophet (PBUH) to eradicate poverty in al Madinah.

Throughout Islamic history, the *waqf* institutions in Muslim countries succeeded in the accumulation of *waqf* properties. Regarding *waqf* agriculture, Kahf (2015) extracted the information from registers of *awqāf* of different countries and found that a large proportion of the cultivated areas are *waq f*lands. The example of Turkey has been introduced in the paper as a country with one-third of the cultivated area being *waqf* lands, where the *waqf* revenues in the majority of the countries were most frequently spent on education in mosques, along with settling the teachers' and imams' salaries. Therefore, investing in *waqf* lands has largely enabled *waqf* authorities to generate significant returns in the agriculture sector. This statement is supported by Sadique (2010), who claimed that the investment of *waqf* properties through different financing modes could generate good returns for society. Hence, this enables *waqf* institutions to provide end beneficiaries with the required services and needs.

From another perspective on the importance of investing *waqf* for agriculture, Shafiai and Ahmad (2015) claimed that rather than depending on banking facilities. which seem to be the only flagship of the economy to introduce specific financing services for farmers, the establishment of a *waqf* trust could be considered a possible alternative instrument to activate idle agricultural lands. According to the authors, the proposed solution may be established for two purposes. The first one is to create a *waqf* trust that can overcome the issue of idle lands, and the second one is to ensure that a *waqf* administration is serving the idea of agricultural development.

2.2 The legality of cash waqf

Lahsasna (2010) defined cash *waqf* as a perpetual mobilisation of funds from donors to be invested in productive assets that provide revenues or usufruct for future consumption while taking into consideration the guidelines and policies given by donors as well as recipients. This is known as the conditions of waqif (*Shart al Waqif*) in Arabic. The most acceptable *waqf* is cash *waqf*, which is an endowment of certain amounts of money for investment; it is managed by a *waqf* manager (Mutawalli). Cizakca (1995) declared that cash *waqf* was widely used and considerably contributed to social development during the Ottoman period to such an extent that education, health care and community welfare were entirely financed by *waqf*. He further argued that cash *waqf* functioned mainly as a capital redistribution institution rather than a capital accumulation institution.

The Hanbalite and Shafi'it from the traditional school of Fiqh argued that it is not permissible to dedicate money for *waqf*, referring to gold, silver, drinks and food. The use of money for consumption is the main adopted argument. As a result, the essence of *waqf*, which is a perpetuity, does not exist in this type of movable assets (Thamali, n.d.). Nevertheless, Imam Zufar approved all movable properties, including dinar and dirham, to be dedicated as *waqf* (Mohsin, 2010). Similarly, Imam Malik approved all types of movable properties, including food and money (*Al-nuqūd*), with the condition that the subject matter should be given as a free loan (*Qarḍ Ḥasan*) (Muafi, n.d.).

Hamza (2017) highlighted in his paper the contemporary scholars' opinion on cash *waqf*. The fifteenth Islamic Fiqh Academy conference was held in Muscat (1,425 Hijri), where a common consensus was seen among the attendees on the permissibility of cash *waqf*, providing the following arguments:

(1) The concept of money in today's world is different from what was practised in old times.

(2) The permissibility of using cash *waqf* in *Qarḍ Ḥasan* and investments, which can be a direct investment or through the allocation of money from different waqifs (*waqf* founder) into the *waqf* fund pool or through the issuance of *waqf*, shares as a different option to encourage people to contribute.

(3) Cash *waqf* should be perpetual, and its usufruct would be dedicated to society's welfare. They provided a comparative example between *waqf* of date palms and money, emphasising that if the former is permissible, then there is no issue with the latter. To elaborate, the planting of date palms will permanently provide fruits that are tantamount to cash *waqf*, where the profit will be generated from the investments, and money will grow.

2.3 Islamic crowdfunding: concept and principles

Crowdfunding is defined in the Oxford Dictionary as "the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet". The World Bank (2013) described crowdfunding as an online platform for businesses and organisations to raise funds from a group of individual investors or contributors. The funds raised should range between $1,000 and $1 million US dollars. Similarly, IOSCO (2015) claimed that it is a use of small amounts of money obtained from a large number of individuals or organisations to raise funds for the various projects listed in an internet-based platform. Islamic crowdfunding also shares the same definition as above, except that the latter considers Sharīʿah rules and principles in all its activities and operations.

The application of a crowdfunding solution is an untapped area in the context of *waqf*. Several studies found that crowdfunding platforms can address liquidity issues, specifically in the *awqāf,* as highlighted by Azganin (2019). The author selected a sample of 101 participants and interviewed fintech and *waqf* experts to examine the potential benefits of crowdfunding and blockchain in overcoming issues confronting *waqf* lands in Malaysia. The results indicated that adopting these technologies could enhance transparency and overcome the financial challenges faced by *waqf* institutions in Malaysia. Most crowdfunding businesses in the west are interest-based platforms. Hence, the need for a Sharīʿah-compliant crowdfunding platform is essential. Saiti *et al.* (2018) posited differences between conventional and Islamic crowdfunding, which are presented in the following table (see Table 1).

The agriculture field is a different sector, as it is very connected to the finance industry and contributes to most economies' GDP. However, most farmers encounter a lack of

Table 1. Conventional crowdfunding vs Islamic crowdfunding

Type	Conventional crowdfunding	Islamic crowdfunding
Reward-based crowdfunding	Materialism	The concept of *al-Falah* might be included together with the achievement of the materialism concept
Donation-based crowdfunding	Humanitarianism	Through *waqf, zakāh* and *sadaqah*, whereas the ultimate goal is to achieve *al-Falah*
Equity crowdfunding	Angel investors and venture capitalist	Based on Islamic finance instruments, such as *Mushārakah* and *Muḍārabah, Mushārakah*-based crowdfunding is almost similar to equity crowdfunding. Nevertheless, the beauty of *Muḍārabah*-based crowdfunding is that the crowd investors provide total initial capital, while the company is responsible for managing business operations. The profit is shared in a pre-determined ratio, and the crowd has to bear the loss in case of a failure
Debt crowdfunding	P2P lending based on interest	Sale-based contracts such us *Murabaḥah*, *Tawarruq* and *Ijārah*

Source(s): Saiti *et al.* (2018)

financing to develop and grow their small businesses. Anshari *et al.* (2019) affirmed that in most cases, farmers possess lands, but they do not have access to the financial means to cover their operational cost, although they do approach banks or investors to buy the mechanised materials and machines. Therefore, access to financing is one of the biggest challenges faced by the farmers, especially the ones running small businesses or lacking access to loan banking services.

Huang *et al.* (2018) found that crowdfunding solutions can play a vital role in funding micro, small and medium enterprises (MSMEs). MSMEs in China are representing the vast majority of businesses that have access to crowdfunding platforms. Lee and Chiravuri's (2019) study showed that project creators (entrepreneurs), who experienced a successful raise of funds via crowdfunding platforms, tended to explore other industries in the crowdfunding market and create projects which are higher in terms of the funding need. Thus, crowdfunding opportunities give more confidence to successful enterprises with higher chances to raise more considerable funds. From a humanitarian and risk-sharing perspective, crowdfunding platforms enable a risk-sharing practice between the project developers and the crowd-investors, who focus on fostering social impact (Pratono *et al.*, 2020).

Agropay is a crowdfunding project which creates opportunities for all agribusiness actors who interact on a single platform. This platform provides specific functions for investors who can select from a wide range of agricultural projects accessible via smartphones, while the investment is made online. This platform creates competitiveness between suppliers and increases price competition, which further improves the sustainability of agriculture products. A similar digital marketplace model was presented before by Anshari *et al.* (2019). Their proposed fintech solution supports agriculture's sustainability and connects all users to a single crowdfunding and payment system-based platform, which promotes transparency, empowerment, resourcefulness and community engagement in agriculture.

Azganin (2019) sheds light on the challenges confronting the development of idle *waqf* lands in Malaysia and proposed a financial technology solution to overcome the mentioned issues. A semi-structured interview and survey were adopted to explore the extent of crowdfunding and blockchain application in the *waqf* development field. Although some legal and operational challenges were highlighted in the study, the results showed a possible significant impact of crowdfunding in raising funds and financing different *waqf* properties in Malaysia. Furthermore, the author found that the blockchain solution would potentially enhance the transparency element within *waqf* institutions.

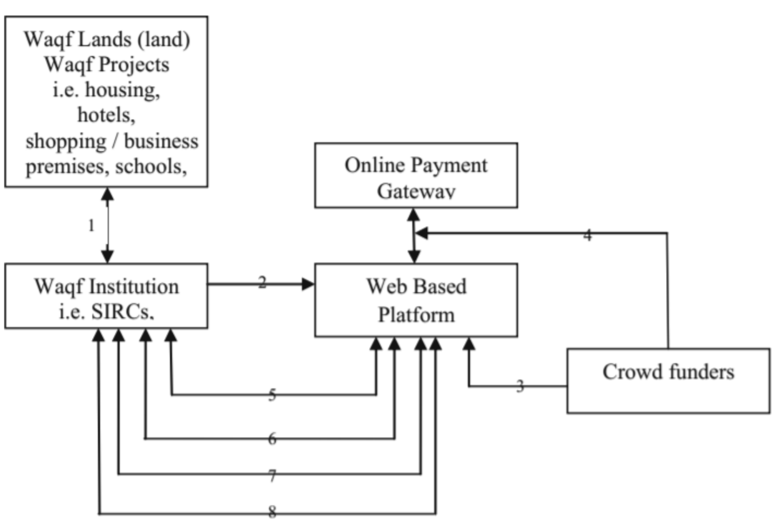
Similarly, Thaker and Pitchay (2018) proposed a *waqf* crowdfunding model (WCM) to develop *waqf* lands in Malaysia, as shown in Figure 1. The study found that the model can help *waqf* institutions overcome the liquidity challenges and find alternative sources of funds through an online crowdfunding platform, which will ultimately finance different *waqf* land projects. The proposed model is unique, as it introduces the concept of cash *waqf* as an essential feature of the platform, in which the raised cash *waqf* is to be converted into illiquid assets such as hospitals and buildings.

Meanwhile, another *waqf* crowdfunding platform named “Hasanah Crowdfunding Model” [4] was discussed and analysed by Nasution and Medias (2020). The Wakaf Hasanah project has played a vital role in financing and developing various *waqf* projects in Indonesia. Fifty-three *waqf* projects have been financed through this platform, with a total fund of more than three billion rupiahs. According to this platform, and as illustrated in Figure 2, the parties involved are the project manager (*nāẓir*), *waqf* founders, and the platform operator.

Although the recent literature suggested crowdfunding as an alternative source of funds for various sectors, the different factors and parties impacting the actual application of these models in the industry need to be discussed, focusing on the essential role of the communities and the regulatory bodies in transforming theories into practice.

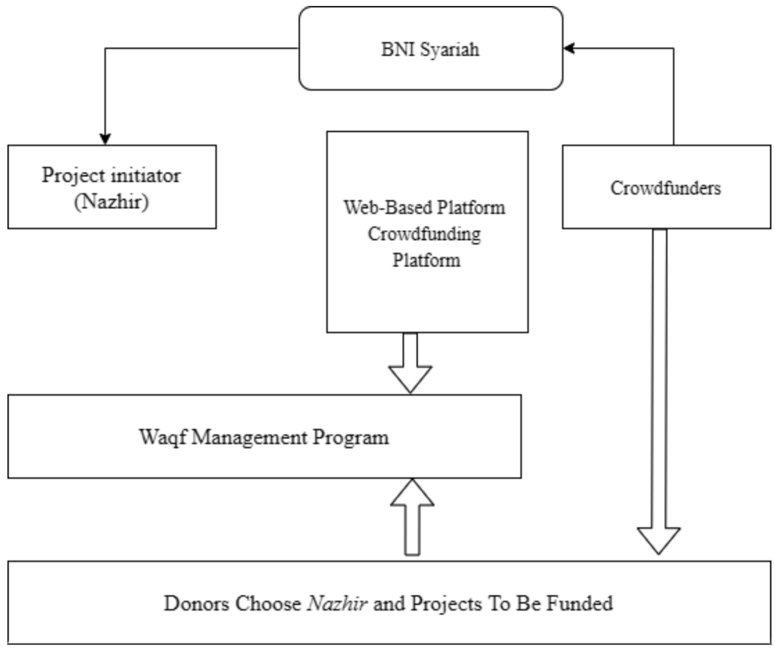
3. Methodology

This research is qualitative in nature and uses document research as the main source of analysing related papers, journal articles and other published sources. This method aims to analyse the theoretical data from primary resources, such as *Ḥadīth,* and secondary sources, such as books and other published articles. The research includes contemporary and classical Sharīʿah views on *waqf*, particularly cash *waqf* and Islamic crowdfunding, to identify and explore the themes related to the models which were used to formulate the conceptual framework of the new models. Based on a literature review procedure, this study explores and



Source(s): Thaker and Pitchay (2018)

Figure 1.
Proposed WCM



Source(s): Nasution and Medias (2020)

Figure 2. Hasanah crowdfunding platform

determines various important aspects of cash *waqf* and its possible integration with Islamic crowdfunding technology. The data analysis is done by adapting and reviewing the existing models, which are either impractical or lack important features necessary for successful implementation.

For the Sharīʿah basis analysis of *waqf* crowdfunding models and the parameters, the paper refers to *waqf* standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and few articles that highlight the Sharīʿah governance framework in *waqf* as well as Islamic crowdfunding. The following section discusses the conceptual framework of *waqf* assets and cash *waqf* crowdfunding models as a viable alternative financing solution for farmers.

4. *Waqf* and Islamic crowdfunding proposed models

Agriculture is the main backbone to achieve food security in a country, and its development relies on finding alternative modes of financing to help farmers manage their financing hurdles. *Waqf* asset and cash *waqf* crowdfunding models are introduced in this study to achieve the following two main objectives. The first one is to encourage people to donate cash for agriculture development purposes, whereas the second is to enhance farmers' performance to grow their businesses and multiply their revenue.

The *waqf* asset and cash *waqf* fund collection model uses an online platform (crowdfunding) that is accessible to every potential donor. The participants can choose between the numerous listed projects on the platform and donate to the ones of their preference. Besides, the payment gateway solution integrated into the model enables the users to participate via an online platform from any part of the globe.

4.1 Waqf asset crowdfunding model

In this diagram, the *waqf* institution plays the role of platform manager and creates various agricultural projects of movable and immovable assets in the platform. The donors choose agriculture projects of their interest and assist farmers in financing their businesses. Meanwhile, the profit generated from the projects is distributed between *waqf* institutions and small farmers based on an agreed portion (Refer to Figure 3).

4.1.1 Diagram flow explanation.

Step 1: Farmers engage with the *waqf* institution (platform manager) to provide them with the required documents and project's details.

Step 2: The *waqf* institution acts as a platform manager and conducts due diligence on different registered projects.

Step 3: The *waqif* (donor) contributes cash towards movable and immovable *waqf* agriculture assets listed in the platform.

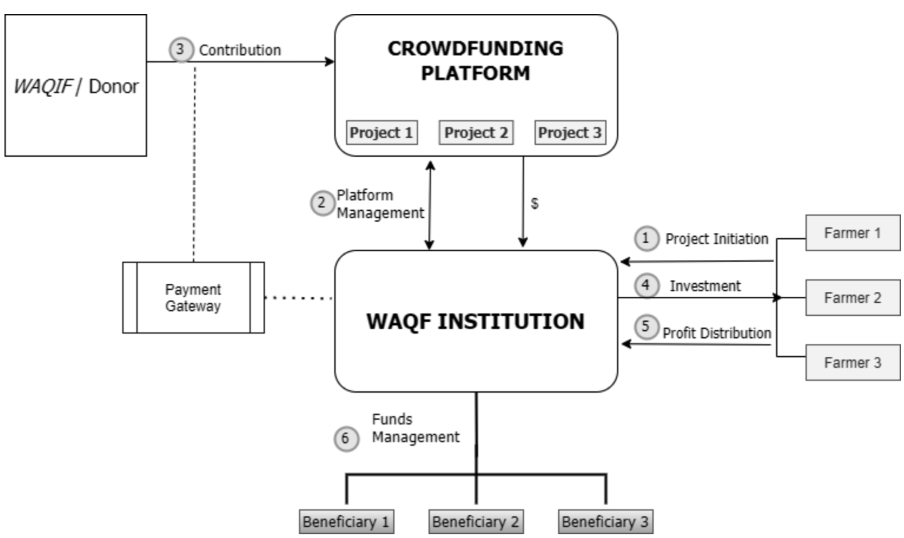
Step 4: The *waqf* institution engages in an agreement, such us *Salam*, *Istisnā*', *Hikr*, or leasing and distribution of funds to farmers.

Step 5: Profit payout/rental payment distribution to the *waqf* institution is carried out.

Step 6: The *waqf* institution disburses the profit generated from agricultural projects to the beneficiaries.

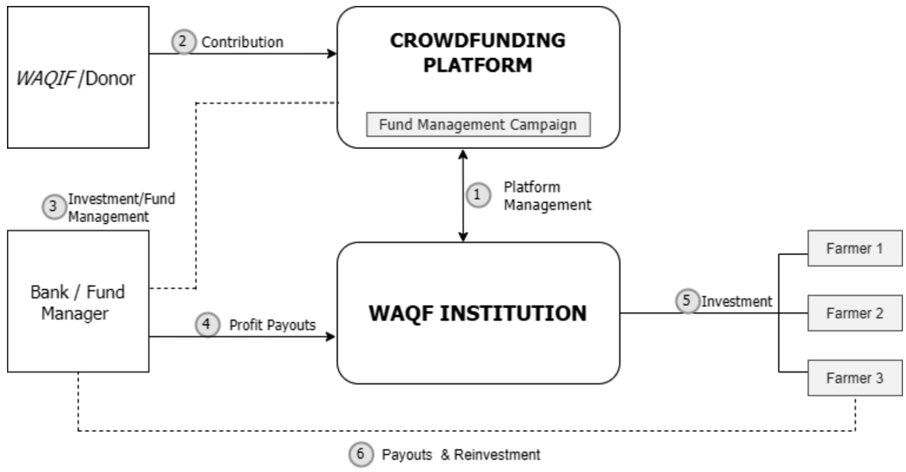
4.2 Cash Waqf crowdfunding model

In this diagram, the *waqf* institution assigns a partnering fund manager to invest the cash *waqf* collected from donors. The profit generated from the listed pool of funds will be channelled to farmers, but prior to this, an investment agreement is to be agreed upon and signed between the *waqf* institution and the beneficiary. The cash *waqf* concept is utilized here to facilitate the financing of farmers (refer to Figure 4).



Source(s): Author's own elaboration

Figure 3. The *waqf* asset crowdfunding model



Source(s): Author's own elaboration

Figure 4.
Cash *waqf* crowdfunding model

4.2.1 Diagram flow explanation.

Step 1: The *waqf* institution manages the platform and creates an agricultural pool of funds in the platform.

Step 2: The *waqif*/donor contributes cash *waqf* to the campaigns (pool of funds) listed in the platform.

Step 3: On behalf of the *waqf* institution, the partnering portfolio manager invests the money raised from the crowd.

Step 4: There is a regular profit payout from fund managers to the *waqf* institution.

Step 5: The *waqf* institution distributes funds to the farmers and engages in an investment agreement.

Step 6: The payouts gained from the investment with farmers are reinvested and managed by the fund manager.

The proposed models differ in terms of structure and the financing model. To illustrate, the first model (Figure 3) serves as a fundamental economic project where the finances are moving directly from benefactors to the beneficiaries to fund several listed agricultural businesses. Nevertheless, contributions in the second model (Figure 4) are kept with a partnering fund manager, who is assigned with the management of these funds. At the same time, profits generated from the investments are distributed to the platform operator, who will ultimately channel it to the farmers. Both models share the same purpose, which is to provide alternative sources of funds for the empowerment of small farmers.

5. Required framework for the application of the *waqf* crowdfunding proposed models

Crowdfunding is an alternative financing model that has been introduced in the market post-global financial crisis in 2008. Many entrepreneurs seek financing from these platforms due to the difficulties faced while requesting financing loans from banks. Developing economies tend to face more of such issues (Bruton *et al.*, 2015). An end-to-end framework is required for the successful application of the previously discussed models. Thus, this paper suggests the parameters needed for different stakeholders and platform managers. This model's parties are *waqf* institutions, Sharī῾ah committee, farmers or business owners and fund managers. The proposed parameters are divided into four sections, as illustrated in the following table (see Table 2).

6. Conclusion

Limited financial resources are one of the main challenges encountered by small farmers, which can be tackled using crowdfunding – an alternative financing solution that has been practised in different parts of the globe. According to various studies, this new innovative solution has successfully bridged financing between benefactors and fund seekers in multiple businesses and projects. Nevertheless, there is a lack of studies on using the *waqf* concept in crowdfunding to develop the agriculture sector. Less attention has been paid to offer a viable model that can overcome or address liquidity issues. Thus, this study was conducted to help enrich the literature by shedding light on the potential of crowdfunding as an innovative financial solution that can help small farmers and *waqf* institutions meet their financial needs. The focus was on developing two different *waqf* crowdfunding models and the required parameters for their application. The *waqf* asset crowdfunding model serves as a platform that matches *waqifs* with farmers looking for other funds sources. The *waqf* institution acts as a platform manager. It creates an underlying agreement with fund seekers, who will run the project and distribute profits based on a pre-determined portion.

Similarly, the cash *waqf* crowdfunding model is a platform ,which presents a pool of fund campaign for people to contribute towards. The platform raises cash *waqf* and assigns a fund manager to invest the money. Subsequently, the profit generated is channelled to farmers, who will ultimately run the project and share their profits back with the *waqf* institution. Finally, the pay-outs from farmers will be reinvested with the fund manager to grow funds.

The dedication of *waqf* assets is allowed according to several authentic *Ḥadīths* of the prophet (PBUH). Similarly, this study found that cash *waqf* is considered a permissible financing instrument that can be effectively utilised on its integration with crowdfunding. This paper's uniqueness lies in the proposed *waqf* asset and cash *waqf* crowdfunding models to facilitate the flow of funds from the group of *waqifs* to the *waqf* institution or the trustee (*Mutawalli*) and then to the final recipients of funds (farmers). Moreover, the required parameters and frameworks have been proposed to manage *waqf* movable and immovable assets effectively. Thus, this study suggests a sustainable and viable solution to address the financial issues faced by farmers. The models can serve as a real vehicle towards developing the agricultural sector through a viable online platform that encourages small and large donations among the global community members.

One of the limitations of this study is that it falls under the category of investment or charity-based crowdfunding. It does not explore the possible adoption of equity-based crowdfunding solutions (ECSs). Although the suggested parameters would be the same for ECSs, the financials, products' modules and projects' structures will be treated differently. Secondly, the primary focus of this study is on financing of agricultural projects. Hence, further research is required to explore the application of different crowdfunding modules in other sectors.

Table 2.
Required frameworks and parameters for the implementation of the models

Parameters	Parameter description
Parameter 1: Regulatory compliance parameters	1/1 – The legal procedure will be treated from two aspects: The crowdfunding licensing requirement and anti-money laundering (AML) financial crimes compliance 1/1/1 – In certain countries, the crowdfunding platform manager, which is the *waqf* institution in this case, must apply for a crowdfunding licence or money collection permit to start raising funds from the public 1/1/2 – The *waqf* institution must comply with the anti-money laundering and financial crimes acts, which can be realized through a "know your customer" (KYC) procedure, which needs to be run on the benefactors as well as beneficiaries Abiding by local *waqf* regulations of project management, fund management and partnership engagement requirements with external bodies is mandatory. The *waqf* institution must ensure that all transactions and agreements are in line with these regulations Zetzsche and Preiner (2018)
Parameter 2: Sharīʿah compliance parameters	2/1 – The investment activities of *waqf* assets and cash *waqf* fund management should be in line with the Sharīʿah principles. These activities can be attained through the following practices 2/1/1 – The *waqf* institution must assign an internal and external Sharīʿah committee that will be responsible for ensuring the Sharīʿah compliance of all transactions 2/1/2 – The Sharīʿah requirements and guidelines set by the authoritative bodies within a particular jurisdiction must be thoroughly practiced in order to protect *waqf* assets from losses. If there is no specific law in a country, the *waqf* institution must comply with the *waqf* standards issued by AAOIFI AAOIFI (2018) 2/1/3 – Regarding the cash *waqf* crowdfunding model, a Sharīʿah-compliant fund manager must be assigned to invest the cash *waqf* on behalf of the *Mutawalli* 2/1/4 – Concerning the *waqf* asset crowdfunding model, the Sharīʿah committee must check and review the following 2/1/4/1 – The fund collection procedure 2/1/4/2 – Determining the Islamic finance model or the underlying agreement is suitable for each project type (e.g. *Salam*, *Istisnā*', Hikr and leasing) 2/1/4/3 – Checking if the marketing words used in the content create any misrepresentation or misleading information for the crowdfunder/*Waqif* 2/1/4/4 – Ensuring the investment information received from the project owner or fund manager is accurate 2/1/4/5 – Reviewing the financials and any other related details needed to guarantee the full practice of Sharia principles Rosly (2010), Yuningsih and Muhammad (2020)

(*continued*)

Parameters	Parameter description
Parameter 3: Risk management parameters	3/1 – The establishment of the risk management framework is required to maximise the *waqf* institution projects' success and ensure that the perpetuity element exists in all movable (including cash *waqf*) and immovable *waqf* assets. This part will be divided into two sections: The first one will discuss the general required parameters for the effective adoption and management of a crowdfunding platform for both models, while the second would shed light on the policies needed for each practical model 3/1/1 – General requirements 3/1/1/1 – The *waqf* institution must have a comprehensive risk management process to identify, measure, evaluate and monitor all types of risks related to managing the crowdfunding platform and projects 3/1/1/2 – The *waqf* institution needs to establish a comprehensive risk management policy to identify and mitigate the external macroeconomic environment risks affecting the raising of funds from local and international donors 3/1/1/3 – The *waqf* institution should understand and mitigate the possible risks associated with financial crimes and terrorism funds 3/1/1/4 – The platform manager must create terms and conditions sheet to be shared with and signed by the other party (*waqif*/donor). The related policies, such as disclaimer and indemnification. Most importantly, the agency agreement needs to be taken into account by the *waqf* institution, which acts as an agent on behalf of the *waqif* to manage the funds 3/1/1/5 – The business owners who seem to breach the terms and conditions of the underlying agreement should be blacklisted from requesting funds 3/1/2 – Specific requirements 3/1/2/1 – The *waqf* asset crowdfunding model 3/1/2/1/1 – To avoid abusing the financial crimes and fund terrorism acts, proper due diligence needs to be conducted on farmers or funds recipients 3/1/2/1/1 – There should be a periodic follow-up on the project progress and funds usage 3/1/2/1/2 – The *waqf* institution must perform *Istibdāl* on the *waqf* assets listed in the platform if it does not realize the purpose of *waqf* 3/1/2/1/3 – The *waqf* institution must conduct necessary due diligence on the beneficiaries receiving the funds. This procedure is crucial to avoid ineligible financing of the entities involved in illegal activities or abuse of funds 3/1/2/2 – Cash *waqf* crowdfunding model Capital protection must be the first objective of the partnering fund manager to ensure that the perpetuity of the cash *waqf* is achieved 3/1/2/2/1 – An effective portfolio management practice is highly recommended by placing cash *waqf* in low-risk investment instruments, such as Sukuk funds 3/1/2/2/2 – The fund manager must be responsible for managing cash *waqf* funds and should be held accountable for any abuse or breach of the contract with the *waqf* institution Sulaiman *et al.* (2019), Lo (2001)

(*continued*)

Table 2.

Parameters	Parameter description
Parameter 4: *Waqf* governance parameters	4/1 – Transparency is the key factor in the full protection of *waqf* assets, and the adoption of global governance principles is crucial to success (Daud, 2019) 4/2 – Accountability to the *waqif*/donors: *Mutawalli* must provide adequate information and project updates to donors. Moreover, the sharing of opinions and suggestions with the crowd is highly recommended to improve the services Siswantoro *et al.* (2018) 4/3 – The disclosure of the project details is essential for building trust with *waqifs*/donors and fulfilling the element of sincerity required by Allah SWT (Daud, 2019). The details include sharing information, such as farmers' profiles, targeted beneficiaries and risks associated with the projects' plans and campaigns' timeline 4/4 – The *Mutawalli* must be fully responsible and act professionally, showing Islamic behaviour principles 4/5 – The selection of farmers must be based on qualifications and experiences in the field. In the meantime, conflicts of interest, if any, should be disclosed to the board (Siswantoro *et al.* (2018) 4/6 – The *waqf* institution must create an internal corporate governance guideline containing severe punishments for those who are involved in corruption or misuse of funds 4/7 – The *waqf* institution is exposed to information asymmetry when dealing with fund managers or farmers. Hence, they must ensure that they receive accurate reports and project details 4/8 – The *waqf* institution must assign a new department that must be responsible for managing the crowdfunding platform. Moreover, the team should be experienced and qualified in handling funds collection and investment procedures 4/9 – The roles and responsibilities of the employees in the organisational chart must be clearly defined

Source(s): [6]: Author

Table 2.

Notes

1. See https://www.launchgood.com/
2. See https://ethis.co/id/
3. *Habs* is an Arabic word that literally means to hold, detain, or stop something from movement. *Habs* and *waqf* are used interchangeably. In fact, some countries like Morocco use the word *Habs* or *Hubus* instead of *waqf*.
4. According to the Google play store, BNI Syariah, in collaboration with the *nāẓir* institutions, run the Wakaf Hasanah Program. The platform manages *waqf* projects where the distribution of *waqf* funds is done by transferring funds to each *waqf* project account no. and through all BNI Syariah e-Banking channels. Retrieved from: https://play.google.com/store/apps/details?id=id.co.bnisyariah.wakafhasanah&hl=en&gl=US
5. The author created the models based on previous models and the literature data discussed in different articles.
6. An intensive research and review of the literature have been conducted to explore the different factors affecting the implementation of the models and the possible requirements needed for successful project kick-off. The authors analysed the relevant literature to establish a unique and new framework for *waqf* and agriculture development.

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Corresponding author
Hassan Azganin can be contacted at: azganinhass@gmail.com

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Shifting the paradigms in *waqf* economics: towards renewed focus on socioeconomic development

Abdullahi Abubakar Lamido and Mohamed Aslam Haneef
Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Kuala Lumpur, Malaysia

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Abstract

Purpose – This paper critically reviews and analyzes the trends in *waqf* studies within the Islamic economics literature. It analyzes the recent developments and debates in *waqf* reform and advances the argument for prioritizing research on *waqf* economics; the *waqf* dimension that is concerned with modelling how to utilize it to enhance productivity, consumption, redistribution, investment and saving, and generally contribute sustainably towards poverty reduction, economic empowerment and development.

Design/methodology/approach – The paper is conceptual in nature, focusing on a systematic historical analytical review of *waqf* studies in Islamic economics literature.

Findings – Despite the documented historic role of *waqf* in constructing the Muslim socio-economic architecture as the third economic sector and a mechanism for civilizational development and renewal, it received little attention in the early writings on modern Islamic economics. While the past one decade has witnessed a renewed interest in *waqf* research, most studies focus on its legal, juristic and administrative aspects in addition to the nostalgic reflections on its past glories. Little attention is comparatively given to the socio-economic aspect, which represents the actual raison d'être for its institutionalization.

Practical implications – An important task ahead of the current generation of Islamic economists is to formulate *waqf*-based development models that are rooted in proper diagnosis and deep understanding of the current socio-economic realities of the OIC member countries for the purpose of uplifting living standards and stimulating sustainable socio-economic development.

Originality/value – The paper contributes to the debate on priorities in *waqf* studies and practice and can trigger further discourses and research on the future of research in *waqf* economics.

Keywords Micro-*waqf*, Socio-economic *waqf*, *Waqf* economics, *Waqf* research and development

Paper type Research paper

Introduction

The institution of *waqf* represents a fundamental pillar in the making of Islamic history, economy and civilization. It is so important in building the edifice of the Islamic civilization that without studying and appreciating it, there can hardly be a proper comprehension of the evolution and dynamics of the Islamic civilization (Kuran, 2001, p. 851; Sulaiman, 2016, p. 28). As part of the "glittering aspects of the Islamic civilization" (Sibāʿī, 1996), *waqf* has from the dawn of Islam, been playing a central role as a religious and socio-economic development institution, serving as a viable mechanism for the provision of all forms of public welfare services. It grew to become a source of inter-civilizational exchange between the Muslim society and the rest of the world. It is well documented that it was the *waqf* system that gave

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impetus for the emergence of western trusts when the crusaders took the *waqf* concept from the Middle East to the West, after which they modified and developed it, and continued to utilize it for the provision of various socio-economic services (Gaudiosi, 1987; Kuran, 2001; Rashid, 2018; Abdul Kader, 2019).

Historically, *waqf* was extensively used for the provision of all forms of services, including religious, social, economic, environmental, healthcare, educational, security and humanitarian services. It has been used for building road networks, bridges, hospitals, soup kitchens, libraries and laboratories, schools and universities, research centres, water-wells, orphanages, street lights and other infrastructure that have direct bearing on developing the economy and improving well-being (Kuran, 2001; Cizacka, 2018; Haneef, 2018). It played such developmental roles from the first Islamic generation until it reached its peak in the Ottoman Empire. It, however, suffered a serious setback in the later days of the Caliphate and especially under colonialism. For numerous reasons, the colonial intruders made deliberate efforts at destroying *waqf*, reducing it only to a narrow religious institution concerned with some aspects of the rituals, without any meaningful link to socioeconomic development (Cizacka, 2000; Kahf, 2011, pp. 53–54; Rashid, 2017; Raysuni, 2014, pp. 50–52).

Although the institution still exists in many countries, it has largely derailed from being the robust, multidimensional socioeconomic institution that it used to be. Hence, for at least a century now, its utilization for socio-economic development has been largely neglected (Alam, 2018, p. 102). Currently, data from most Muslim countries and communities indicate that there is a "near-freeze" in terms of the creation of new socio-economic *waqfs* while there is increase in the establishment of religious *waqfs*, particularly mosques (World Bank and IDB, 2016, p. 166).

With the growing realization of the need for a more concerted efforts for *waqf* development globally, several questions arise and remain unanswered: How can *waqf* be repositioned to play multidimensional socio-economic roles as it did in the past, or even better, within the context of the socio-economic dynamics of contemporary Muslim world? What has been the trend in *waqf* studies vis-à-vis *waqf* economics? To what extent is attention given to the socio-economic dimensions of *waqf* compared to other dimensions? How can viable micro-*waqf* and mega-*waqf* models, implementable in the sharply different socio-economic communities around the Muslim world, be developed for economic empowerment? And finally, what is the place of research and development in this new *waqf* reform agenda? This paper tries to put these questions in a historico-analytical perspective. It builds on the premise, in line with Haneef (2018), that key to the success of *waqf* revival is to redirect attention to research and development in the socio-economic dimensions of *waqf* with a view to mainstreaming *waqf* in the economy as a vital third sector institution.

Why socio-economic *waqf* matters

Waqf, or Islamic endowment, connotes "taking the corpus of any property from personal ownership, transferring it permanently to the ownership of Allah and dedicating its usufruct to purposes recognized by the Sharī'ah as pious or charitable" (Islahi, 1996, p. 370). It is a mechanism whereby an endowed asset provides a continuous flow of benefits for designated beneficiaries or course while generating rewards to the donor everlastingly. Endowing a property as a *waqf* takes away its ownership from the donor and delists it from his giftable, inheritable or sellable assets.

Waqf is broadly divided into spiritual-religious and philanthropic-socio-economic dimensions. A *waqf* created for the financing and facilitation of pure spiritually related activities is described as a religious *waqf*. This includes the construction and maintenance of mosques, including paying the salaries of imams, or for producing copies of the Qur'ān. Philanthropic *waqfs* are the ones created for the promotion of the social and economic well-being of the defined beneficiaries, including the provision of basic needs like food, clothing, shelter, education and medical services. This can be for the general or defined class of the public, or primarily for the welfare of the donor's family. It is called posterity or family *waqf* when the primary beneficiaries are the donor's relatives, friends or neighbours, whereas it is referred to as public or philanthropic *waqf* when its beneficiaries have no this kind of restriction. Both family and philanthropic *waqfs* are socio-economic *waqfs* as they are established for the provision of essential needs, reducing poverty and ensuring socio-economic growth and sustainable development.

Waqf is studied from different dimensions, including the legal and jurisprudential, historical-civilizational, managerial, investment, accounting and socio-economic aspects. Within these, the socio-economic dimension stands strategically important. While all other aspects are significant, as far as the overall goal and essence of *waqf* is concerned they are linked essentially to the means and procedures, while the socio-economic dimension is what is connected to the end; the *raison d'état* of the *waqf* institution. In this regard, therefore, *waqf* should be seen as an organized socio-economic development institution, governed by the Islamic legal, jurisprudential and economic principles. It is a philanthropic institution administered for the purpose of uplifting people's living standards through sustainably addressing their needs, building their earning capacities and enhancing their general socio-economic wellbeing. Fundamentally, *waqf* has socio-economic ends achieved through multidimensional means.

The Prophet (peace be upon him), *ab initio*, stressed the particular significance of the socio-economic dimensions of *waqf*. He directed the companions towards establishing *waqfs* that were targeted at providing public welfare and addressing the needs of the poor, the needy and the less privileged. The contents of most *Ḥadīth* reports used in the *waqf* literature emphasize not the juristic aspects but more of the socio-economics of the *waqfs* in question. In fact, as demonstrated by Kahf (2000), most of the juristic aspects of *waqf* were gradually developed through ijtihad, based on the evolving developments in *waqf* practice as part of the scholars' efforts to respond to emerging questions on *waqf* administration and its utilization.

Similarly, an analysis of the practice of *waqf* in most parts of Muslim history, starting from the Prophet's time, reveals that it was understood more as an all-encompassing socio-economic development instrument than merely a religious institution *per se*. Hence, while all the companions of the Prophet (pbuh) who had the means were reported to have established *waqfs*, most of their endowments were socio-economic, created for the welfare of the poor, the needy and the less privileged, including their families. From Umar's *waqf* of the Khaybar land, to Abu Talha's Bayruhā' orchard and Uthman's Rūma water-well, the Prophet's guidance was to establish *waqfs* that would have direct bearing on improving the welfare of the public and promoting socio-economic well-being. The Prophet himself established more philanthropic-socio-economic *waqfs* than religious ones. Except for his mosques, his reported *waqfs* were a mule, weapon and a piece of land endowed for the poor and the needy and seven orchards, which, according to Aisha, he endowed for the welfare of the clans of Banū Abdul Muttalib and Banū Hāshim (Bayhaqī, 6/160, see Sabri, 2011). He divided the acquired lands in Khaybar into 36 portions, shared 18 among the mujahidin and retained 18 as *waqf* for public welfare. He also contracted the *waqf* lands to the Khaybar Jews on *muzāra'ah* basis (Kahf, 2000, pp. 30–31).

This broad understanding of *waqf* continued through the periods of the companions, to the Umayyad, Abbasid and Mamlūk dynasties, until it culminated into its peak under the Ottomans. Hence, in the 18th century Turkey, only 29% of *waqfs* were strictly for religious purposes, 25% for supporting revealed and acquired sciences, and the remaining 46% dedicated to socioeconomic, philanthropic courses. In the 18th century Aleppo, "non-religious", socio-economic *waqfs* were 65%, with the remaining 35% dedicated to religious activities (Kuran, 2001, p. 851).

The centrality of socio-economic *waqf* can further be illustrated by the fact that the flourishing of religion and spirituality itself is, to a reasonable degree, a function of the socio-economic condition. The effective functioning and sustainability of religious institutions rely heavily on financial resources the most as reliable means of generating, which is, as testified by historical evidence, the investment *waqfs* that generate resources for the institutions. Likewise, economic *waqfs* have the tendency of changing the socio-economic status of the populace through interventions that make them economically self-sufficient, and move them up the poverty line, lifting them from charity recipients to prospective donors. The multiplier effect on religion itself can be seen at least in two ways. One, the number of the needy will reduce, thereby leaving around more resources that could be channelled to various developmental projects, including the support for, and propagation of religion. Two, uplifting people's living standards implies upgrading their capacity to consume, save and possibly invest, and even have more time and better psychological preparedness to practice religion. It also expands their propensity to make charities and finance religious development. Even for the establishment, maintenance and enhancement of religious *waqfs*, therefore, socio-economic *waqfs* are essential.

Waqf economics and the study of *waqf* in Islamic economics

The term *waqf* economics here denotes the aspect of *waqf* studies concerned with modelling how to mobilize *waqf* resources and efficiently utilize them in enhancing productivity, consumption, redistribution, investment and saving, and contributing sustainably towards economic development. It involves studying *waqf* from the socio-economic perspective as distinct from the legal, juristic, administrative and merely historical perspectives. Here, *waqf* is viewed as a third, voluntary sector economic institution. The focus is on theorizing, modelling and developing viable policy prescriptions on how to use *waqf* as an instrument for wealth creation, income distribution, poverty alleviation, infrastructural development and economic growth and development. This requires a shift in *waqf* studies from the nostalgic romanticizing of the glorious past of the *waqf* sector, to more pragmatic, creative and innovative intellectual efforts towards mainstreaming it in the global economic landscape as an indispensable not-for-profit institution, capable of stimulating growth and contributing significantly towards attaining the global sustainable development goals (SDGs).

Early writings on modern Islamic economics seem to have accorded secondary attention to *waqf* as a key instrument of wealth distribution in the Islamic system, rather emphasizing more the role of *zakāh*. Islamic economics was, therefore, mostly projected as no more than capitalism minus interest plus *zakāh* (Hoffmann, 2002; Zaman, 2019, p. 84). The elimination of *ribā* and the entrenchment of *zakāh* came to be regarded as *the* twin building blocks of Islamic economics (Qaradawi, 2011). One, therefore, finds scarce reference to *waqf* as an important economic institution with any significant place in the schemes of Islamic economics. For example, Mawdudi's (2013) compendium on the *First Principles of Islamic Economics* makes only two passing mentions of *waqf*, both under the discussion of *zakāh*, even as *zakāh* itself has been copiously discussed in a total of over 40 pages. Chapra (1992) only mentions the term *awqāf* three times, while dedicating particular analysis on *zakāh* in a total of about a dozen pages. Again, in Siddiqui (2001), "awqāf" occurs only once (p. 118), even as *zakāh* is mentioned and discussed in about a dozen instances. Even as he calls for empirical studies on the behavioural assumption of Islamic economics, which postulates that humans are not only motivated by self-interest but also by their care for others, he referred only to *zakāh*, without any reference to *waqf*. In short, Hasan (1998, p. 4) asserts that most Islamic economists consider zero interest, payment of *zakāh* and profit-sharing ratio "or their mix" as *the* "more relevant variables for designing an Islamic economy of their vision".

Even recently, Khan (2019) seems to have skipped *waqf* in the schemes of the Islamic economy. A main task ahead of Islamic economists, he suggests, is to present "how *zakāh* can meet the challenge of alleviating poverty". However, since reality proves the inability of *zakāh* to address poverty in the Muslim world as earlier assumed, especially given the inflexible nature of *zakāh* laws, then, he further argues, "the only option left to redistribute income and wealth" is to resort to "secular legislations" (p. 50). Capitalizing on this kind of treatment for *waqf*, some ardent critics of Islamic economics faulted the Islamic economists of not giving any central role to *waqf*, "if any at all", in their vision of an Islamic economic system such that even Haneef's 1995 survey on modern Islamic economic thought provides no index entry for the concept (Kuran (2001, p. 845).

What could have explained this less attention towards *waqf* and more on *zakāh*, even as *waqf*, not *zakāh*, is the most important wealth distribution institution throughout Islamic history (Cizacka, 2018, p. 3)? The status of *zakāh* as the third pillar of Islam and an obligation upon all believers with the required surplus makes Islamic economists pay particular attention to it. The Qur'ānic emphasis on its observance as a distinct characteristic of all believers (Qur'ān 2:3; 23:4), and its unequivocal condemnation against its evaders (Qur'ān 3:34–35) are but a few reasons for its centrality in the scheme of things in an Islamic economy. This is in addition to the *Ḥadīths* that describe it as an instrument for income redistribution and poverty reduction, which should be collected from the rich and channelled to the poor and the needy for the purpose of uplifting their living standards. Since the first sources of Islamic economics are the Qur'ān and *Sunnah*, then any attempt to formulate an Islamic economic vision will certainly attach importance to *zakāh*. And, if the obligatory nature of *zakāh* is added to the fact that while it is mentioned dozens of times in the Qur'ān, the term *waqf*, which is a voluntary charity, has not been directly mentioned therein, then it is possible for *zakāh* to, in some circumstances, receive more scholarly attention.

Waqf might have also received less attention due to the negative impact of the deliberate colonial policies towards the complete uprooting of its practice, knowledge and proper understanding as a veritable socio-economic institution from the Muslim world. These orchestrated policies – a fact calculatingly and conspicuously ignored by the staunch critics of Islamic economics and the *waqf* system like Timur Kuran (see, e.g. Kuran, 2001, 2013) – succeeded in diverting Muslim attention from it and eroding confidence in its socio-economic relevance. In countries like Egypt, Turkey, Algeria, Tunisia e.g., new government policies submerged *waqf* assets with government properties and led to the distribution of vast *waqf* properties through land reforms and other government programmes. In some of these countries, the governments took over the financing of some religious schools and mosques hitherto fully funded by well-developed *waqfs* (Kahf, 2011, pp. 53–54). The colonialists destroyed several *waqf* records, which could serve as sources of knowledge and information on the economic vibrancy of the system, and that could have distanced Muslim thoughts about its socio-economic place after colonialism.

The 1990s saw a marked progression in writings by Islamic economists on *waqf* as evidenced by various studies (see e.g. Kahf, 1998, 2000; Cizakca, 1993, 1995, 2000; Mannan, 1999; Zarqa, 1994; Sadeq, 2002, etc.). From the early 2000s, *waqf* received increased attention due partly to the overall re-evaluation of the direction of Islamic economics and the realization of a noticeable deviation from the wider developmental vison and aspirations, as well as the philosophical underpinnings upon which its foundational discourse was built (see Chapra, 2000, p. 375; Siddiqui, 2008, p. 81; Asutay and Zaman, 2009, p. 74; Islahi, 2015; Zaman, 2012; Haneef, 2011, p. 90; Asutay and Yilmaz, 2018, p. 374). It is thought that the early vision of Islamic economics related to reducing poverty and inequality and engendering a comprehensive pro-poor growth could not be accomplished through only removing interest and entrenching a *zakāh* system and Sharīʿah-compliant finance (see Farooq, 2008, p. 43; Haneef, 2011, p.78).

Farooq (2008, p. 41) describes it as part of the "poverty of Islamic economics" to maintain "romanticized historical impressions" about the role of *zakāh* while neglecting other important institutions and factors that shaped the Muslim economy. He queries the common overblown role of *zakāh*, which portrays that in early Islamic history, due to the proper *zakāh* administration, no eligible *zakāh* recipient was found, as if *zakāh* was the only redistributive mechanism. Farooq himself, however, narrows down the alternative sources, asserting that "Much of the resources that helped minimize the impact of poverty came from conquests and booties therefrom" and increased flourishing of income generating activities due to deliberate government policies (p. 46). He made no reference to the high level of philanthropy and social solidarity in the society and the significant role of the voluntary sector in eradicating their poverty. *Waqf* was functional then, especially from the time of Caliph Umar who, after observing a rapid increase in the creation of *waqfs*, established a department (*dīwān*) with qualified employed staff and came up with a series of other policies for the development of the *waqf* sector (see Sabrī, 2011).

Meanwhile, revisiting the assumed high impact of *zakāh* and Islamic finance led to a shift towards exploring other more dynamic and poor friendlier institutions, of which *waqf* is crucial. Reference to it began to increase in Islamic economics writings. A conference on the developmental role of *waqf* organized in 1993 by the Kuwaiti Ministry of *Awqāf* and Religious Affairs as part of its new vision for promoting *waqf* education and practice became a watershed in *waqf* reform, with far reaching recommendations. Similarly, by 2003, the Islamic Economics Research Centre of the King Abdul Aziz University made *waqf* one of its priority research areas and began *waqf* research projects (Islahi, 2003). Currently, various institutions offer courses on *waqf*, including regular academic degrees as the Masters in *Waqf* Economics in Indonesia. These have led to numerous academic dissertations and dozens of publications in Arabic, English, Bahasa, Urdu and other languages. The Islamic Research and Training Institute (IRTI), in collaboration with the Kuwait *Awqāf* Foundation prepared a Model *Waqf* Law in 2012 as a step towards having harmonized *waqf* laws and practice globally.

The establishment of the International Centre for *Waqf* Research (ICWR) in 2013 by the International Islamic University Malaysia (IIUM) as the first centre of its kind was another giant stride in boosting *waqf* studies. The launching of the ICWR was merged with the maiden edition of the Global *Waqf* Conference (GWC), which has now become an annual platform for international *waqf* researchers, scholars and practitioners. So far, the conference has been conducted in Malaysia (2013 and 2019), Turkey (2014), The Russian Federation (2015), UK (2016), Indonesia (2017) and Thailand (2019). The themes of the GWC cover various aspects of *waqf*, including the issues of management, *waqf* and *maqāṣid al-Sharīʿah*, and the need to make *waqf* a way of life and mainstream it as a third sector economic institution.

Correspondingly, since the launching of the United Nations' SDGs in 2015, *waqf* has attracted renewed attention because of its potentials, along with *zakāh*, for contributing significantly towards the attainment of the SDGs (World Bank, INCIEF and ISRA, 2019). With this, scholars continue to debate various aspects of *waqf*, trying to chart new programmes for global *waqf* reform.

Socio-economic *waqf* and the trending paradigms in *waqf* economics

In a recent article on the potential of *waqf* in the contemporary world, Syed Khalid Rashid opens a fresh chapter in *waqf* discourse. He begins from the ground that at various critical historical junctures when revenue deficit prevented Islamic states from providing expensive essential public welfare services, it was the *waqf* institution that came to its rescue, solely taking over their funding. This made *waqf the* "Third Arm of the State" (Rashid, 2018, p. 53). The relevance, dynamism and efficacy of the institution has, however, been lost now and a key to its restoration lies in rigorous *waqf* research and development. He calls for the wide popularization of *waqf* as an alternative to the dwindling government provision of social welfare, especially in the Third World.

Rashid's main thesis, however, is that given the difficulty in creating new *waqfs* due to the fewness of rich Muslims who can create new *waqfs* and the long time required for generating awareness on creating new *waqfs*, then the "obvious answer" to the question of *waqf* sector revival is to focus on developing already existing *waqf* properties that are "lying in dilapidated condition, to generate income for social welfare" (Rashid, 2018, p. 54). Rashid's paper elicited comments from scholars who corroborate his view on the imperative of paying attention to *waqf* research and exploring *waqf* for development (Haneef, 2018; Alam, 2018; Nienhaus, 2018). It generated additional dimensions to the ongoing debates on certain issues related to the economics of *waqf*, some critical of which are discussed below.

Priorities in waqf *reform*

Volker Nienhaus is less comfortable with Rashid's prioritization of "massive *awqāf* development" as the first step in *waqf* reform, which also promises a sure way for increasing *waqf* incomes in hundreds of millions. This, for Nienhaus, would rather come with a number of negative side effects. Converting *waqf* lands into rentable shopping centres, for instance, would make meaningful positive impact only if the purchasing power of the people has been augmented. Without increasing consumers' income, developing a *waqf* land into a shopping complex in their locality will only provide alternative choices for them and reapportion their expenditure between the competing centres without increasing the combined rental revenues generated by the two shopping centres. The new centre only gains "at the loss of the older commercial center" (Nienhaus, 2018, p. 92). In fact, a predevelopment step is even the identification of the to-be-developed *waqf* properties (Haneef, 2018, p. 74). Another view holds that the first step in *waqf* reform is "the democratization and decentralization of *waqf* administration", which would then be followed by concerted mobilization efforts (Alam, 2018, p. 105). In short, the idea of prioritizing the development of *waqf* properties as the only starting point for reinvigorating the *waqf* sector needs further deliberation.

It can be said that prioritizing the identification or development of *waqf* lands, or democratizing *waqf* administration, are all important starting points depending upon context. They might especially apply to jurisdictions with undeveloped *waqf* assets like Malaysia and India. The ideas do not, however, consider communities where idle *waqf* properties do not, or at least, seldom exist. Nigeria, for example, with about 120 million Muslim population and a poverty rate as high as 76–80% in most Muslim communities, has a near absence of socio-economic *waqfs*. Here, the priority is on creating a fresh *waqf* atmosphere rather than developing *waqf* properties that rarely exist, especially those dedicated for socioeconomic development, not for purely spiritual purpose.

Deemphasizing the creation of new *waqfs* due to the fewness of rich Muslims also appears more observational than substantiated. It does not put to consideration the evidences about the high rate of philanthropy that still exists in most Muslim communities as evidenced, for instance, by the increase in the creation of large mosques (World Bank and IDB, 2016, p. 166) and "organized forms of charity " that is gaining more grown in Muslim communities (Morvaridi, 2015, p. 142). The view also appears to be based on a one-man-*waqf* perception, which has paid less attention to the growing popularity of group *waqf* (*waqf jamā'ī*), which is also occasioned especially by the use of crowdfunding and other modern technology-based *waqf* mobilization techniques. Lastly, the focus has been on mega-*waqfs*, ignoring the possibility of creating various micro-*waqfs* by individuals, groups and corporate bodies, an important stepping stone to reducing poverty and establishing the *waqf* culture in poor communities. With all this, a more practical approach to global *waqf* reform might be a concurrent pursuit of developing the existing large *waqf* properties as a medium- to long-term project – bearing in mind also the constraints that might exist in terms of resources and logistics – while promoting the idea of creating new *waqfs* in jurisdictions with no or less developable *waqf* properties.

Direction of waqf *research*

Islahi (2003) submits that historically, *waqf* has been viewed as a religious institution, and that viewing it as a socio-economic institution is a recent phenomenon. A more widely held position, however, suggests that until the 19th century, *waqf* was seen more as a socio-economic institution. The highest practiced *waqfs* in Islamic history are those concerned with the care of the poor, needy and the wayfarers. Restricting *waqf* to merely a religious institution is what rather represents a recent phenomenon (Kahf, 2000, p. 37; Raysuni, 2014; Haneef, 2018).

Empirical evidence suggests a prevalent post-colonial, "misdirected" perception about *waqf* among Muslims; one that sees no link between it and socio-economic development. Hence, even with a renewed focus on *waqf* studies, more attention goes to its legal, administrative and jurisprudential angles, with only rare exceptions. This is even as the renewed interest in *waqf* is born partly out of the realization of its socio-economic role in history and the need to revive and situate it to play similar roles in the contemporary world (Haneef, 2018, p. 78). For instance, of the 289 entries in a bibliography on *waqf*, only 25 (8.7%) discussed its socio-economic role. The rest study its laws, jurisprudence, administration, documentation and history. And, even among the 146 country case studies, only about three touched on some aspects of the socio-economics of *waqf* (see Islahi, 2003). Similarly, a recent *waqf* literature survey in the 60-year post-independence Malaysia found that only 10.6% of the studies covered the socio-economic role of *waqf*; 44.4% were on its management and development, while legal and jurisprudential studies together consisted of 15% (see Dahlan and Mohamad, 2019, p. 59). This means that research attention is given more to the means and procedures than the real ends and impact of the institution.

Waqf *as a third sector economic institution*

There is a growing consensus on the need to promote and recognize *waqf* as a crucial third sector economic institution; a sector that has not been recognized in mainstream economics (Kahf, 2011; Arshad and Haneef, 2015; Khan, 2017; Abojeib *et al.*, 2018, p. 362; Rashid, 2018; Haneef, 2018; Arshad *et al.*, 2018, p. 479). The third sector is the non-profit sector that contributes to equitable income distribution, poverty reduction and economic development through various voluntary activities conducted outside the private and public sectors.

The classical macroeconomic theory assumes full employment in relation to the market segment of the economy. In the Islamic system, however, full employment entails the entire economy, including the third sector in which labour might be working "on a wage concept quite different from the market wage" (Abojeib *et al.*, 2018, p. 467). Hence, all the poor supporting activities; those conducted "to take care of equity considerations", which take place outside the market, deserve recognition recognized as a formal sector "beyond the market economy". While conventional economics downplays these for not being considered wealth-creating activities, Khan argues that philanthropic activities are no less important than those carried out in the market. They should be seen, therefore, as complements to market economics, which can help harmonize the macroeconomic objectives of stability and growth with those of poverty reduction and sharing prosperity

(Khan, 2017, p. 3; Abojeib *et al.*, 2018, p. 363). The two-sector model has failed to address poverty, environmental degradation, inequality and economic crises due to its negligence of several non-profit institutions. A three-sector model that is characterized by more economic viability and ethical superiority is better placed in terms of developing a more inclusive and more participatory economy (Arshad and Haneef, 2015; Arshad *et al.*, 2018, p. 479). Building the third sector and mainstreaming it into the market economy is, therefore, a strategic macroeconomic step with the potential of promoting growth, equity and stability (Abojeib *et al.*, 2018, p. 368).

Although the third sector consists of many non-profit institutions like cooperatives and social enterprises (Arshad *et al.*, 2018, p. 479), *waqf* stands uniquely significant within the third sector. In fact, Rashid (2018, p. 53) suggests that *waqf* served as "*the* Third Arm of the State" in history, while Haneef (2018, pp. 71–72) calls for recognizing it as "*the* third sector", because of its wider potentials compared to other voluntary organizations.

The economic role of waqf

In a departure from the general paradigm within *waqf* economics debates, Khan (2017) maintains that what Islamic economics knows is "to take care of the masakeen around" through an entrenched system of consistent giving of support to the have-nots by the haves. Using philanthropic resources to build capacity and create jobs for the poor is, therefore, not a priority in Islamic economics. After all, "We do not find any reference in the Qur'ān and *Sunnah* about unemployment or ensuring full employment in an Islamic economy" or to "unemployed labor or ensuring full employment in an Islamic economy" (Khan, 2017).

The above view by Khan seems to project Islam's goal in relation to the poor as that of maintaining them as perpetual charity collectors. But, it is important to state that the revelation's silence about a specific mention of economic terms like job creation, capacity building and full employment, or others like growth, development, economics and Islamic economics, which themselves are not specifically mentioned in the divine texts, does not render them irrelevant. By its nature and style, the Qur'ān, like the *Sunnah* to a lesser extent, mostly formulates broad objectives and general principles regarding matters, leaving the details to be discerned through the standard processes of inductive and deductive cogitation and intellectual reasoning (*tadabbur, istimbāt* and *ijtihād*), using the tools of jurisprudential principles (*usūl al-fiqh*), legal maxims (*al-qawā'id al-fiqhiyya*) and higher intents of Sharī'ah (*maqāṣid al-Sharī'ah*. It articulates the principles and objectives (*maqāṣid*) and allows for flexibility in the means (*wasā'il*) towards achieving them. In general, the Sharī'ah frowns at poverty and joblessness and calls for individual and collective efforts towards fighting them. As a general objective, it seeks to remove all forms of harm (*mafsada*) and hardship (*darar),* including social and economic hardships associated with unemployment, underemployment and poverty, and also to ensure human prosperity and well-being (Lamido, 2016, p. 98). The means to achieving these are essentially *ijtihād*-based, irrespective of what appropriate terminology might be found suitable for describing the processes.

In line with this, the overwhelming position is that *waqf* resources should be utilized in upgrading the socio-economic status of the receiver through capacity building, job creation and economic empowerment (see, e.g. Sadeq, 2002; Shirazi, 2016; Haneef *et al.*, 2014; Shaikh *et al.*, 2017). The relevance of the *waqf* sector should be seen in the broad economic sense. Its particular relevance to Islamic economics is epitomized by its propensity to contribute significantly towards creating capital, generating employment, increasing the supply of public goods and services, reducing government expenditure, distributing income more efficiently, reducing interest rates and even contributing towards the elimination of interest in the economy (Cizakca, 1998, pp. 44–47).

Within the context of the broad objectives of Islamic economics, the goal of *waqf* should be to upgrade the income of beneficiaries, expand their propensity to consume and gradually turn them to a new generation of players in the real and financial sectors through creating a positive shift along the socio-economic ladder. *Waqf* is not only for the temporary boosting of consumption and lessening starvation, but also for creating capital, uplifting entrepreneurial skills and achieving economic empowerment through training and education.

Waqf *and the sustainable development goals (SDGs)*

A trending *waqf* discourse has to do with its potentials for contributing to the SDGs. It has been argued that the philanthropic sector to which *waqf* belongs can contribute to the SDGs in no smaller magnitude than the private and public sectors. *Waqf* according to this view can finance most of the "*maqāṣid*-oriented SDGs" and fast-track their attainment in majority Muslim countries (Abdullah, 2018, pp. 160–161). It is undeniable that if properly utilized, *waqf* is virtually connected, inseparably, to all the 17 SDGs. In fact, *waqf*'s real essence and philosophy is to contribute to eradicating poverty, hunger and inequality and also contribute to improved health and well-being, clean water and sanitation, decent work and economic growth and develop sustainable cities and developed communities that are all the hallmark constituents of the SDGs.

So far, the few studies on *waqf* and SDGs seem to have focused more on the perceived potentials of *waqf* towards contributing to the SDGs (see, e.g. Abudllah, 2018; Latif *et al.*, 2018). Beyond expressing those potentials, however, developing *waqf* as a comprehensive socio-economic institution requires well-articulated frameworks, viable models and redefined priorities in approaching the global renewal and development of the *waqf* sector. Vast undeveloped *waqf* lands, poorly managed *waqfs* by grossly less qualified managers as is often the case in the global *waqf* arena, as well as poor *waqf* legislations and regulatory frameworks that characterize various *waqf* regimes, can hardly lead to a meaningful contribution of *waqf* to the attainment of the SDGs. Some nine years to the expiration of the SDGs, several Muslim countries, especially in sub-Saharan Africa, are yet to have the required bold steps towards institutionalizing *waqf* as a robust institution that has any place in their socio-economic permutations. To what extent, and in what pragmatic ways, can the *waqf*-SDGs potentials be harnessed, therefore, is something that requires further analysis by Islamic economists.

Towards a new research focus in *waqf* economics

Maximum realization of *waqf* potentials will significantly be determined by the extent to which attention is given to *waqf* research and development. Hence, scholars stress the centrality of coordinated approach to this aspect. An important research priority area is that of studies on awareness, perception and attitudes towards organized philanthropy and *waqf* in particular, including the factors determining *waqf* practice and those creating a restricted view of *waqf* as merely a religious institution without socio-economic relevance.

A second area is the survey of *waqf* lands and their potentials of development for socio-economic purposes. While studying perception, awareness and attitudes is expedient in terms of *waqf* mobilization, identifying *waqf* properties through surveys is key to their proper development. To demonstrate the centrality of survey of *waqf* properties, it has been found that while the total number of *waqfs* in India was officially held to be 100,000, a survey revealed that they were actually 490,000 (Rashid, 2018, p. 54). Formulating *waqf* development plans would largely be a function of a proper survey.

Empirical socio-economic studies are also fundamental to developing viable *waqf*-based development framework. Generally, despite the commendable strides in Islamic economics research, there is an apparent dearth of studies related to the questions of deprivation, poverty, inequality, redistribution and development (Farooq, 2008, p. 43; Islahi, 2015, p. 14).

Surveys are needed to unearth the socio-economic realities, and peculiarities of communities. It is based on this, and on critical studies of *waqf* models used in history and constant evaluation of those currently being implemented, that suitable *waqf*-based models can be developed for utilization in different jurisdictions. Given their differences in terms of the extent of poverty, unemployment and deprivation, the models applied in the upper-middle economies might not be relevant to the lower-middle-income communities. While certain jurisdictions need mega-*waqf* models, others will prefer viable micro-*waqf* models that can help in mobilizing and utilizing *waqf* for short- to medium-term impact on poverty reduction, upgrading of purchasing power, building skills and creating capital for micro, small and medium enterprises.

The micro-*waqfs* referred to here are those *waqfs* conceived, mobilized, managed and distributed on a small scale level essentially to provide basic needs and reduce poverty. They can be created from pools of little contributions generated through strategic mobilization and invested in short- to medium-term low-risk investments for the purpose of uplifting the earning capacity of the poorest of the poor. They can be property or cash *waqfs* created by middle-income individuals or families, or even by a group of low-income earners. They are limited in terms of the size and value of their corpus, management structure, their nature and the maturity period of their investments, as well as the scope of their beneficiaries. Micro-*waqf* models are to be developed based on the peculiarities of the communities where mega socio-economic *waqfs* are rare, where the idea of *waqf* is not well known and is less practiced or those that are even still at what may be termed as pre-mobilization stage of *waqf* institutionalization. The unique contribution of the micro-*waqf* is that it will be easy to mobilize and manage even where there is no engrained *waqf* culture. It will also serve as a good starting point for the gradual entrenchment of a sustainable *waqf* culture, which can grow subsequently into a mega-*waqfs* regime.

Since less attention has so far been given to evaluating the socio-economic impacts of *waqfs* even where developed benefit-yielding *waqfs* exist, this area needs to receive maximum attention. This is necessary if we have to assess the viability, successes and challenges of various *waqf*-based models, interventions and policies and ensure improvement in administering *waqf* for economic empowerment and growth.

The means to promoting socio-economic *waqf* research are numerous. One is to introduce and sustain regular *waqf*-specific conferences at the global, regional and country levels as platforms for triggering and sharing research studies and debating issues. These conferences would focus on charting defined *waqf* development agendas, evaluating progress and setting priorities in *waqf* economics. Promoting cutting-edge research studies will also require functional *waqf* research centres. In addition to the need for increased attention to *waqf* research by existing Islamic economics and finance centres and to make the IIUM-ICWR more functional for instance, there will be the need for more specialized centres across the world, especially in Muslim Universities. The centres would then pay attention to research and publications, workshops, conferences and seminars.

Economics departments and other relevant departments, especially in Muslim universities, should be encouraged to take *waqf* economics with academic seriousness. Currently, the teaching of *waqf* has not received serious organized focus even in Islamic universities. An important step is for Islamic economists to develop a curriculum for its teaching in relevant departments. Connected to this is the need to develop topics banks – based on the identified research priorities – for graduate students, which would then be promoted with the backing of research grants.

For the purpose of generating research resources, *waqf* ministries, departments, foundations and centres across the world should be encouraged to introduce/increase funding for *waqf* research and development. They can do so by dedicating certain percentages of the proceeds from their investment *waqfs* as grants for socioeconomic *waqf* research and development.

Summary and conclusions

This paper has critically reviewed some major trending developments in *waqf* research in the post-colonial era, and particularly from the advent of modern Islamic economics. The paper is built on the premise that the overall essence of *waqf*, at least the posterity and philanthropic *waqf*, which constituted the bulk of *waqfs* from the first Muslim generation, lies in its expected impact on enhancing human well-being through the provision of sustainable access to basic needs, enhancing productivity and uplifting living standards. *Waqf*, in short, is a socio-economic institution.

After arguing that *waqf* is essentially a socio-economic institution, the paper notes that *waqf* research studies focus more on the historical, legal and juristic aspects, paying less attention to the socio-economic dimensions. It emphasizes the need for prioritizing research and development in *waqf* economics with a view to mainstreaming *waqf* as a third sector socio-economic institution. *Waqf* economics represents an important next-step priority area in the development of Islamic economics as *waqf* represents the most dynamic third sector institution with highly untapped development potentials. Islamic economists should pay attention to developing various mega-*waqf* and micro-*waqf* models that are suitable for use in various jurisdictions. If *waqf* has served multidimensional roles in history based on models developed by the scholars of the times, the task of the current generation of Islamic economists would be to use the present and critically study its past with a view to creating for it a new future, to chart a holistic framework for its use as a tool for growth in line with the broad vision of Islamic economics. Innovativeness and creativity are key to the reinvigoration of the *waqf* system and ensuring its impact as a significant third sector institution.

So far, Islamic finance and Islamic social finance represent the most successful sub-sectors of Islamic economics, with the former being more developed and consolidated. The future development of *waqf* – and Islamic social finance in general – cannot be divorced from the Islamic finance industry. Harnessing the experience of Islamic finance is important in the future development of the *waqf* sector, and by extension, Islamic economics. For example, the participation of Sharīʿah experts in economics and finance at the corporate governance level is one of the major success factors in Islamic Banking and Finance (IBF) institutions. The constant interactions and intellectual engagements between the Sharīʿah experts on the one hand and the specialists in Islamic economics and finance have widened the success of IBF. *Waqf* reforms will benefit from similar kind of creative process of partnership and productive engagements. Just as *waqf* product development in takaful and capital market have expanded the possibilities of developing the *waqf* sector through modern structures (World Bank, 2016, p. 159), the IBF infrastructure can be used to promote creativity and innovation in the *waqf* sector.

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Corresponding author
Abdullahi Abubakar Lamido can be contacted at: lamidomabudi@gmail.com

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Factors influencing the intention to give *zakāt* on employment income: evidence from the Kingdom of Saudi Arabia

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Aziz Ur Rehman
IIUM Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia, Kuala Lumpur, Malaysia
Ejaz Aslam
School of Islamic Economics, Banking and Finance (SIEBF), Minhaj University, Lahore, Pakistan, and
Anam Iqbal
IIUM Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia, Kuala Lumpur, Malaysia

Abstract

Purpose – This study aims to apply the extended theory of planned behaviour (ETPB) to investigate the factors influencing the intention to give *zakāt* on employment income.

Design/methodology/approach – This study draws the required data through a survey in three main cities Makkah, Medina and Jeddah in Kingdom of Saudi Arabia (KSA). The final data sample is consisting of 650 useable questionnaires to analyse the objective of this study.

Findings – The study finds that moral norm, injunctive norm, descriptive norm and past behaviour have a significant influence on the intention to pay *zakāt* on employment income. The perceived behavioural control and attitude have a negative and weak impact on the intention to give *zakāt* on income.

Research limitations/implications – The findings of this study can be useful for the policymakers and regulators to enhance peoples' awareness to give *zakāt* to eradicate poverty and inequality in Muslim societies. *zakāt* is for the deprived people, so the consequences of this study might help to improve their liveability.

Originality/value – This study is unique because it identified the behavioural factors that affect the peoples' intention to give *zakāt* in KSA have yet to be profoundly explored in the literature. This study has gathered primary data and applied the ETPB to identify the factors influencing the *zakāt* compliance behaviour in KSA.

Keywords Theory of planned behaviour, Intention, Norms, Saudi Arabia, *Zakāt*

Paper type Research paper

1. Introduction

Zakāt is the third fundamental pillar of Islam that plays a crucial role in the redistribution of wealth to the less fortunate Muslim community to eradicate poverty (Ismail Abdel Mohsin, 2020). *Zakāt* is an act of worship that encompasses not just the spiritual aspect but the socio-financial dimension of individuals and society (Al-Qaradāwī, 1999). *Zakāt* is an essential instrument for social justice as it leads to increased prosperity in this world and increases the

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religious merit (thawab) in the hereafter as its payment purifies individuals from sins (Dhar, 2013).

On the subject of *zakāt*, the Holy Qur'ān states: "Take from their wealth (O Prophet) charity to purify and bless them, and pray for them—surely your prayer is a source of comfort for them. And Allah is All-Hearing, All-Knowing." (Qur'ān 9:103). *Zakāt* is closely linked with sadaqah and tax, but it has more importance than tax because it is mandatory, being a directive from Allah (SWT), whereas tax is imposed by the administrative authority (e.g. government). Thus, the responsibility of the local authority to utilize the *zakāt* fund for the benefit of society like as childcare, food subsidy, education, health care, housing and public transportation for the poor (Awaliah-Kasri, 2013; Huda *et al.*, 2012a, b).

Despite knowing that *zakāt* is a religious obligation, many deem paying *zakāt* as an outflow of resources and wealth, but Islamic ideology considers it a purification and an increment in wealth (Muammar and Heikal, 2014). *Zakāt* has lots of benefits individually as well as socially (Ismail Abdel Mohsin, 2020). Personally, it diminishes the tendency in one to be greedy and self-centred. Psychologically, it helps in reducing social inequalities in each society by transferring wealth from the affluent to the poor. Thus, *zakāt* works against the concentration of wealth by redistributing it to the less-privileged segments of the society, which would immensely contribute to alleviating poverty (Ismail Abdel Mohsin, 2020). Furthermore, it creates opportunities to improve the life quality and condition of the Muslim Ummah as well as the society at large (Abdullah *et al.*, 2015).

Zakāt is a critical mainstay of Islam that means dispensing an abundance of riches to the poor. Nevertheless, it is practised only by a small number of people due to lack of knowledge about various aspects of *zakāt* (including weak understanding about the individual and collective responsibility regarding *zakāt*), lack of socialization of the rich with the poor and lack of intention of the *muzakki* in cleansing his wealth and carrying out this as moral and social responsibility (Muammar and Heikal, 2014). With regard to the theory of reasoned action (TRA), attention is influenced by attitudes and injunctive norms (Bidin and Idris, 2009). Using the theory of planned behaviour (TPB), Sapingi *et al.* (2011) concluded that attitudes, perceived behavioural control and injunctive norms affected the person's attention to pay *zakāt*. Several studies use the same theory and get diversified results (Azman and Bidin, 2015; Huda *et al.*, 2012a, b; Sihombing, 2015). Thus, the factor in identifying the intention to pay *zakāt* stayed illusive, and the assessment of *zakāt* quality needs further examination. So, for this purpose, the current study is empirically investigating the factors that affect the intention to pay *zakāt* in the Kingdom of Saudi Arabia (KSA).

This study contributes to the existing literature on *zakāt* in several ways. First, this is the first study that applied extended theory of planned behaviour (ETPB) to identify the factors that affect the intention to give *zakāt* in KSA. Moreover, the present research collectively employed all three norms together: the injunctive norm, the descriptive norm and the moral norm to evaluating the *zakāt* compliance behaviour, which is ignored by the past literature. Thus, the finding of this study provides more comprehensive guidelines to strengthen the policies for the collection and distribution of *zakāt* in KSA. Second, most of the prior empirical studies on *zakāt* are predominantly focussing on Malaysia, Pakistan and Indonesia. Thus, this study extended the understanding of *zakāt* in the Middle East. Finally, on an individual level, the contribution of this study will raise awareness and motivation to the Saudi Muslims to pay *zakāt* as Muslims are obliged to promote what is right and wrong. To the best of our knowledge, the current study is novel as this is the only empirical investigation carried out so far to identify the influential factors that are affecting the intention of the Muslims of KSA to pay *zakāt*.

The remaining parts of the article are organized as follows. Section 2 reviews the related literature on *zakāt* compliance behaviour and formulates the hypothesis. Section 3 details the research methodology, and section 4 explains the empirical results and discussion. Section 5 presents the conclusion of the study.

2. Literature review

2.1 Zakāt *in Islam*

Zakāt is one of the fundamental pillars of Islam; therefore, it is mandatory for every Muslim. Muslims are required to give a specific percentage of their wealth to some designated and rightful beneficiaries of *zakāt*. The word *zakāt* is mentioned very clearly in the Holy Qur'ān (in 19 Suras and 32 Verses) and clarified in *Ḥadīth*. The recipients of *zakāt* have also been elaborately enumerated in the Holy Qur'ān as follows:

> "*Zakāt* expenditures are only for the poor, needy, employed to collect [*Zakāt*], bringing hearts together [for Islam], freeing captives [or slaves], those in debt, cause of Allah, [stranded] traveller – an obligation [imposed] by Allah, and Allah is Knowing and Wise" (Qur'ān, 9:60).

As one of the main pillars, *zakāt* payment and distribution are mandatory in Islam. Islam is a religion that promotes social justice in all aspects that is only within a person's capacity. For this reason, there are specific criteria (i.e. nisab and haul) for the obligation of *zakāt* on every person. The first set of rules for paying *zakāt* is for a person to reach puberty, to be sane and to be a free Muslim. Once those conditions are fulfilled, then the person's wealth should also enter the nisab requirement, i.e. the minimum amount of wealth required for paying *zakāt*, which is equivalent to the market value of 87.5 g of gold or 612 g of silver or equal amount any of the gold and silver. It should be noted that not all forms of wealth are liable for *zakāt*. Agricultural products and livestock, mineral, marine products, jewellery, gold, trade and money which reach or which are more than the *nisab* are liable for *zakāt*. Likewise, wealth should be growing or has the potential to develop for it to be eligible for *zakāt* (Al-Qaradāwī, 1999).

2.2 Factors affecting zakāt *compliance behaviour*

TPB is an extension of the theory of reasoned action and was proposed by Taib *et al.* (1991), which predict the link between attitudes and behaviour. Taib *et al.* (1991) added perceived behavioural control and subjective norms to assess the particular behaviour. TPB is considered as one of the most commonly used theories to explain and predict the behaviour (Huda *et al.*, 2012a, b). Thus, a gap remains between intention and action caused principally by the individuals who express a positive expectation to practice yet do not act. Therefore, additional variables (past behaviour (PB), attitude (ATT), descriptive norm (DN), injunctive norm (IN), moral norm (MN) and perceived behavioural control (PBC) were introduced in the ETPB to improve TPB's explanatory power of the behaviour (Andam and Osman, 2019; Muammar and Heikal, 2014; Mukhibad *et al.*, 2019; Sapingi *et al.*, 2011). Therefore, the present study evaluates ATT, PBC, IN, DN, MN and PB to analyse the intention to pay *zakāt*.

2.2.1 Attitude. ATT is a psychological tendency based on one's beliefs to help needy people (Shook and Bratianu, 2010). The past prominent studies found several factors that are affecting the ATT to pay *zakāt* (Huda *et al.*, 2012a, b; Kashif *et al.*, 2018; Kashif and De-Run, 2015; Linden, 2011). The ETPB stipulates that attitude influences intention to give *zakāt*, which implies that an individual with a positive attitude towards paying *zakāt* is more likely to have the purpose of paying *zakāt* on their wealth. It is supported by several prior studies which conclude that a positive attitude to give *zakāt* translates into an intention to give *zakāt* (Saad and Haniffa, 2014; Saad *et al.*, 2020; Muammar and Heikal, 2014; Rehman *et al.*, 2021). Based on this reason, the following hypothesis is developed.

H1. Attitude has a positive influence on the intention of paying *zakāt*.

2.2.2 Perceived behaviour. Based on the ETPB, PBC has a significant influence on the intention to give *zakāt*. While people who have PBC over paying *zakāt* from their employment income are more likely to have the intention to give *zakāt* (Bin-Nashwan *et al.*, 2020; Saad *et al.*, 2020). There are mixed results on this finding from the previous studies. Knowles *et al.* (2012) and Linden (2011) found that the easier it is to donate, the more likely the person is to intend to give *zakāt*. In contrast, some studies found a significant influence of PBC on the intention to give *zakāt* (Huda *et al.*, 2012a, b; Saad *et al.*, 2020; Kashif and De-Run, 2015; Muammar and Heikal, 2014). Therefore, based on the ETPB and the findings of prior studies, the present research formulated the following hypotheses:

H2. Perceived behavioural control has a positive influence on the intention of paying *zakāt*.

2.2.3 Injunctive norms. The IN are one's perceptions and assumptions about others' expectations of specific behaviours that one will or will not perform. According to ETPB, normative components (i.e. IN, DN and MN) influence the intention to give *zakāt* (Sapingi *et al.*, 2011). The assumption holds that the more perceived social pressure by the underlined group (injunctive norm), the more a person is likely to provide *zakāt* from their employment income (Huda *et al.*, 2012a, b). Kashif and De-Run (2015) in Malaysia found that the perceived social pressure influences the intention to donate money in the context of Muslim majority countries like Malaysia. Besides, some studies found an insignificant relationship between the IN and the intention to pay *zakāt* (Linden, 2011). Thus, the relationship between IN and intention to pay *zakāt* is still unclear. Therefore, based on the ETPB, the present study proposes the following hypotheses:

H3. Injunctive norm positively influences the intention of paying *zakāt*.

2.2.4 Descriptive norms. Based on ETPB, DN perceive that the reference group committed to pay *zakāt* (Haji-Othman and Alwi, 2017). In this case, the higher the perception, the more likely a person would emulate the behaviour intention to pay *zakāt*. The study conducted by Andam and Osman (2019) stated that the DN have a significant effect on the intention to pay *zakāt* on employment income. It shows the higher the perception, the more likely a person would emulate the behaviour intention to pay *zakāt*. *Zakāt* is not only motivated by religious factor but also by self-satisfaction and organizational factors (Bin-Nashwan *et al.*, 2020). In contrast, some studies showed an insignificant relationship between DN and the intention to give *zakāt* albeit in the context of the Southeast Asian countries (Kashif and De-Run, 2015) and advanced countries such as England (Linden, 2011) and Australia (Smith and McSweeney, 2007). However, consistent with the ETPB and the general view of previous studies, the present study developed the following hypothesis.

H4. Descriptive norms positively influence the intention of paying *zakāt*.

2.2.5 Moral norms. MN posit that paying *zakāt* is a personal responsibility of a person to help others in need. Moral norms depend on ethics, which are perceived as right or wrong (Andam and Osman, 2019). Moreover, MN can be decisively having a specific influence on intention. Linden (2011) stated that MN have the most substantial influence on intention. Several studies on charitable paying behaviour also affirmed that moral norms have a significant impact on the intention to pay *zakāt*, particularly in the context of Malaysia (Kashif and De-Run, 2015) and in Australia (Knowles *et al.*, 2012; Smith and McSweeney, 2007). This study, hence, extends prior research in investigating the MN relationship with *zakāt* compliance behaviour. Thus, based on the ETPB, the present study constructed the following hypotheses:

H5. Moral norms have a positive influence on the intention of paying *zakāt*.

2.2.6 Past behaviour. ETPB explains that past behaviour shows the person engagement in paying *zakāt* in the past, thus the higher the likelihood to intend to repeat the same action in the present. The prior studies have employed PB in predicting charitable paying behaviour

(Muammar and Heikal, 2014). The finding of several studies confirmed that the more a person had given charity in the past, the more it is likely for that person to repeat the same behaviour in future (Kashif and De-Run, 2015; Knowles *et al.*, 2012; Smith and McSweeney, 2007). Likewise, studies on *zakāt* compliance behaviour asserted that there is a significant positive correlation between PB and the intention to give *zakāt*. This implies that those who had engaged in the behaviour of paying *zakāt* in the past are likely to have the intention to pay *zakāt* (Muammar and Heikal, 2014). Therefore, consistent with the ETPB and the findings discussed above, the present study formulated the following hypotheses:

H6. Past behaviour has a positive influence on the intention of paying *zakāt*.

Most of the researchers are examining the behaviour to pay *zakāt* by investigating the demographic variables such as age, gender, education, marital status, income and several dependents that are influencing on the intention to pay *zakāt* (Hassan *et al.*, 2013). Also, the study on *zakāt* compliance has identified several factors that comply with the theory of TRA (Bidin and Idris, 2009) and TPB (Huda *et al.*, 2012a, b). Most of the studies on *zakāt* compliance are from Malaysia (Mustafa *et al.*, 2013), Indonesia (Awaliah Kasri, 2013; Huda *et al.*, 2012a, b; Muammar and Heikal, 2014), Pakistan (Ahmad *et al.*, 2018; Suhaib, 2009) and Bangladesh (Belal and Ali, 2013). However, only a few studies are available that investigate the *zakāt* compliance behaviour of the Muslims in KSA (Ummulkhayr *et al.*, 2017). Thus, the current study attempts to fill the gap in the literature by testing the ETPB with the most recent primary data from three main cities of KSA to investigate the actual factors that affect *zakāt* compliance behaviour. ETPB is unique because it added several factors like PB, IN and descriptive norm that are influences on the intention to pay *zakāt* rigorously (Muammar and Heikal, 2014; Sapingi *et al.*, 2011). Moreover, KSA is the birthplace of Islam and should be an example to the other Muslim majority countries in terms of the institutionalization of *zakāt* and compliance. To the best of our knowledge, there is minimal literature on factors affecting the intention to give *zakāt* in the KSA. Therefore, the present study evaluates ATT, PB, IN, DN, MN and PB that are affecting the intention to pay *zakāt* in Figure 1.

3. Research methodology

3.1 Sample

Keeping aligned with the research objectives, the data for this study were collected via questionnaires distributed in an online survey. This method is relatively economical and offers more convenience to the respondents (Rowley, 2014). A total of 900 questionnaires were distributed to employees of the various institutions, including private schools, state universities and different government offices such as the Department of Islamic Institution and Islamic Community, private institutions and Islamic Development Bank (IsDB) in three main cities Makah, Medina and Jeddah in KSA. A total of 697 questionnaires were retrieved, among which 650 are useable for the data analysis. The response rate is 77%, which is acceptable for data analysis. The details on the distribution and collection of questionnaires are presented in Table 1.

3.2 Research instrument

The study adapted various questions from previous studies (Haji-Othman *et al.*, 2017; Kashif and De Run, 2015; Saad *et al.*, 2010). The questionnaire is organized into two sections. The first section focuses on the demographic variables. Section two is categorized into seven sub-sections for all items (attitude, perceived behaviour control, injunctive norms, descriptive norms, moral norms, past behaviour and behaviour intentions). This study used five-point Likert scales (for example, 1 = strongly disagree, 5 = strongly agree) to ask the response of

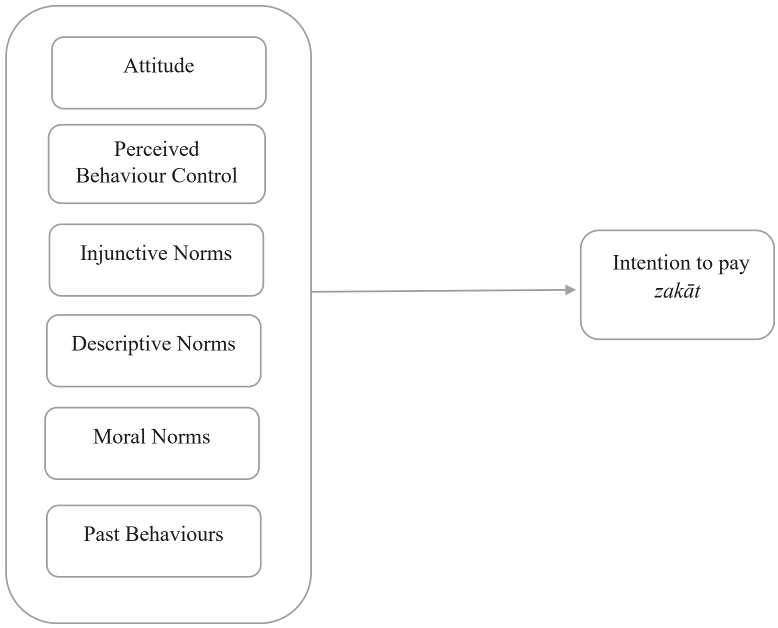

Figure 1.
Theoretical framework

Table 1.
Distributed and collected questionnaires

Department/Agency	Distributed	Collected	Response rate
Academic institutions	270	221	81%
Private institutions	300	241	80%
Islamic banks	150	109	72%
Government institutions	180	126	70%
Total	900	697	77%

the respondents. In the first subsection, the factor "attitude" to pay *zakāt* is measure through eight items adopted from (Saad *et al.*, 2010). Secondly, the PBC adapted from the Haji-Othman *et al.* (2017) encapsulated five different elements. Third and fourth, the IN (perceived social pressure by a relevant group) and DN (the perception that the mattered group gives *zakāt*) have four items each. Fifth and sixth, MN and PB intention measured, adopted from Kashif and De Run (2015), have four and five items, respectively. In the last section, the intention to pay *zakāt* comprises of five items. The questionnaire is displayed in Table A1.

3.3 Model specification and econometric model

This study employed the standard multiple regression to analyse the factors that affect the intention to give *zakāt* on employment income. Standard multiple regression is used because it can determine the relative influence of various factors to the intention to give *zakāt* and also has the ability to identify the outliers and anomalies. Furthermore, autocorrelation also identified through the Durbin Watson and also recognized the reliability and validity of the data. To examine the factors that affect the intention to give *zakāt* (H1–H6), the following regression model is developed:

$$\mathrm{INT}_i = \alpha_0 + \ \beta_1\,\mathrm{ATT}_i + \ \beta_2\,\mathrm{PBC}_i + \ B_3\,\mathrm{IN}_i \ + \ B_4\,\mathrm{DN}_i + \ B_5\,\mathrm{MN}_i + \ B_6\,\mathrm{PB}_i + \varepsilon_i$$

where α is the intercept, i corresponds to respondents. INT refers to behaviour intention. ATT refers to the attitude, PBC refers to the perceived behaviour control, IN refers to the injunctive norms, DN refers to descriptive norms, MN refers to moral norms, PB refers to the past behaviour and e refers to the error term.

4. Results and discussion

4.1 Descriptive statistics

Table 2 shows the descriptive statistics of dependent and independent variables. The mean and standard deviation (SD) value of attitude are 4.68 and 0.69, respectively. This result implies that the Muslims in KSA have a favourable attitude towards paying *zakāt*. The mean and SD value of perceiving behaviour are 4.23 and 0.63, which represent that the employees perceived themselves to have control over the payment of *zakāt* on their wealth. The mean and SD value of injunctive norm are 4.31 and 0.62, respectively, implying that most of the respondents are perceived to have the most influential social pressure to give *zakāt* on their income.

The mean and SD value of DN, at 4.22 and 0.64, indicate that most of the reference group gives *zakāt* on their wealth. Similar to the IN, the majority of the people have the mean score of 4.31 and 0.62, indicating a high intention to pay *zakāt* on their income. The mean and SD value of MN are 4.54 and 0.51, which is relatively high and suggests that employees in KSA were paying *zakāt* as their moral responsibility to help others. Regarding PB, the mean and SB value are 4.05 and 0.76, showing that the people have given *zakāt* on their income in the past. Lastly, the mean and SD value of intention are 4.19 and 0.68, which indicates that employees in KSA have strong intention to give *zakāt* on their income.

4.2 Reliability test

Table 3 shows the internal consistency, internal reliability, convergent validity and discriminant validity. The composite reliability is within an acceptable range (0.77–0.91) and all the AVE values are more than 0.5. Moreover, concerning Cronbach's alpha coefficient, all the values are above the threshold level of 0.7. Overall, the results show that the entire values are valid and reliable for analysis (Wooldridge, 2010).

4.3 Correlation matrix

Table 4 shows that ATT, DN and PB positively and highly correlated with intention. MN and IN have a positive but moderate correlation with intention. In contrast, PBC has a positive and weak correlation with the intention. The range of the collinearity shows that there is no severe problem of collinearity in the model because all variables are less than 0.8. Besides, there is no

Variables	Number of respondents	Mean	Std. Deviation
Attitude	650	4.68	0.69
Perceived behavioural control	650	4.23	0.63
Injunctive norm	650	4.31	0.62
Descriptive norm	650	4.22	0.64
Moral norm	650	4.54	0.51
Past behaviour	650	4.05	0.76
Intention	650	4.19	0.68

Table 2.
Descriptive statistics

multicollinearity issue in the data, none of the variance inflation factor (VIF) is more than the utilized edge level of 10 (Wooldridge, 2010).

4.4 Multiple regression

Table 5 shows that the value of adjusted *R*-square explains 67% of the variation in the intention to give *zakāt*, and there is no issue of autocorrelation among the variables. The results show that DN, PB, MN and IN have a positive and statistically significant relationship with the intention to give *zakāt*. In contrast, PBC and ATT have a negative and statistically significant relationship with the intention to pay *zakāt*. The results indicate that H1 and H2

Table 3.
Internal consistency, reliability and convergent validity

Variables	Number of items	Composite reliability	Cronbach's alpha	AVE
Attitude	8	0.83	0.94	0.73
Perceived behavioural control	5	0.87	0.93	0.65
Injunctive norm	5	0.82	0.86	0.72
Descriptive norm	5	0.83	0.84	0.66
Moral norm	4	0.76	0.87	0.65
Past behaviour	4	0.84	0.85	0.75
Intention	5	0.85	0.90	0.77

Table 4.
Correlations matrix of regressors

Variables	BI	ATT	PBC	DN	MN	In	PB
BI	1						
ATT	0.552**	1					
PBC	0.232**	0.673**	1				
DN	0.647**	0.451**	0.392**	1			
MN	0.445**	0.562**	0.451**	0.491**	1		
IN	0.457**	0.648**	0.543**	0.390**	0.672**	1	
PB	0.764**	0.567**	0.464**	0.571**	0.491**	0.523**	1
Variance inflation factor		2.32	1.90	2.41	2.23	3.22	2.56

Note(s): BI, intention; ATT, attitude; PBC, perceived behaviour control; DN, descriptive norm; MN, moral norms; IN, injunctive norms; PB, past behaviour and ***p* < 0.05 (2-tailed)

Table 5.
Multiple regression analysis of intention to give zakāt

Variables	Beta	*T*-Stats	Sig	Decision
(Constant)	0.523	2.15	0.031**	
Attitude	−0.163	−1.832	0.065*	Not Supported
Perceived behaviour control	−0.312	−5.364	0.000***	Not Supported
Injunctive norms	0.286	4.548	0.000***	Supported
Descriptive norm	0.610	7.559	0.000***	Supported
Moral norms	0.223	2.586	0.008**	Supported
Past behaviour	0.257	3.325	0.001***	Supported
F-statistic	79.76	*R*-Square	0.694	
Prob. (*F*-stat)	0.000^{b}	Adjusted *R*-Square	0.672	
Durbin–Watson	2.06	Standard Error of Estimate	0.4235	

Note(s): **p* > 0.05; ***p* > 0.1; ****p* > 0.001

are negatively supported to the intention to pay *zakāt* and H3, H4, H5 and H6 positively supported the intention to pay *zakāt* in KSA.

ATT is the most influential factor that affects human perception towards performing a particular behaviour and most distinctive and indispensable concept in contemporary social psychology. The significance of ATT refers to its usage in predicting diverse aspects of the investigation. The current study found that attitude has a weak negative influence on intention to pay *zakāt*, similar to the findings of Muammar and Heikal (2014) that ATT is the most inadequate predictor of intention in Indonesia. Moreover, Kashif and De-Run (2015) found an insignificant relationship between ATT and intention to donate money in Malaysia and McClaren (2015) stated that ATT did not individually predict the ethical behaviour.

The negative expectation of employment leads to developing a negative attitude towards the behaviour of paying *zakāt*. Moreover, it will contribute to shaping the intention of performing the behaviour which is paying *zakāt* to the General Authority of *zakāt* and Tax (GAZT) in KSA. The finding of this study is parallel with the results of the charitable paying literature (Mencarini *et al.*, 2015; Smith and McSweeney, 2007). According to ETPB, the more favourable attitude a person has towards a given product/service, the more likely that person is to buy or use that product/service (Haji-Othman *et al.*, 2017). For instance, the negative attitude of the people to pay *zakāt* might be because of a lack of trust. AlLami (2009) stated that the *zakāt* system of KSA is being ineffective because the system lacks accountability, transparency and efficiency. Another reason Huda *et al.* (2012a, b) found is that *zakāt* payers perceived *zakāt* as a personal matter resulting in not needing an intermediary to fulfil the obligation. Therefore, they have a negative attitude towards payment of *zakāt*.

Moreover, the study found that PBC has a negative relationship with intention to pay *zakāt* in KSA. In fact, PBC is a strong predictor of decision-making in social settings (Chun *et al.*, 2013). Several reasons that might affect the negative attitude towards paying *zakāt* to the GAZT, i.e. organizational policies, and codes of ethics have been found to influence PBC in work settings (Kashif and De Run, 2015). The PBC factor could have been decisive if an influential and explicitly communicated ethical culture can encourage a feeling of empowerment. Furthermore, Kashif *et al.* (2018) stated that acting as a binding force which supports the managers in their decision to remain ethical will affect the communication between the public and the managers in the GAZT. The negative influences of PBC on the intention to give *zakāt* referred that they do not have the ability and power to facilitate this behaviour, which is paying *zakāt* to the GAZT. When actual control mitigates the intention and motivation of performing a particular behaviour, it will inevitably decrease (de Leeuw *et al.*, 2015). It shows that the employment of different Islamic institutions does not have the power to facilitate the adoption of the behaviour which is paying *zakāt* to the GAZT.

4.4.1 Positive influential factors to give zakāt. IN is defined as the perceived social pressures of the reference group (Smith and McSweeney, 2007). The study finds a positive and significant relationship between IN and intention, which refer that people are influenced by the social pressure of the reference group when deciding to give *zakāt* on their yearly wealth like the Muslim majority countries like Malaysia (Kashif and De Run, 2015) and in Pakistan (Kashif *et al.*, 2018). This finding inferred that donors from developing countries in South Asia and KSA seem to be influenced by social pressure. However, Muslims usually feel a different level of social norms from others when they decide to give *zakāt* on their income. Moreover, the religious leaders also play an essential role regarding the obligation to pay *zakāt* on income through spiritual talks by the scholars (Abdullah and Sapiei, 2018).

DS refers to the perception of whether the significant group performs the behaviour (Smith and McSweeeney, 2007). The study finds that the DS have a positive influence on the intention to give *zakāt* on wealth. It shows that the more the perception that others give *zakāt*, the more likely one would intend to give *zakāt* on wealth. The result of this study is not in line with prior studies on the charitable paying literature because they found an insignificant relationship between DN and intention (Knowles *et al.*, 2012; Linden, 2011; Smith and McSweeney, 2007). It is perceived that people who are donating money does not translate the intention of giving money to charitable institutions. Similarly, Knowles *et al.* (2012) found that the payment of charity by others does not influence the other people's intention to donate in the future.

In fact, normative beliefs comprise injunctive and descriptive beliefs. The former refers to the importance of the referent persons (e.g. close friends, teachers and parents). For instance, when a person believes that the referent persons want him to perform individual behaviour, this will encourage him to do so (de Leeuw *et al.*, 2015). While the latter refers to a person's belief on whether a vital referent is likely to perform behaviour or will achieve it. Therefore, the approved and common behaviour will motivate a person to complete it. However, Smith and McSweeney (2007) discussed that DN does not influence intention because the predictor can only explain anti-social behaviours such as illicit drug use and alcohol. Thus, the finding of this study shows that DN influences intention to do pro-social behaviour like paying *zakāt*.

Moral norms are structured to emphasize personal feelings of responsibility rather than direct perceived social pressure (Smith and McSweeney, 2007). This study finds that moral norms have a positive relationship with the intention to give *zakāt*. It shows that the higher moral value the people have, the more likely they prefer to give *zakāt*. On the other hand, the charitable paying literature in the context of developing countries such as Pakistan (Kashif and De Run, 2015) and developed countries such as the UK (Linden, 2011) and Australia (Knowles *et al.*, 2012; Smith and McSweeney, 2007) also found that MN has a significant impact on the intention to donate money to charitable institutions. It is agreed that MN are a distinct factor which has a massive effect on intention (Knowles *et al.*, 2012; Linden, 2011). Smith and McSweeney (2007) stated that when it comes to paying *zakāt*, it is more likely for people to feel a religious obligation. Most of the respondents in this study possess sufficient knowledge of *zakāt* and related subject owing to working in different Islamic institutions. Burgoyne *et al.* (2005) found that a sense of personal obligation was an essential reason for charitable paying, indicating that charitable paying is a behaviour that includes a moral component.

The past behaviour has a positive influence on the intention to give *zakāt*. According to Knowles *et al.* (2012), people who have been given *zakāt* in the past are more likely to have a positive attitude towards paying *zakāt* in future. Some studies supported the argument that past behaviour is a predictor of unique variance in intentions to pay *zakāt* (Awaliah Kasri, 2013; Haji-Othman *et al.*, 2017; Aslam *et al.*, 2020; Muhammadak and Aaadb, 2016). Some studies found that past behaviour is the best predictor of future behaviour (Haji-Othman *et al.*, 2017) and some other studies have argued that past behaviour is a stronger predictor of behaviour than ATT or PBC (Saad *et al.*, 2016). Lastly, this study found that the more the people have intention to pay *zakāt* obligation in the past, the more they are influenced by their decision to give *zakāt* on wealth.

5. Conclusion

The objective of this study is to identify the factors influencing the intention to give *zakāt* on employment income in the context of the KSA. The research was conducted through an online survey in which 900 questionnaires were distributed to employees working in various Islamic institutions in three main cities of KSA. The multiple regression approach was used to determine the relationship between the factors identified in ETPB (i.e. ATT, PB, IN, DN, MN and PB) on intending to give *zakāt*. MN, IN, DN and PB were found to have a significant favourable influence on the intention to give *zakāt* on employment income. In contrast, ATT and PBC have a negative influence on the intention to give *zakāt*, increasing its salience through intervention programmes may lead to *zakāt* compliance. For this purpose, the religious leaders may highlight the benefits of paying *zakāt* and its positive outcome to the beneficiaries and society as a whole in their sermons to promote positive attitude which would lead to the intention to give *zakāt*. Based on the findings, government approval or disapproval influences the people to give *zakāt*. Also, parents should teach their children as early as possible the favourable attitude of paying and helping others in need (attitude) and demonstrate in practice the attitude to them by their own example (descriptive norm).

This study contributed to expanding the existing knowledge in several ways. First, it provides and enriches the *zakāt* literature in the KSA. Further, the study assists the religious organizations, interested groups and individuals in promoting *zakāt* payment system by the formulation of policies, programmes and activities. Second, the study can serve as a guide to strengthen the local institutions in the collection and distribution of *zakāt* fund more effectively and efficiently. Third, the study findings can be used as the basis to determine which factors the institutions should concentrate the most on and which the least to increase the propensity of payment of *zakāt* by the people of KSA. For this purpose, the GAZT may provide an opportunity to the people to give their suggestions on how to increase the effectiveness and efficiency to improve the *zakāt* revenue. Finally, on an individual level, the contribution of this study will raise awareness and motivation to the Saudi Muslims to pay *zakāt* as Muslims are obliged to promote what is right and abhor what is wrong. In addition, special seminars and workshops about *zakāt* will encourage professionals to increase *zakāt* awareness and Islamic knowledge.

Although this study has identified factors influencing the intention to give *zakāt* on income in KSA, the study has some limitations. These limitations provide directions for researchers to conduct researches in the domain of *zakāt* compliance behaviour. The present study only focuses on the employees in KSA. However, future research can take a mixture of private and government job employees with large sample size. Furthermore, the study pooled the data from different cities in one data set, while future research with a larger sample can compare the various cities as well as with other countries. Future studies may also explore additional behavioural aspects that have possible effects on *zakāt* compliance behaviour. Lastly, the present study tests the relationship between the factors identified by ETPB and intention, and it does not verify the relationship between the intention and the behaviour control which is part of the limitation of the study.

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Appendix

(Survey Questions for the Factors Affecting *zakāt* Compliance in Makkah, Medina, and Jeddah)

We seek your kind cooperation to complete this questionnaire. We thank you for the time spent to provide the valuable information

Section 1: Demography

1. Age
   - ☐ 20-30 ☐ 41-50
   - ☐ 31-40 ☐ 51-60 and more.
2. Gender
   - ☐ Male ☐ Female
3. Marital Status
   - ☐ Single ☐ Widower/divorced
   - ☐ Married ☐
4. Level of Income
   - ☐ 2,000-3,000 ☐ 3,100-5,000
   - ☐ 5,100-10,000 ☐ Above 10,000
5. Educational Attainment
   - ☐ Bachelor's Degree ☐ Doctorate Degree
   - ☐ Master's Degree ☐ Others
   - ☐ Professional Degree

Section 2: Attitude:

Paying *zakāt* on your income in the next year would be:

Unpleasant	1	2	3	4	5	Pleasant
Useless	1	2	3	4	5	Useful
Unsatisfying	1	2	3	4	5	Satisfying
Unfavourable	1	2	3	4	5	Favourable
Negative	1	2	3	4	5	Positive
Bad	1	2	3	4	5	Good
Inconsiderable	1	2	3	4	5	Considerable
Pointless	1	2	3	4	5	Important

Section 3: Perceived Behavioural Control

1. If I wanted to, I could easily give *zakāt* in the next year

strongly disagree	1	2	3	4	5	*strongly agree*

2. Overall, how much control do you have over whether you give *zakāt* in the next year

no control	1	2	3	4	5	*complete control*

3. It is mostly up to me whether I give *zakāt* in the next year

not at all true	1	2	3	4	5	*absolutely true*

(*continued*)

Table A1. Questionnaire

4. How confident are you that you will be able to give *zakāt* in the next year

not at all confident	1	2	3	4	5	*extremely confident*

5. Giving *zakāt* in the next year is easy for me to do

not at all true	1	2	3	4	5	*absolutely true*

Section 4: Injunctive norms

1. Think of the people important to you. What percentage of them do you think would disapprove of you giving *zakāt*

(1= 0%,	2= 20%,	3=60%,	4=80%	5= 100%)

2. The people closest to me would support me in giving *zakāt* in the next year

not at all true	1	2	3	4	5	*absolutely true*

3. The people closest to me would disapprove if I give *zakāt* in the next year

very unlikely	1	2	3	4	5	*very likely*

4. Most people who are important to me think that giving *zakāt* in the next year would be

undesirable	1	2	3	4	5	*Desirable*

5. Would the people closest to you approve or disapprove of giving *zakāt* in the next year

strongly disapprove	1	2	3	4	5	*strongly approve*

6. If I give *zakāt* in the next year, the people closest to me would

strongly disapprove	1	2	3	4	5	*strongly approve*

Section 5: Descriptive norms

1. Think of those people important to you. What percentage of them do you think give *zakāt*

(1= 0%,	2= 20%,	3=60%,	4=80%	5= 100%)

2. Most people who are important to me give *zakāt*

strongly disagree	1	2	3	4	5	*strongly agree*

3. Those people closest to me do not give z*akāt*

strongly disagree	1	2	3	4	5	*strongly agree*

4. How likely is itfor those close to you to give *zakāt*?

extremely unlikely	1	2	3	4	5	*extremely likely*

Section 6: Moral Norms

1. I am the kind of person who gives *zakāt*

strongly disagree	1	2	3	4	5	*strongly agree*

2. I would feel guilty if I did not give *zakāt*

very unlikely	1	2	3	4	5	*very likely*

3. I believe I have a moral obligation to give *zakāt*

strongly disagree	1	2	3	4	5	*strongly agree*

4. Not giving *zakāt* goes against my principles

strongly disagree	1	2	3	4	5	*strongly agree*

Table A1.

(*continued*)

Section 7: Past behaviour (5 items)

1. I do not give *zakāt*

not at all true	1	2	3	4	5	*very true*

2. Over the past year, I did not give *zakāt*

not at all true	1	2	3	4	5	*very true*

3. It is unusual for me to give *zakāt*

strongly disagree	1	2	3	4	5	*strongly agree*

4. I usually give *zakāt*

not at all true	1	2	3	4	5	*very true*

5. How often do you pay *zakāt*?

not at all	1	2	3	4	5	*Frequently*

Section 8: intention

1. I will give *zakāt* in the next year

definitely not	1	2	3	4	5	*Definitely*

2. I would like to give *zakāt* in the next year

not at all	1	2	3	4	5	*Definitely*

3. I do not intend to give *zakāt* in the next year

strongly disagree	1	2	3	4	5	*strongly agree*

4. I intend to give *zakāt* in the next year

strongly disagree	1	2	3	4	5	*strongly agree*

5. How likely is it for you to give *zakāt* in the next year?

very unlikely	1	2	3	4	5	*very likely*

--Thank You--

Table A1.

Corresponding author
Ejaz Aslam can be contacted at: ejazaslam95@gmail.com

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Islamic equities and COVID-19 pandemic: measuring Islamic stock indices correlation and volatility in period of crisis

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Shafiu Ibrahim Abdullahi
SPS, Economic Unit, Sule Lamido University, Kafin Hausa, Nigeria and Department of Economics, Bayero University, Kano, Nigeria

Abstract

Purpose – The purpose of the study is to measure cross-country stock market correlation and volatility transmission during the global coronavirus disease 2019 (COVID-19) pandemic. The paper traces trajectory of Islamic equity investments in order to get insights on the behavior of the markets during the crisis.
Design/methodology/approach – The paper uses generalized method of moments (GMM), autoregressive distributed lag (ARDL) and multivariate GARCH (MGARCH) models for analysis of dynamic causality, stock market cointegration, correlation and volatility transmission between Islamic stock indices.
Findings – The result of normal correlation analysis on the share indices show the markets move together. The result of ARDL cointegration test shows the markets returns are cointegrated as a group. To further make sense of the data; the indices were grouped into four different categories, then cointegration tests were conducted. The results of the analysis show that the subgroups are cointegrated except the low COVID-19 subgroup. Based on MGARCH findings, the possibility of volatility transmission between markets during the crisis is high. The market returns indices show the usual herd mentality common during the period of crisis.
Originality/value – Unlike other works in this area, this paper attempt to trace the trajectory of Islamic equity investment in order to get relevant insights and arrives at appropriate ways of responding to the crisis.

Keywords Islamic index, Islamic finance, International finance, Stock exchange, Cross-country correlation, ARDL, MGARCH, GMM

Paper type Research paper

Introduction

The recent devastating impacts of coronavirus disease 2019 (COVID-19) on humans and their environment have been felt worldwide irrespective of the sector. The COVID-19 pandemic has affected the economy, politics, social interactions, religious rites and, above all, health. The COVID-19 impact has been categorized by many analysts as more devastating to the world economy than the last Great Recession of 2008/9. At the economic and finance levels, the equity markets have been seriously affected like all previous crises of this magnitude; the appropriate word to describe the situation is devastation. In Europe and the US, daily indices were reported to decline continuously during the peaks of the crisis. Like the COVID-19 pandemic itself, the financial contagion caused by it has spread from one corner of the world to another, affecting the global equity market. Several empirical works have assessed the nature and impact of the crisis on the global equity markets. Just like its conventional counterpart, the Islamic financial industry is also affected by this crisis. Global rating

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agencies such as S&P have forecast the Islamic finance industry to slow down to a single-digit growth from double-digit growth in the previous years. S&P also predicted a recession in the major Islamic finance markets in 2020 and a mild recovery in 2021 (S&P, 2020). Many studies have shown that the Islamic equity index had outperformed its conventional counterparts during the COVID-19 crisis (Ashraf *et al.*, 2020; Ahmed, 2020). Yet other studies such as that of Yarovaya *et al.* (2020) found that spillover effects from conventional to Islamic stock index become stronger during the COVID-19 pandemic.

In Pakistan, the stock market, which falls under the developing stock markets category, suffered mild impacts of COVID-19 on the stock index. This feature has been associated with restrictions put in place by the government during the period (Waheed *et al.*, 2020; Ahmed, 2020). But this phenomenon contradicted the conditions of developed stock markets such as the US, where the COVID-19 pandemic affected the markets significantly (Chowdhury and Zoynulabedin, 2020). In their paper on multidimensional financial immunity to the COVID-19 pandemic, Zaremba *et al.* (2020) found that markets in countries with low unemployment rates performed better during the crisis than those with high unemployment. These pieces of evidence are preliminary insights into the nature of the responses of the global equity markets to the COVID-19 crisis. Given the unique nature of Islamic finance, the current industrial development and the market's response during the previous global financial crisis when it was relatively less mature, scholars and practitioners are interested in knowing how Islamic equities responded to the crisis. Islamic finance in itself had a tumultuous and challenging history in the modern period. Should the financial catastrophe caused by COVID-19 be categorized as contagion? According to Abdullahi (2019a, b), contagion is widely viewed in the field of international finance as a significant increase in cross-market linkages during a crisis. Based on the findings of the recent studies, the COVID-19-induced equity crisis should be categorized as financial contagion.

The stock indices used for this work were established following Islamic stock screening criteria, otherwise known as Shariah index; they are financial times stock exchange (FTSE) Shariah indices and Dow Jones Islamic Market indices (DJIMIs). The countries where these indices are used are Malaysia, Nigeria, Canada, Thailand, USA EU, India, China, Japan and Pakistan. These nations were selected to provide geographical spread between developed and emerging economies, high COVID-19 and low COVID-19 countries, Muslim majority and non-Muslim majority countries, and FTSE and Dow Jones indices. The study period ranges from January 1, 2020 to August 17, 2020 to coincide with the COVID-19 pandemic period. The econometric methodologies used for the study are generalized method of moments (GMM), ARDL and MGARCH models. Each model has its purpose and uses: GMM is used to measure dynamic causality, ARDL measures cointegration and MGARCH measures volatility transmission between markets. This study aims not to make a direct comparison between different Shariah indices or between Islamic and conventional indices. The focus of the paper is on finding out how the different indices in the study responded to the crisis during the study period. The correlation and cointegration methods used in the study are not used for direct comparison; they are used to find out the level of comovements and linkages between the studied markets. Thus, the study is not a direct comparison with conventional indices (such as showing both indices side by side); rather, the study measures Islamic indices' response to the crisis. Related studies have measured the responses of conventional indices during the period; these include works of Yarovaya *et al.* (2020) and Chowdhury and Zoynulabedin (2020). The paper asks the question: does herd behavior affected Islamic stock indices? The study finds out the level of linkages among these Islamic stock indices and whether they are correlated during the crisis period.

Related empirical literature on Islamic stock indices

Many works have treated the issues of volatility linkage and portfolio diversification of Islamic stock indices. Akhtar *et al.* (2013), in their study, find volatility linkages to be weak in

Islamic markets compared to non-Islamic markets due to a smaller set of common information and lower cross-market hedging activity in Islamic markets. This feature suggested that the Islamic assets might be less contaminated by the global crisis during turbulent times than conventional assets. Yusof and Majid (2007) attempted to establish a possible link between volatilities in monetary policies with the volatility of stock returns in conventional and Islamic stocks in Malaysia. The findings show that the interest rate is insignificant in determining volatilities in an Islamic stock market, which is in line with the fundamentals of Islamic finance that interest rate is not a significant variable in explaining stock market volatility. A different study by Bhatt and Sultan (2012) tried to find out whether the feature of Islamic stocks being lower-leveraged made them less sensitive to leveraged risk compared to conventional socially responsible stocks. They found that the leverage risk factor performed consistently across firms, and the impact of Islamic stock is pronounced during the financial crisis of 2008/9. But they also found that the Shariah index was sensitive to leverage factor just like any conventional index. The academic work by Dewandaru *et al.* (2014) analyzed and compared the impact of macroeconomic factors on Islamic and conventional equity prices. The findings show that Islamic indices were more connected to the real sector because of the focus of Islamic finance on the real economy. Industrial production has more impact on the Islamic index than conventional ones.

In contrast, changes in short-term interest rate, money supply and consumer price index have milder effects on the Islamic stock index. Thus, the findings signified the relative stability of Islamic indices during economic shocks. At the same time, Arshad and Rizvi (2013) attempted to find out how business cycles affect the volatility of Islamic and conventional stock indices and answer whether Islamic stock indices are more stable during periods of financial recession than conventional ones. The analysis revealed that Islamic indices followed a similar pattern as conventional indices. Thus, they concluded that Islamic indices appeared to be more volatile during economic downturns and less volatile during the growth phase of the business cycle.

Bahlous and Yusof (2014) studied diversification benefits existing between Islamic indices around the world. The results of the long-run analysis showed that substantial diversification benefits existed among Middle East and North Africa (MENA), Asia–Pacific and North American indices. However, European and North American funds were found to be cointegrated in the long run, hence, minimizing diversification benefits. The short-run analysis indicated significant diversification benefits between the different regional markets except for Europe and North America. In another study, Rizvi and Arshad (2014) investigated the claims that the Islamic stock market was a safer alternative for investment during the financial crisis by utilizing MGARCH dynamic conditional correlation (DCC) to understand the dynamic correlations and volatilities of Islamic indices. They proved the decoupling effect of Islamic indices and the reduction in conditional correlations against global indices during the financial crisis. The findings show low correlations between Islamic and conventional stock indices during the time of crisis. Miniaoui *et al.* (2015) examined the performance of Islamic and conventional indices in Gulf Cooperation Council (GCC) countries of the Middle East in the wake of the financial crisis of 2008 using the GARCH approach. The estimated results were mixed. They revealed that the financial crisis caused volatility in some GCC markets (Kuwait, Bahrain and the United Arab Emirates), but its impact on the remaining GCC markets (Saudi Arabia, Oman and Qatar) and the Islamic index was not significant. They concluded that the GCC Islamic index exhibited similar attributes as the conventional indices in the analysis periods. A different empirical work by Saâdaoui *et al.* (2017) used wavelets analysis (considered a nonclassical econometric technique) to investigate the dynamic relationship between conventional and Islamic stock markets with the main aim of finding local microscopic signs of convergence or divergence. Their findings show the sensibility of Islamic stock returns to the global financial crisis is different than conventional stock returns across markets and time scales. The results of the analysis demonstrated strong dependence between conventional and Islamic indices at a lower frequency.

vSaiti *et al.* (2014) investigated whether Islamic stock indices provided better diversification benefits relative to conventional indices using the dynamic multivariate GARCH approach. The focus of the study was US investors, with a view to helping diversify their portfolios by hedging unforeseen risks in the market. Their findings show that the purely Islamic stock indices did not provide more diversification benefits than their conventional counterparts. But there were regional diversification benefits; in particular, the results show Islamic countries provide better diversification advantages (compared to the Far East countries) to the US investors. Another work by El Khamlichi *et al.* (2014) explored the efficiency of Islamic indices and their potential for portfolio diversification compared to conventional indices. They explored whether the indices were cointegrated or not. The findings show that Islamic indices of Dow Jones and S&P have no cointegrating relations with their respective benchmarks, which suggests the existence of long-run diversification opportunities. A similar work by Akbar and Barkely (2015) compared the performance of the DJIMI against the Wilshire 5000 (W5000), FTSE All-Share Index and Shanghai Stock Exchange Composite Index. They found no long-run cointegration between DJIMI and the studied indices. It also shows a lower level of volatility relative to the other indices. Majid and Kassim (2010) studied integration between major Islamic stock indices using ARDL, vector error correction model (VECM) and GMM. They wanted to determine whether investors could diversify their Shariah stock holdings without including conventional stocks. The paper found integration along regional and economic development lines. Hammoudeh *et al.* (2014), using a copula approach, show that the Islamic index exhibited significant dependence with conventional indices. Phan and Narayan (2020) argued that during the COVID-19 pandemic, markets around the world overreacted during the COVID-19 pandemic. As more information became available and people understood the ramifications more broadly, the markets corrected themselves.

Data and methodology

Stock index data were selected from FTSE Shariah indices and DJIMIs for sampled Islamic indices in the following places: Canada (Dow Jones), Hong Kong, China (Dow Jones), Europe (Dow Jones), India (Dow Jones), Japan (Dow Jones), USA (FTSE), Pakistan (FTSE), Malaysia (FTSE), Nigeria (NSE Lotus) and Thailand (FTSE). The index sampled ranges from January 1, 2020 to August 17, 2020 to coincide with the COVID-19 pandemic period. Daily data have the advantage of indicating daily changes in the stock market, which is how the financial crisis originated. Most market participants observe the market daily. These indices were selected to provide a fair representation of the main global Islamic share indices worldwide. Some are located in developed countries (the USA, Canada, Japan, Europe and Hong Kong), and others in emerging economies (Malaysia, Thailand, India, Pakistan and Nigeria). They are also divided into Muslim majority countries (Malaysia, Pakistan and Nigeria) and non-Muslim majority countries (the USA, Japan, Canada, India, Europe, Hong Kong and Thailand). All the share indices are daily price indices that comprise about 162 days' indices; they were accessed from ng.investing.com. ADF tests were conducted to test the presence of a unit root in different data levels. For the GARCH analysis, the daily index data were converted into daily returns using the formula below:

$$y_t = 100 \log \left[\frac{z_t}{z_{t-1}} \right] \tag{1}$$

where Y_t – stock return in the current period; Z_t – current period; Z_{t-1} – previous period.

An empirical work of this nature requires a relevant econometric procedure to produce reliable results. Because of this, econometric models were selected for testing our research hypothesis that Islamic stock indices followed herd mentality during the crisis. The methods of data analysis are GMM, ARDL and MGARCH.

Generalized method of moments (GMM)

GMM is recognized as a popular econometric model for financial time series analysis. It is very flexible and nests many traditional econometric models as special cases, and it does not require distributional assumptions. It is suitable for the estimation of short- and long-run relationships between variables. As with other instrumental variable estimators, for the GMM estimator to be identified, there must be at least as many instruments as there are parameters in the model. In models where there are the same numbers of instruments as parameters, the value of the optimized objective function is zero. If there are more instruments than parameters, the value of the optimized objective function will be greater than zero (Pindyck and Rubinfeld, 1998; Stock *et al.*, 2002). Lags of explanatory variables were used as instrumental variables in this paper. This research decided to specify a GMM estimator because it allows the selection of weighting matrix to get a robust estimate. Hansen *et al.* (2006) have shown that an asymptotically efficient or optimal GMM estimator can be obtained by choosing a weighting matrix so that it converges to the inverse of the long-run covariance matrix. The GMM tests the dynamic causal relationship among the markets during the period of the study.

ARDL model

The ARDL approach to cointegration was introduced by Pesaran *et al.* (1996). According to Fabozzi *et al.* (2006), the ARDL methodology regresses one variable on its past and on the present and past values of some other variables. In addition, the ARDL cointegration model captures the short- and long-run components of the model simultaneously. The ARDL model has wider application in testing stock market integration, such as Majid and Kassim (2010), who analyzed Islamic stock indices. It is suitable for capturing the level of cointegration between markets. The simple model without the error correction representation is as follows:

$$\begin{aligned}\mathrm{Mal}_t = {} & \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Hon}_t \\ & + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Can}_t + \varepsilon_t \end{aligned} \tag{2}$$

$$\begin{aligned}\mathrm{Pak}_t = {} & \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Mal}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Hon}_t \\ & + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Can}_t + \varepsilon_t \end{aligned} \tag{3}$$

$$\begin{aligned}\mathrm{Nig}_t = {} & \beta_1 + \beta_2\mathrm{Mal}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Hon}_t \\ & + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Can}_t + \varepsilon_t \end{aligned} \tag{4}$$

$$\begin{aligned}\mathrm{Can}_t = {} & \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Hon}_t \\ & + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Mal}_t + \varepsilon_t \end{aligned} \tag{5}$$

$$\begin{aligned}\mathrm{Eur}_t = {} & \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Hon}_t \\ & + \beta_9\mathrm{Mal}_t + \beta_{10}\mathrm{Can}_t + \varepsilon_t \end{aligned} \tag{6}$$

$$\begin{aligned}\mathrm{Hon}_t = {} & \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Mal}_t \\ & + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Can}_t + \epsilon_t \end{aligned} \tag{7}$$

$$\mathrm{Ind}_t = \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Mal}_t + \beta_8\mathrm{Hon}_t + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Can}_t + \varepsilon_t \quad (8)$$

$$\mathrm{Jap}_t = \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Mal}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Hon}_t + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Can}_t + \varepsilon_t \quad (9)$$

$$\mathrm{Tha}_t = \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Mal}_t + \beta_5\mathrm{USA}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Hon}_t + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Can}_t + \varepsilon_t \quad (10)$$

$$\mathrm{USA}_t = \beta_1 + \beta_2\mathrm{Nig}_t + \beta_3\mathrm{Pak}_t + \beta_4\mathrm{Tha}_t + \beta_5\mathrm{Mal}_t + \beta_6\mathrm{Jap}_t + \beta_7\mathrm{Ind}_t + \beta_8\mathrm{Hon}_t + \beta_9\mathrm{Eur}_t + \beta_{10}\mathrm{Can}_t + \varepsilon_t \quad (11)$$

The joint hypotheses to be tested for bound testing are as follows:

$$H_0 : \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = \beta_7 = \beta_8 = \beta_9 = \beta_{10} = 0$$

$$H_1 : \beta_2 \neq 0, i = 1, 2, \ldots, 9$$

F-test is used to test for cointegration through testing for significance of the lagged levels of the variables. Our null hypothesis of no cointegration is H_0: $k_1 = k_2 = k_i = 0$. It is tested against the alternative of at least one non-zero result, i.e. H_1: $k_1 \neq 0$ or $k_2 \neq 0$ or $k_i \neq 0$. The calculated *F*-statistics is compared with sets of critical values. If the *F*-statistic exceeds the upper bound level, the null hypothesis is rejected, which indicates cointegration. On the other hand, if the *F*-statistics falls below the lower bound level, the null hypothesis cannot be rejected, supporting the nonexistence of cointegration. However, if it falls within the upper and lower bounds, the result is inconclusive (Pesaran *et al.*, 1996). The lag length selection criteria adopted is Akaike information criteria.

MGARCH models

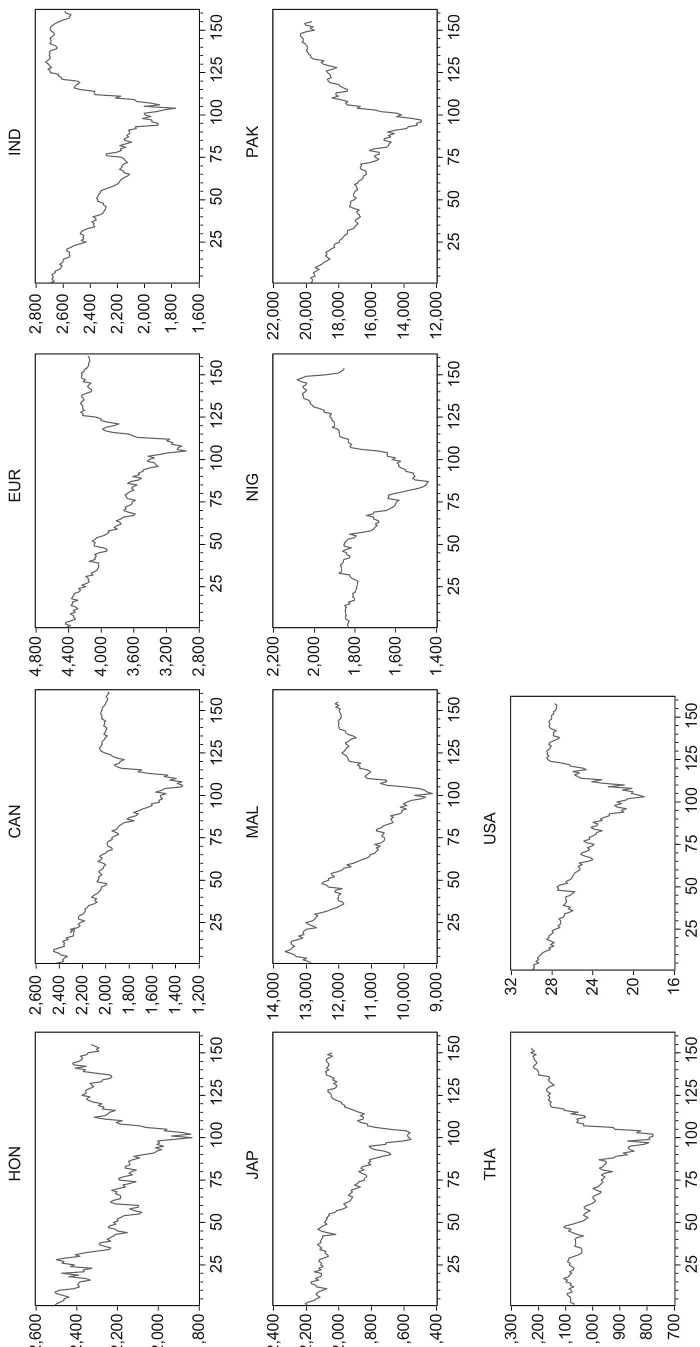
The diagonal BEKK model is originally in the form:

$$H_t = \varnothing\varnothing' + A\varepsilon_{t-1}\varepsilon'_{t-1}A' + BH_{t-1}B' \quad (12)$$

The BEKK model belonging to the multivariate volatilities model has many important financial applications. This diagonal BEKK model is identical to the diagonal VECH model, where the coefficient matrices are rank-one matrix. According to Evans and McMillan (2006), parsimonious parameterization can be obtained by imposing a diagonal restriction on the multivariate parameter matrices. Each variance and covariance element depends only upon its past values. The model allows for dynamic dependence between volatility in time series data. For this analysis, we employ the BEKK (1, 1) model.

Results and analysis

Figure 1 shows how the share price indices trend; during the period, the Islamic share indices trended together irrespective of the location of the index, whether it is located in a developing country or developed one. The indices started falling and then at some point started rising almost in coordination with one another. The period of the lowest falls in share prices coincided with the peak period in the crisis. When cases of the COVID-19 infection began to fall, and the economies of the world started to open up gradually, all the share indices began to move up.



Source(s): Eview analysis of the raw data

Figure 1.
Islamic share indices trending pattern

GMM results

The GMM model tests the dynamic causal relationship among the various markets in the study. When a particular market is either directly or indirectly triggered by a different market, it means movements in the first market can affect movements in the second market, establishing a kind of linkage between them. Thus, the GMM dynamic analysis shows that the Pakistan index was caused (i.e. influenced) by Nigeria, Malaysia, Japan, Europe and Canada markets. The Malaysian index was caused by Pakistan, Thailand, Japan and Hong Kong. The Nigerian index was caused by Pakistan, Japan, Europe and Canada. The Indian index was caused by Japan, the USA, Hong Kong and Canada. The Japan index was caused by Malaysia, Nigeria, Pakistan, Thailand and Canada. The European index was caused by Hong Kong, India, Pakistan and Canada. The Thailand index was caused by Pakistan, Malaysia, Japan and Canada. The USA index was not caused by any of the individual markets. The Canadian index was caused by Europe, Hong Kong, India and the USA. The Hong Kong index was caused by India, Europe and Canada. See Table 1 for the values of the coefficients and their signs.

ARDL results

With a study period of about seven and a half months, the paper is not interested in the long-run relationship between the share indices. Hence, the focus is on the short-run dynamics. The results of the ARDL bound testing on the share indices show that the indices of Japan and Europe are cointegrated with the rest of the indices in the portfolio during the period, while Malaysia, Nigeria and Canada are not cointegrated with the indices in the portfolio. But the results for the indices of Pakistan, the USA, Hong Kong, India and Thailand are inconclusive. The same tests conducted on market returns, not the share indices, show different results. The ARDL bound test run on the daily returns shows that the daily market returns are cointegrated. Thus, it precluded any diversification benefit during the period (see Table 2) .

Bivariate cointegration resulting from a host country index to a sister index shows Malaysia is cointegrated with Pakistan, Thailand and Japan. Pakistan is cointegrated with Nigeria and Japan; Nigeria is not cointegrated with any of the markets; Canada is cointegrated with India and the USA; Europe is cointegrated with India, Malaysia, Nigeria, Pakistan and the USA. Hong Kong is cointegrated with Nigeria, Pakistan and Canada; India is cointegrated with Thailand, the USA and Hong Kong; Japan is cointegrated with Malaysia, Nigeria, Pakistan, Thailand and Canada; Thailand is cointegrated with Pakistan, Malaysia and Japan; and the USA is cointegrated with India and Canada. Generally, under cointegration, markets (multiple portfolios) or individual indices (bivariate) share cointegration with one another, meaning that they have common stochastic trends. This phenomenon suggests that information from one market or individual index that trends with the other can be used to forecast the behavior and performance of different markets or indices.

The share return indices were grouped into categories like developed and emerging markets, high Covid-19 and low COVID-19 (as reported in https://www.worldometers.info/coronavirus/countries-where-coronavirus-has-spread), Muslim and non-Muslim, and FTSE and Dow Jones to further make sense of the data. Then cointegration tests were conducted within these groups to determine whether they are cointegrated or not during the study period. The analysis results show that all the groups are cointegrated (within their respective grouping) except the low COVID-19 group; see Table 3. The implication is that markets within these groups have more connectivity during the crisis than the greater sample.

MGARCH results

For the MGARCH analysis, daily return data were used. Figure 2 shows the graphical outline of the daily returns of all the indices in the study. It shows that returns volatility is highest

Table 1. Analysis of dynamic causal relationship between the markets using the GMM model

Dependent variables						Independent variables				
	Pak	Mal	Nig	Ind	Hon	USA	Can	Eur	Tha	Jap
Pak		0.920159*	6.917936*	2.029727	−0.306003	22.19453	4.695913*	−3.105189*	8.157914	−9.865621*
Mal	0.334262*		−1.413961	−1.073159	2.523753*	−7.435349	−1.597353	1.514710	−5.600677*	6.305772*
Nig	0.054879*	−0.027101		0.156727	−0.174762	−17.23651	−0.520436*	0.267366*	−0.099052	0.858754*
Ind	0.009470	0.007628	0.193210		0.413223*	75.26798*	−0.274529*	0.225926	0.411014	−0.760165*
Hon	−0.003964	0.056585	−0.265570	0.740842*		−27.87006	0.349470*	−0.386340*	0.284597	0.293045
USA	3.12E-05	−0.000241	−0.001116	0.003114	0.001805		0.001344	0.002533	0.000948	0.004085
Can	0.039348	−0.019645	−0.380950	−0.642283*	0.441481*	54.70518*		0.539343*	−0.557234	0.306279
Eur	−0.045766*	0.050639	0.259841	0.966816*	−0.857047*	22.84698	0.756472*		−0.091020	0.036352
Tha	0.028998*	−0.056915*	−0.068013	0.104160	0.120896	−1.152521	−0.212372*	0.070615		0.658457*
Jap	−0.031322*	0.073127*	0.307809*	−0.191063	−0.036967	17.81735	0.248273*	−0.095344	0.727107*	

Note(s): * at 5% level of significance
Source(s): Author's calculations using Eviews

Country/location	Share index	F-statistics (indices)	F-statistics (returns)
1. Malaysia	FTSE	1.158894	24.37967
2. Pakistan	FTSE	3.080466	5.795777
3. Nigeria	NSE-Lotus Islamic index	0.980085	11.76968
4. Canada	Dow Jones	1.542158	16.39155
5. Europe	Dow Jones	4.486088	8.452713
6. Hon Kong	Dow Jones	3.183393	21.10642
7. India	Dow Jones	3.592059	9.403599
8. Japan	Dow Jones	4.185280	9.817141
9. Thailand	FTSE	3.236223	9.020478
10. USA	FTSE	3.442735	15.20795

Note(s): The lower bound (2.04) and upper bound (2.08) at 5% level of significance
Source(s): Author's calculation using Eviews

Table 2.
Bounds F-test for cointegration

	Cointegration level within the various grouping			
Economic grouping	*Developed* USA, Jap, Eur, Can, Hon	*F-stat.* 18.28767 *Upper bound (5%)* 3.49 *Verdict*: there is cointegration	*Emerging* Pak, Nig, Tha, Mal, Ind	*F-stat.* 7.737067 *Upper bound (5%)* 3.49 *Verdict*: there is cointegration
COVID-19 intensity	*High COVID group* USA, Eur, Ind	*F-stat.* 60.13915 *Upper bound (5%)* 3.87 *Verdict*: there is cointegration	*Low COVID group* Pak, Nig, Mal, Can, Hon, Jap, Tha	*F-stat* 2.797282 *Upper bound (5%)* 3.28 *Verdict*: inconclusive
Shariah index provider	*FTSE* Mal, Pak, Tha, USA, Nig	*F-stat.* 8.346783 *Upper bound (5%)* 3.49 *Verdict*: there is cointegration	*Dow Jones* Can, Ind, Hon, Jap, Eur	*F-stat* 12.09641 *Upper bound (5%)* 3.49 *Verdict*: there is cointegration
Religion base grouping	*Muslim majority* Pak, Mal, Nig	*F-stat.* 15.64636 *Upper bound (5%)* 3.87 *Verdict*: there is cointegration	*Non-Muslim* USA, Jap, Eur, Can, Hon, Tha, Ind	*F-stat* 22.63823 *Upper bound (5%)* 3.28 *Verdict*: there is cointegration

Source(s): Author's computations

Table 3.
Markets groupings

around March. As portfolio theory rightly predicted, there was comovement between the market returns during the crisis, unlike what was obtained during normal times. Table 4 provides the summary statistics of the return data. It shows that average daily returns are positive, although insignificant, except for the Thailand index, which is negative. The markets indicate a similar level of riskiness, as shown by their respective standard deviations. The negative skewness in the return indices implies that significant negative changes in market returns occur more often than positive changes. The excess kurtosis

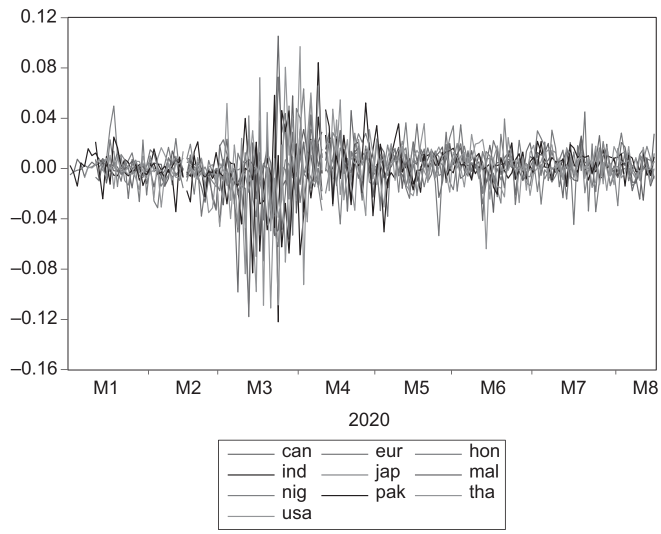


Figure 2.
Stock indices returns

Source(s): Author's calculation using Eview

indicates that the stock market returns exhibit leptokurtosis, a well-known stylized fact in the finance literature. The huge Jarque–Bera statistics reject the null hypothesis of normal distribution for the series. This provides further evidence of the existence of GARCH effects.

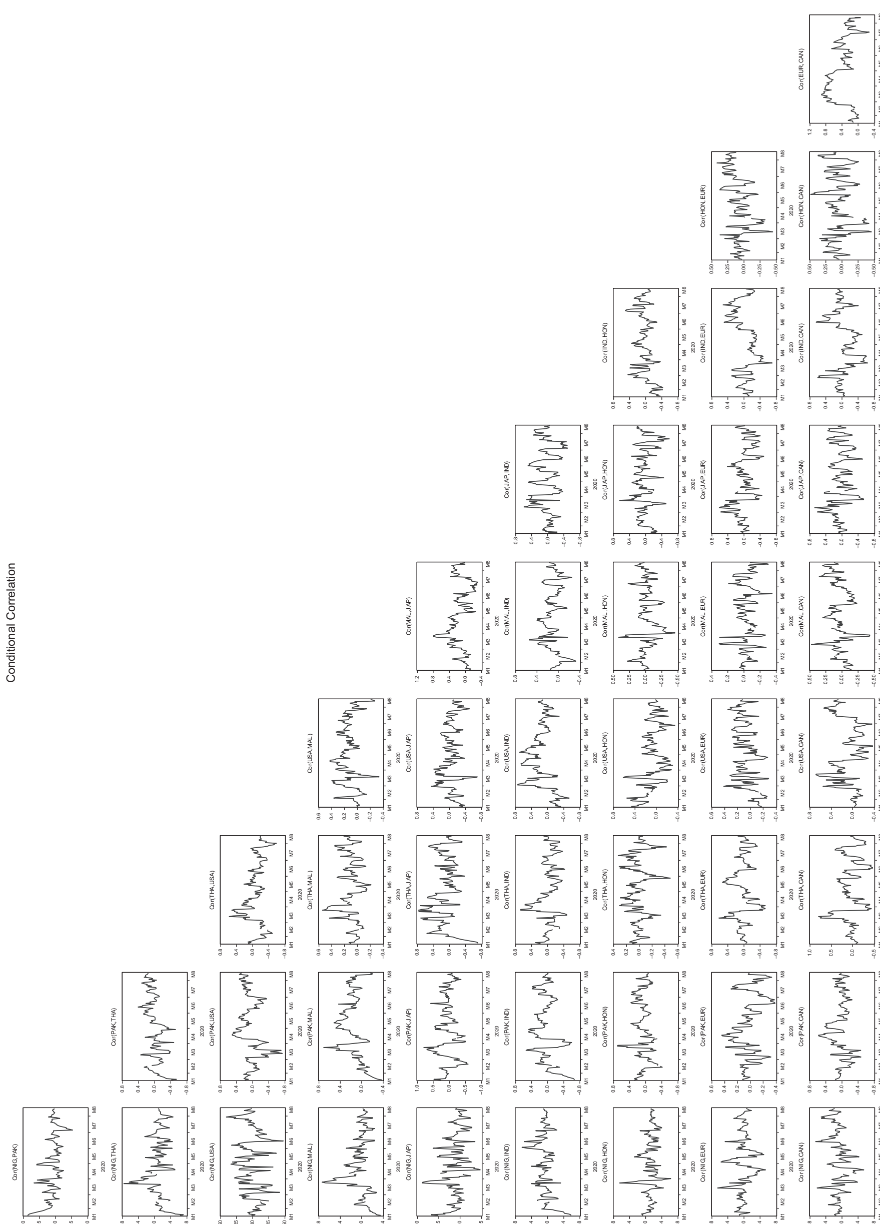
The study uses the multivariate GARCH model to estimate the volatility and correlation of returns of the selected indices. The result of the diagonal BEKK (1, 1) with GARCH (1) coefficient and multivariate student's *t* error distribution shows that volatility across the markets is widely distributed during the period. Bivariate correlations show that volatility correlations between the markets are relatively high between corresponding markets, as shown in Figure 3. Volatility correlation is widespread during the period. Unlike in a period of calm when volatility correlation is mainly in the positive territory and not widespread, volatility correlations here fluctuate between positive and negative regions and is a bit skewed toward the positive region. In addition, the markets look the same during the period, testimony to the long-held belief that markets behave in the same way during a crisis. On average, the volatility correlation is highest around March for the markets in the study.

The volatility transmission analysis shows a similar pattern of the response of Islamic indices during the COVID-19 pandemic like those found in conventional indices. This outcome may be due to the nature of the current crisis, which has impacted all sectors of economies (real and financial), unlike the previous crisis in 2008/9, which affected just the financial sector. Previous studies analyzing the impact of macroeconomic factors on Islamic and conventional equity prices have discovered that Islamic indices were more connected to the real sector because of the focus of Islamic finance on the real economy (Dewandaru *et al.*, 2014). Thus, industrial production has more impact on the Islamic index than conventional. Hence, those expecting Islamic equities to respond to the same way they responded to the 2009 crisis might be wrong. Unlike the past financial sector-focused crisis (with leverage factors playing an important role), the current situation has affected the real economy more than the financial sector. Another work that goes along with this finding is that of Arshad and Rizvi (2013), who attempted to find out how business cycles affect the volatility of Islamic and conventional stock indices and answer whether Islamic stock indices are more stable during periods of financial recession than conventional. The analysis revealed that Islamic indices

Table 4. Summary statistics of stock markets returns

	Can	Eur	Hon	Ind	Jap	Mal	Nig	Pak	Tha	USA
Mean	0.001272	0.000358	0.000484	0.000263	0.000478	0.000431	−7.29E–05	1.82E–05	−0.000890	0.000484
Median	0.003510	0.001400	0.003052	0.001706	0.000188	0.001261	0.000163	0.000158	−0.000376	0.001935
Maximum	0.105434	0.072727	0.049781	0.084356	0.063526	0.057899	0.049705	0.052220	0.096987	0.080529
Minimum	−0.112337	−0.117805	−0.053429	−0.122031	−0.062045	−0.053343	−0.045882	−0.068716	−0.111023	−0.108977
Std. dev	0.023128	0.018610	0.019045	0.020802	0.015751	0.014214	0.013175	0.017989	0.023726	0.024439
Skewness	−1.150183	−1.491931	−0.449286	−1.475107	0.172104	−0.654901	−0.117058	−0.788064	−1.194719	−0.906706
Kurtosis	10.72921	13.36429	3.807100	13.17280	6.683575	6.771249	5.862731	6.134198	11.08913	8.031516
Jarque–Bera	433.5489	780.3259	9.360905	752.6052	84.97472	102.2682	52.59401	78.97234	450.5747	187.1219
Probability	0.000000	0.000000	0.009275	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	0.203595	0.057636	0.074493	0.042360	0.071157	0.066401	−0.011157	0.002803	−0.135226	0.075960
Sum sq. dev	0.085051	0.055412	0.055494	0.069233	0.036720	0.030913	0.026385	0.049511	0.085003	0.093176
Observations	160	161	154	161	149	154	153	154	152	157

Source(s): Author’s calculation using Eviews



Source(s): Author's calculation using Eview

Figure 3.
Conditional correlations between markets

followed a similar pattern as that of conventional indices. This outcome led to the conclusion that Islamic indices appeared to be more volatile during economic downturns and less volatile during the growth phase of a business cycle.

Works that show a low correlation between Islamic and conventional indexes during a crisis, such as that of Rizvi and Arshad (2014), and Saâdaoui *et al.* (2017), were conducted using data with a time range that included the 2009 crisis, which was predominantly a financial sector crisis, unlike the all-encompassing COVID-19 pandemic. Works such as that of Miniaoui *et al.* (2015) on the responses of the Islamic index during the 2009 crisis show mixed results. Hammoudeh *et al.* (2014), using a copula approach, show that Islamic indices exhibited significant dependence on conventional indices. Other works such as Yarovaya *et al.* (2020) show that the spillovers between conventional and Islamic stock markets become stronger during the pandemic. Thus, the result found in this paper that Islamic indices joining the herd mentally just like their conventional counterparts have been predicted by previous works in this field.

Implications

Looking back at the performance of Islamic share indices during the crisis of 2008/9, understanding how indices perform during the COVID-19 crisis becomes relevant for recognizing the development of the Islamic finance industry. It will enable scholars, policymakers and investors in the field to improve the current structure and prepare the sector for future crises. It also may act as a pointer to the resilience of Islamic share indices vis-a-vis conventional indices or otherwise. The unique nature of Islamic markets regarding their screening criteria and other related factors make them differ from the larger conventional indices. But during crises, like financial contagion, markets do not follow a rational pattern. The high COVID-19 group in this study has shown cointegration while the low COVID-19 group has shown none; this might be due to the different levels of fear caused by the pandemic in these respective markets. Abbes and Trichilli (2015) found long-run equilibrium relationships among Islamic stock markets of similar economic grouping. But they were partially segmented for different economic groupings. In addition, these authors found that the level of integration and causality relations among Islamic stock markets tend to change over time, mainly during periods characterized by financial crises. However, the transmission of the crisis around the world may not solely be due to cross-market transmission. The crisis transmission may be partially due to the crisis's impact on domestic economies. The COVID-19 pandemic affected the real economies of the host nations, thereby affecting their stock markets since these markets have a substantial number of domestically located firms. The analysis results also show that returns from both FTSE and Dow Jones Islamic indices followed the same herd mentality underscoring any significant effect different screening criteria might have had on the performance of these indices. The finding is also in line with Ashrafa and Khawaja (2016), who found that Shariah screening standards were insignificant to evaluate return performance.

Conclusion

The results from the present study showed that (as with any unexpected news) Islamic markets overreact around March 2020 when the virus quickly spread around the world. As more information became available, governments put temporary measures in place, and people understood the ramifications, the markets began to correct themselves. The MGARCH analysis shows that the Islamic index response during the crisis is not different from a conventional index. They follow herd behavior and are affected by the crisis. Thus, the crisis in one Islamic share index can easily spread to other share indices. The main aim of the work is to find out whether Islamic indices follow conventional herd behavior, whether volatility in other markets affects Islamic markets and whether Islamic markets are open to financial contagion. The answer to all is yes. All markets in the study were affected by the crisis in terms of volatility and linkage with other affected markets.

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Corresponding author
Shafiu Ibrahim Abdullahi can be contacted at: shafiuibrahim@gmail.com

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Paper money in Sheikh Ahmad Khatib Al-Minangkabawi's thought: a comparative and critical commentary

Muhammad Sholihin
Department of Islamic Economics, Institut Agama Islam Negeri (IAIN) Curup, Rejang Lebong, Indonesia
Nurus Shalihin
Department of Religious Studies, Faculty of Ushuluddin and Religious Studies, UIN Imam Bonjol Padang, Padang, Indonesia, and
Apria Putra
Institut Agama Islam Negeri (IAIN) Bukit Tinggi, Bukit Tinggi, Indonesia

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Abstract

Purpose – The article examines Sheikh Ahmad Khatib Al-Minangkabauwi's initial concept of paper money, which in the early 20th century wrote Risala Raf'u Al-Iltibas.

Design/methodology/approach – This paper uses a qualitative approach based on the critical extraction analysis that can reveal a set of concepts related to the thoughts of Sheikh Ahmad Khatib Al-Minangkabauwi on paper money.

Findings – Through an attentive reading of Sheikh Ahmad Khatib Al-Minangkabawi, the authors can formulate several significant results: First, Ahmad Khatib Al-Minangkabawi applies two methods in studying critically on paper money, namely, the comparative law method and qiyas. Second, Ahmad Khatib believes that paper money has similarities with dinars and dirhams, namely its nominal value function. It is just that the existence of these values is different. Briefly, there are set law consequences for those who used paper money in economic activities, i.e. payment of *zakāt* on paper money applies when used as business capital.

Research limitations/implications – Sheikh Ahmad Khatib Al-Minangkabawi's work related to paper money is written heavily from the perspective of *fiqh*. Briefly, it is challenging to describe legal reasoning from work. As a result, articles are also thicker with *fiqh* analysis.

Practical implications – Sheikh Ahmad Khatib Al-Minangkabawi's view regarding paper money becomes the foundation for the theory of the value of money in Islam. However, it is rarely disclosed. In this regard, this paper can serve as the foundation of the value for money offered by scholars from Indonesia in the early 20th century.

Social implications – Money is not a commodity. Still, it must be positioned as capital to be productive. It finally becomes why trade is compelling and becomes the most practical reason for paying out *zakāt*.

Originality/value – It is not easy finding out articles that attempt to reveal the concept of classical ulemas or clerics from Indonesia relating to paper money. This article manages to identify that, and at the same time, becomes a novelty.

Keywords Paper money, Comparative law, *Qiyās*, Money philosophy, *Fiat money*, Nominal value

Paper type Research paper

JEL Classification — A1, B1, G0, N0, Z1. **KAUJIE Classification —** Q11, Q12, Q32

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1. Introduction

At the beginning of the *fiqh* codification of Islamic law, classical scholars did not discuss paper money as part of any critical issue in *fiqh*. In fact, when the *fiqh* codification took place that resulted in the emergence of the four main madhabs (i.e. Maliki; Hanbali; Shafi'i and Hanafi), paper money had not yet been circulated; hence, it was not an issue that was questioned by Muslims (Sifat and Mohamad, 2018). In the contemporary Islamic era, when the paper money became widely used, the scholars from various regions and madhabs discussed it and studied the laws of using paper money. Not only in the Middle East but also in Central Asia and South Asia, the scholars started giving legal opinions on paper money. One such scholar from Southeast Asia was Sheikh Ahmad Khatib Al-Minangkabawi. He was not alone in this matter. However, it must be admitted that he was the only scholar from the archipelago who was *concerned about* paper money and even wrote works that seriously studied paper money. His work titled "*Raf'ul al-Iltibas 'an Hukm al-anwad al-muta'mil biha baina al-nas*" can be considered an important work related to paper money, written by an alim from Minangkabau. However, there are scholars from other regions such as India and Egypt, who are also recorded as having discussed paper money. It has even resulted in different approaches to understanding paper money and its laws.

Sifat and Mohamad (2018) classify contemporary scholars in understanding paper money: *First*, the Al-Azhar approach. This approach is attributed to Al-Azhar University, Egypt, as Sunni orthodoxy tradition. In 1900 AD, a fatwa related to paper money was spread that originated in the mosque in Cairo. This fatwa states that "paper money" is defined as "a bond tethered to metallic deposits of gold and silver" (Sifat and Mohamad, 2018). This approach lies in the assumption that the issuance of paper money by the government is intended as a medium of exchange with an amount of coin value following the value stated on the banknote. The value indicated on the banknote is a representation of the value of the coin that is reserved. Sheikh Ahmad Husaini, a cleric affiliated with Al-Azhar University and well-known as the foremost scholar, introduced this view.

Second, *the suftaja approach*: historically, "*suftaja*" refers to "a debt transfer transaction" popularly used in the Abbasid dynasty era. In practice, an individual appoints a representative who will pay off the debt and pays the amount owed to the person who gave credit to the first person (Chatterji and Washbrook, 2014). It is different from the Al-Azhar approach, which understands that paper money is an instrument that can replace *silver* and *gold*. In this context, paper money itself has the attributes of precious metals. The method introduced by *Suftaja* is compelling and is considered as something rational and continues to develop gradually. It even has the same role as gold and metal in medieval times and serves as a medium of exchange with a value for gold or metal. In this context, paper money then developed into an economic instrument positioned within the framework of the *bay'ul dayn bi dayn* (Chatterji and Washbrook, 2014; Sifat and Mohamad, 2018). The third is the *"the fulus simile"* approach: this approach refers to the efforts of some scholars to equate "paper money" with *fulus* (i.e. plural for *fals*), which historically refers to the "copper coins" used in Islamic dynasties, especially in North Africa and the Arabian Peninsula. It is also widely used in the inter-Mediterranean trade of Andalusia (Sifat and Mohamad, 2018). The fourth is "the good approach": this model is based on the view that money is "a good," as well as paper money. Because paper money are goods, their value is highly dependent on the power of demand and supply in the market (Sifat and Mohamad, 2018).

Moreover, paper money has no price before it is turned into money. Once printed and issued as money, the paper money has a price and can be used as a medium of exchange for various transactions. Last is the approach of "the representative of value": this design makes sense that paper money has *thaman* or price. Even the same as other currencies (i.e. gold, metal and copper), paper money can determine (*as different setters*) prices (Sifat and Mohamad, 2018). Various approaches philosophically depart from different paradigms on paper money. It is because of interdisciplinary reasons, i.e. *fiqh*, philosophical and economic. The assumptions made against paper money are very determinant of the philosophy and even the underlying methodology.

The philosophical paradigm sees and identifies paper money from an ontology perspective (Simmel, 2011). Meanwhile, the economic paradigm positions paper money as a valuable source, which can be transacted (Davies, 2002). Meanwhile, *fiqh*'s perspective bases the view of paper money as a subordinate issue *furu'*, which calls for the formulation of laws widely used by the community (Oberauer, 2018). Based on this *fiqh* perspective, contemporary scholars, since 1900 AD, have succeeded in carrying out *Ijtihād* to formulate problems that may arise as a result of the widespread use of paper money. Sheikh Ahmad Khatib Al-Minangkabawi is one of the scholars who responded to paper money in Indonesian territory since the early 20th century. He responded based on a request for a *fatwa* by the archipelago people regarding the use of paper money and the resulting laws. Based on this request, Sheikh Ahmad Khatib al-Minangkabawi wrote a work explaining the rules of *fiqh* about paper money through his book, "*Raf'ul al-Iltibas 'an Hukm al-anwad al-muta'mil biha baina al-nas.*" Therefore, it is essential to re-analyze and comment on how Sheikh Ahmad Khatib Al-Minangkabawi identified the paper money problem. This effort is considered necessary, considering that no study has attempted to comment on the work of Sheikh Ahmad Khatib Al-Minangkabawi. These comments are built through a comparative analysis of the legal explanations of *fiqh* by contemporary scholars, and then determine the position of Sheikh Ahmad Khatib al-Minangkabawi's opinion among the opinions of other scholars, and identify similarities of thought and differences between Sheikh Ahmad Khatib Al-Minangkabawi regarding paper money.

This study on the thoughts of Sheikh Ahmad Khatib Al-Minangkabawi is aimed at identifying and comparing legal opinions regarding paper money, which includes the following issues: (1) whether paper money is real money; (2) whether paper money is a *rbawi* or non-*rbawi* commodity and (3) whether paper money is the object of *zakāt* or not. The answers to these three issues will be found through careful reading of Sheikh Ahmad Khatib Al-Minangkabawi, and then compared with contemporary scholars such as Sheikh Muhammad Amin As Shanqithy; Sheikh Ahmad Husaini; Sheikh Abdurrahman As-Sa'di and Shah Waliyullah Ad-Dahlawi. These ulama were chosen with several arguments, namely, First, most of these scholars, except Shah Waliullah Ad-Dahlawi who lived a century before, lived and believed in paper money in the era of 1900 AD, a period with Sheikh Ahmad Khatib Al-Minangakabwi; Second, the opinions of these scholars can be used as a comparison to the opinion of Sheikh Ahmad Khatib Al-Minangkabawi regarding paper money.

2. Methodology

This article uses a qualitative approach to study and understand the thoughts of Sheikh Ahmad Khatib Al-Minangkabawi about money contained in his book *Raf'u Al-Iltibās.* This process is termed as the extraction of the meaning of the text in the work of Sheikh Ahmad Khatib al-Minangkabawi (Abdellah and Haridy, 2017). It focuses on extraction of answers to several questions or issues identified from the work of Sheikh Ahmad Khatib Al-Minangkabawi, *Raf'u Al-Iltibās.* These issues include: (1) *whether paper money is real money;* (2) *whether paper money is a rbawi or non-ribawi commodity;* (3) *and whether paper money is the object of zakāt or not.* Understanding *Raf'ul Al-Iltibas,* the model offered by Abdellah and Haridy (2017) can be applied in this article (see Figure 1).

There were several processes as an effort to extract the thoughts of Sheikh Ahmad Khatib Al-Minangkabawi, namely, (1) an extracted-text is presented in Arabic, with the title "*Raf'u Al-Iltibās 'an Hukm Al-Anwāt al-Mutamil baina al-Nas*"*;* (2) comments on the main extracted-ideas are understood in a historical context; *Islamic legal theories* or *fiqh*; (3) the conclusions

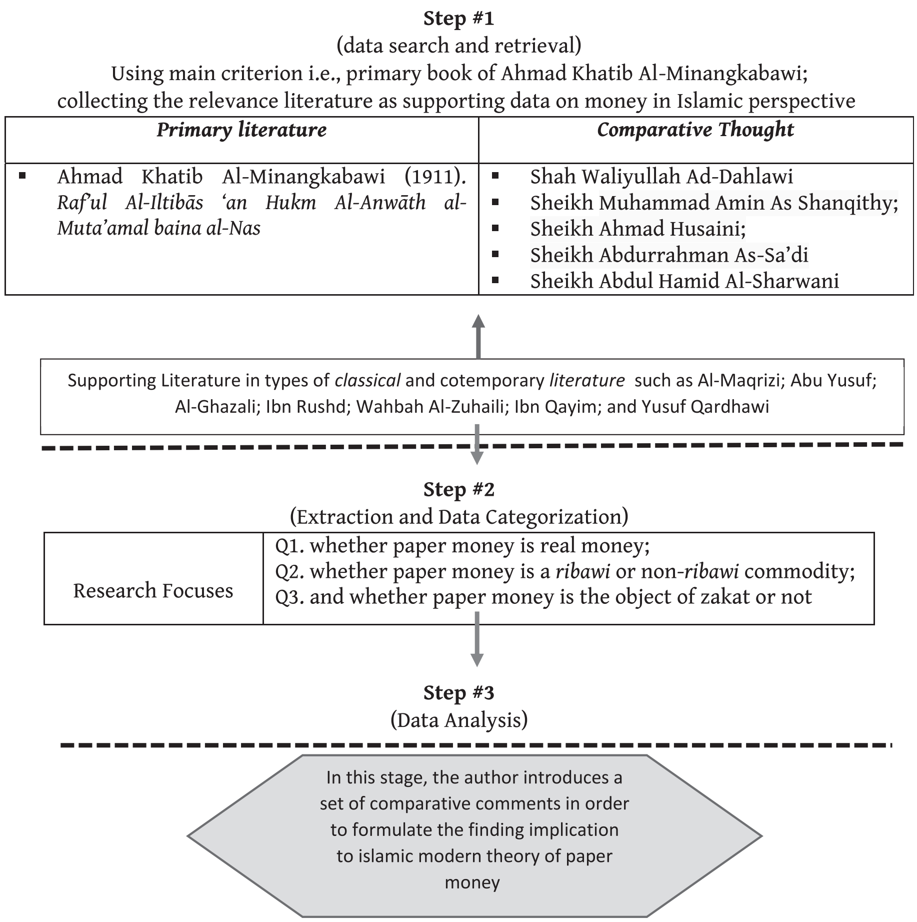

Figure 1.
Research design

Source(s): Author's own based on Abdellah and Haridy's (2017) framework

presented is identified its implications of the findings for modern Islamic money theory (Abdellah and Haridy, 2017). The interpretation approach refers to the model used by Lilian Abou-Tabickh, where extracting ideas from a text verifies the context and its historical setting. Interpretation will depend on identifying the structure of reasoning behind a text (Abou-Tabickh, 2019). Thus, this approach is purposively to understand and grasp the ideas behind the concept developed by Sheikh Ahmad Khatib Al-Minangkabawi about the money poured in his work, *Raf'u Al-Iltibās*. It is crucial and something new in uncovering the initial theory of money discussed by scholars with the Shafi's claim from the Nusantara and living in Mecca in the early 20th century (see Figure 2).

3. Result and discussions

3.1 Ahmad Khatib's legal reasoning: an initial identification

Money is not a new issue in the *fiqh* tradition, but it has always been an actual issue to be studied because the use of money is developing, dynamic and changes throughout the ages (Oberauer, 2018). Norbert Oberauer introduced the concept *of three-tier currency* and how

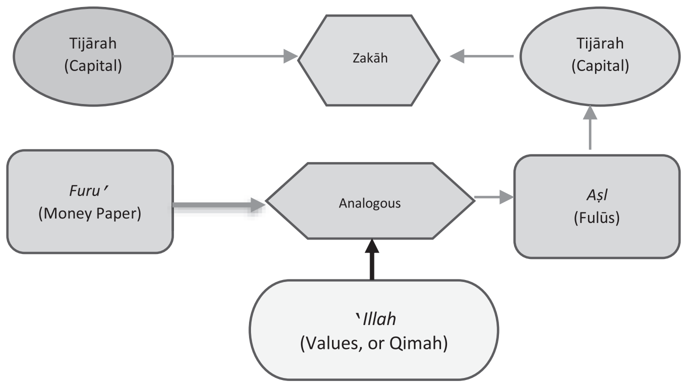

Figure 2.
Ahmad Khatib's Qiyas

Islamic law weighs and discusses this concept. This concept *three-tier currency* involves at least three money forms, gold *dinar*, silver dirham and copper money. Interestingly, Oberauer introduced a thesis in which "money that exists and circulates in the market is money with a complex meaning. The spread of money that was very wide, and in large amounts, made money a complex medium of exchange, sparking legal debates among scholars." The complexity of money is due to a gap between money and how it is used by society in the economic market. Besides, people's attitudes toward money are also different and have a locality effect.

In the market, the value of money will tend to follow market mechanisms. Understandable because the market is theoretically complex (Oberauer, 2018). In this context, there are two concepts of money in monetary theory, namely, exogenous and endogenous money. These two typologies are introduced due to how the value of money is determined, both in the market and in the financial system (Sieroń, 2019). Money is considered exogenous because it is produced and established by law and state authority. Menger, in this case, argues that money is not only generated top-down through power, but it is an unplanned product of the market mechanism. The market's role and the law of "demand-supply," are determinant and significant in determination of a currency's value. It is just that in Islam, the value of money is determined systematically, and in a patron-law-based system – Islam through *fiqh* has provided guidelines on how the public ideally transact the money. The jurists' *ijtihād* must be seen in this context.

In the Islamic legal tradition, there are several *manhāj* or methods of legal stipulation. This method is connected to the four *fiqh* madhabs popular in Islamic *fiqh* – the Hanbali ; Māliki; Shafi'ite and Hanafi (Benkheira and Weiss, 2003). The method of Islamic legal reasoning has a long history until it became popular with the four primary schools of *fiqh*. However, other schools are outside the four schools, such as the Shi'i and Zahiri Madhabs. In this regard, the paper is concerned with Sheikh Ahmad Khatib al-Minangkabawi's legal reasoning of how Ahmad Khatib Al-Minangkabawi produces legal argumentation based on Shafi'ite tradition. It is classified as a *fiqh* expert and the Masjidil Haram's mufti, who has Shafi'i as the answer. So, the manhaj madhabs-shafi'ite is the foundation of legal reasoning (Wirman, 2019). In its development, Islamic legal theory exists to understand the sources and methods of the resulting law (Hallaq, 1997). In this case, the style of Islamic law is determinant or depends on the *mujtahid* source. It can be the Qur'ān; Sunnah; Ijmaʿ and Qiyas. In treating sources and placing their positions, it gave birth to several *legal reasoning traditions* in giving birth to Islamic law.

The difference between *manhaj-Ijtihādiyah* is the necessity of the ulama's thought in the field of *i'ti*qad, politics and *fiqh* (Zahrah, n.d.). This difference encourages the distinctive features of each *madhab* in producing Islamic law. The proof is that the *Ijtihād* tradition developed by Imam Idris Al-Shafi'i is different from the *istinbath* tradition of Imam Abu

Hanifa in producing Islamic law. Imam Safi'i arranged Islamic law sources hierarchically, consisting of: the *Qur'ān; Ḥadīth; Ijma'* and *Qiyās* (Muhammad Bin Idris As Safi'i, 2006). The Qur'ān for Imam Shafi'i is the primary source of Islamic law. Likewise, the *Ḥadīth* of the Prophet occupies the primary source after the Qur'ān. Shafi'ite positioned the *Ḥadīth* of the Prophet as *primus inter pares* (Coulson, 1964). As for positioning the *sunnah,* Shafi'ite is also positioned it equal to the *Ḥadīth* as the primary source of Islamic law. Because the *sunnah* is the behavior of the Prophet Muhammad, and an inspiration for the behavior of Muslims. In practice, if a *mujtahid* or scholar does not find answers to the problems and issues in Islamic law from primary source, it can refer to secondary source i.e. *fatw al-sahabah, ijma'* and *qiyas*. In this context, Imam As-Shafi'i offered one more source.

Schacht explained that the Qur'ān and Sunnah are the two main principles, while *ijma'* and *qiyās* are the subordinates. Meanwhile, Abyari understands that in the Shafi'ite tradition there are only three *proposals* (main points) of the Sharī'ah, namely, the Qur'ān; Sunnah and Ijma'. In contrast, *qiyās* in the classical tradition, especially among *ushūluyyin* is the result of compromise. It is in line with what was described by Imam As-Shafi'i (Benkheira and Weiss, 2003). The theory of Islamic law developed by Imam Shafi'i undoubtedly influenced his followers. It is followed in establishing Islamic law and becomes the foundation of Islamic legal reasoning carried out by its followers in responding to emerged-legal problems. Included in this Sheikh Ahmad Khatib al-Minangkabawi as a scholar from Minangkabau believed to have taught at the *Masjidil Harām* since the beginning of the 19th century, until he became the Grand Imam of the *Masjidil Harām*, Mecca (Mudhafier, 2013). As a shafi'ite scholar, Sheikh Ahmad Khatib al-Minangkabawi indeed did *ijtihād* within the framework of Islamic legal theory and the *ushl fiqh*-methodology offered by Shafi'ite. In this context, then this article seeks to understand Sheikh Ahmad Khatib al Minangkabawi's reasoning in expressing his views on money through his work *Raf'u al-Iltibās.*

Sheikh Ahmad Khatib Al-Minangkabawi is a *fāqih,* who is prolific in Islamic law and expert with shafi'ite insight (Al-Minangkabawi, 1911). It is an argument why, later, Ahmad Khatib Al-Minangkabawi applied *the framework* and method of shafi'ite in legal reasoning, especially in using *qiyās* and other *ushl fiqh* instruments. In this context, Al-Zarkasyi (b. 745 H / d. 794 H) classified the concept of *qiyās* based on several criteria: *First*, in terms of its scope, there are differences of opinion among the scholars regarding this matter. Imam Al-Haramain argues that *qiyās* consists of two concepts, namely: *qādim* and *hādis.* The idea of *qādim* contains the law. Meanwhile, *furu'* (newcases) and *al-aṣl* are components that are grouped under the criteria of *hādis* (new things). Meanwhile, what connects the two (*qādim wa hādis*) is *'illath* (Al-Zarkasyi, 1992). Ibn Al-Munīr has a different opinion. According to him, *al-'illath* is a thing that is *nisbatun* (likened) and *idāfatun* (relied) and both are *adamiyatun* (abstract). Essentially, the abstract is not composed of *al-jins* (types); *al-fashl* (limitation) because both are material and empirical. Ibn Al-Munīr's view was supported by Al-Abyari (Al-Zarkasyi, 1992). *Second*, regarding the position and relationship between *furu'* and *aṣl.* The majority of scholars *(jumhurAl-Ulamā)* argue that *qiyās* is an attempt to equate *(musāwatun)* the law that is in *furu'* to the law in *asl* because of the exact cause (*Gods)*. In this context then, Al-Zarkasyi adhered to the opinion of the majority of *ushl fiqh* scholars (Al-Zarkasyi, 1992), who interpreted *qiyās* as an effort to equate the law of *furu '* (*mahl al-hādis*) with the law in *aṣl* (*mahl al-'illah*).

As for *qiyās,* which is popular among scholars with shafi'ite schemes, it is used to establish and produce laws in new cases (*aṣl),* which are not explained by the primary Islamic texts, namely: Qur'ān and Hādith (Al-Zarkasyi, 1992; Miftah, 2014). In this context, Sheikh Ahmad Khatib Al-Minangkabawi also applied the method *qiyās* to establish paper money laws. Ahmad Khatib Al-Minangkabawi uses the qiyas, not only because of that the issue of paper money is a relatively new thing but also based on a reason that Ahmad Khatib Al-Minangkabawi was a shafi'ite (Al-Minangkabawi, 1911, p. 2), who agreed to make *qiyās* as *the* *fourth* source of law after *ijma'* or ulama consensus. As in the shafi'ite tradition, *qiyās* as: "the extension of a *Sharī'ah* ruling from an actual situation (*aṣl*) to a new situation where the latter has the same effective cause (*'illah*) as the former. The *hukm* (law) extended to the new case must be about practical matters. It must be a legal rule that pertains to an individual's acts, rights and obligations. A certain rule that does not fall within the ambit of *fiqh* cannot be extended to new issues through *qiyās* (Saleem, 2010). "In the shafi'ite tradition, *qiyās* consists of at least four crucial principles. *First*, *qiyās* can be represented by employing new cases which require the establishment of one law. *Second*, there is an *original case* mentioned and explained by the Qur'ān or *Sunna* or accepted by *ijma'* or the consensus of the scholars. *Third*, the suitability of the attribute (*'illath*) in the law of *aṣl* with the new case (*furu'*). Finally, *qiyās* must exist in legal norms that function as legal decisions and can be applied to new cases because there are similarities (*de facto)* between the original new case (Alwazna, 2016). This principle is generally held firmly by scholars with shafi'ite scholars, including Sheikh Ahmad Khatib Al-Minangkabawi.

In applying *qiyās* to the case of paper money, Sheikh Ahmad Khatib Al-Minangkabawi referred to Imam Jalalain's view where paper money could be analogized to *fulūs* with *'illath* having value or *qimāh*. Nevertheless, Ahmad Khatib believes that paper money is not obliged to the *zakāt* unless used for trading as capital (Al-Minangkabawi, 1911, p. 5). Ahmad Khatib Al-Minangkabawi's view emphasizes a distinctive frame of mind and can identify reasoning by applying analogy (*qiyās*) in it. However, he did not mention the method *qiyās* as the *tool* used to establish the law. But analogical reasoning is inherent in his opinion on paper money.

3.2 Defining paper money: real or nominal money?

The main question that deserves to be asked and as an effort to identify Sheikh Ahmad Khatib Al-Minangkabawi's definition of paper money is: "can paper money be classified as real money or vice versa?" Sheikh Ahmad Khatib Al-Minangkabawi refers to the opinion of Sheikh Salim bin Abdillah bin Saamir that paper money is paper: several values are written on it, from tens to thousands and also accompanied by the date of issue. These paper money were then daily termed "al-nawt", and allowed many people to transact using them (Al-Minangkabawi, 1911, p. 3). Furthermore, Ahmad Khatib Al-Minangkabawi explained that issue paper money for several purposes: (1) protect human property. Therefore, humans do not need to store gold and precious metals as currency; (2) paper money's efficiency. Because it is easy to carry and can be moved from one place to another (Al-Minangkabawi, 1911, p. 3), this interpretation emphasizes that paper money in Sheikh Ahmad Khatib Al-Minangkabawi's understanding can replace real money, i.e. dinar money; and dirhams or gold coins or metals which were widely known before paper money as money which could be used as a medium of exchange.

Paper money, or better known as "banknotes," is generally accepted by the public and can be used to buy goods and function as a currency in general. It is just that published by banks and private institutions (Rajeswari, 2005). In this concept, Al-Minangkabawi (1911) emphasized why then paper money could be used to buy other economic goods and products because the institutions that issued paper money listed the value of paper money as recognition (i.e. debt) which prevailed in the region, where the paper money was published (Al-Minangkabawi, 1911, p. 4). In a simple sense, paper money has the legitimacy to replace real money, equivalent to paper money's values. When someone uses paper money for transactions, in essence, the paper money's price, according to Ahmad Khatib Al-Minangkabawi, does not lie in the paper money itself but the value set by the government. Therefore, the value of paper money is only "*dāl*" or shows a discount based on its price. Simply put, the paper money's value is not due to its material, such as gold and metal coins. Essentially, paper money only show the "presence" of collateral represented by a value or price (Al-Minangkabawi, 1911, p. 4). For example, when one paper money is listed 3,927 Rupiah, it is equivalent to 1 UAE dirham. It confirms the thought of Sheikh Ahmad Khatib Al-Minangkabawi (1911) about paper money's value lies paper money's collateral not because of the money itself that this value is determined (i.e. *wadi'in*) by the institution that issued the paper money.

Sheikh Ahmad Khatib Al-Minangkabawi (b.1860/d.1916) implicitly explained that the value of paper money is not based on market forces (i.e. demand and supply) but is determined since an institution issues the paper money. In contrast to the meaning of value formulated by economists, the value of one cash refers to the value of "exchange value" (Pigou, 1917). In this context, the value of a currency is highly dependent on the forces of supply and demand in a market. It then distinguishes it from the meaning of paper money formulated by Sheikh Ahmad Khatib Al-Minangkabawi, where the paper money's value is not based on market forces, is determined by the banknote issuing institution, and applies partially to the area where the paper money are printed. Apart from Sheikh Ahmad Khatib Al-Minangkabawi, Sheikh Abdul Hamid Al-Syarwani (1884 AD) also formulated that paper money is only valuable because the authorities give it (*bi mujaradi hukm al-salatin bitanziliha manzilata al-nuqud*) because of the substance. If the government policy revokes and is no longer recognized as a medium of exchange in buying and selling, it returns to its essence, namely a piece of paper (Al-Haitami, 1983). Both Sheikh Ahmad Khatib Al-Minangkabawi and Sheikh Abdul Hamid Al-Syarwani have the same view regarding the concept of "value" inherent in paper money. Both believe that the paper money's value is not due to the material of the paper money itself but because of a determination by the power of what value is imprinted on the banknote.

Conceptually, paper money is a *fiat* currency or currency whose value is enforced by the authorities and laws in which the currency is issued. In the modern economy, it is also termed *legal tender* or *forced tender*. Because it requires coercive legal authority (Adam *et al.*, 2019), in this context, then another concept about paper money, apart from understanding paper money from the aspect of value, some scholars understand paper money from its function. Sheikh Ahmad Khatib Al-Minangkabawi and Sheikh Abdul Hamid Al-Syarwani identified that, in essence, paper money is not material that has genuine value, such as gold and metal coins. But paper money are *dayn* or notes of debt. History records that money experienced a shift, from commodities (*'ain*) to debt records. Nowadays, money is no longer a record of debt, but the power authorities designate the fiat currency as a medium of exchange (Adam *et al.*, 2019). Simply put, paper money is a record of the country's debt when one currency is issued. The value stated on paper money is guaranteed and borne by the state, then legitimized as a medium of exchange for various economic activities. In this context, then, paper money is classified as "nuqd istilāhiyah": a concept that refers to money other than "gold" and "silver." Humans use it widely because of *'urf* and *'qanun* (Himad, 2013). Therefore, paper money is agreed in the *fiqh* tradition as an independent currency, has a specific law, and different from money whose material is made of gold, silver or metal. It has implications for the value contained in paper money.

Table 1 informs that there is not much difference between Sheikh Ahmad Khatib Al-Minangkabawi and Sheikh Abdul Hamid Al-Syarwani in defining two variables related to

Table 1.
Comparison on paper money concept

Dimensions	Ahmad Khatib Al-Minangkabawi	Abdul Hamid Al-Syarwani
Values of paper money	Based on the establishment of power authority	Values was set by the government
Acceptability	Accepted as a medium of exchange for economic transactions in certain regions	Accepted as a medium of exchange for economic based on *'urf* and *qanun*

paper money, namely: the value of paper money and acceptability of paper money. The only difference is the "acceptability" of paper money: for Sheikh Ahmad Khatib Al-Minangkabawi, paper money can be accepted and used as a means of transaction in the area issued. Meanwhile, Sheikh Abdul Hamid Al-Syarwani understands that paper money can be used and accepted as a medium of exchange based on the *'urf* and *qanun* where the paper money was issued. Sheikh Abdurrahman bin Nasir al-Sa'adi through his work *Al-Ajwabatu Al-Sa'adiyah 'an Masāil Al-Kuwaiti*, discusses in detail how the concept of paper money is and the legal implications of using it. He argued that paper money had absolutely no intrinsic value. Therefore, paper money is only a commodity item (Al-Sa'diyah, 2002, pp. 213 and 229). The arguments put forward by Abdurrahman Al-Sa'adi include: (1) analogizing paper money into commodity goods, even though they are in the form of jewelry and the jewelry contains gold and silver. But the laws cannot be compared to the laws of gold and silver. Likewise, paper money; (2) if the collateral on the paper money is lost or invalid, either due to the destruction of the issuing country or due to other reasons, the banknote will no longer be of value; (3) *'illat* usury on gold and silver is due to the scales according to Hanafiyah. It was narrated by Imam Ahmad. However, the Safi'iyah and malikiyah scholars *'illat*h lie in their values. The value referred to the context is only found in gold and silver. Meanwhile, paper money was not gold and silver. Therefore, paper money cannot be categorized as 'illat of *riba*. Through this argument, Abdurrahman Al-Sa'adi did not include paper money in usury goods (Al-Sa'diyah, 2002). This argument then became the foundation for Abdurrahman Al-Sa'adi to categorize paper money as a commodity, and not items that could be categorized under *'illat* riba, such as gold and silver.

More concretely, Al-Zuhaili (2009) divides paper money into three forms: (1) النائةالبدلية النقود (exchange money); (2) الوثيةالنقود (documentary money); (3) الالزامية النقود (security deposit). This grouping is a conceptual differentiation zone between gold, silver and paper money. In this context, money as the paper is a payment tool, but it depends on the strength of the law attached (Al-Zuhaili, 2009, p. 151). For example, paper money are stipulated by the power authority of the country where paper money are issued. When transacting in another country, it is necessary to exchange it for other countries' paper money at the appropriate exchange rate. Referring to the various concepts put forward, especially by Ahmad Khatib Al-Minangkabawi, classifying paper money as real money must certainly elaborate the criteria for real money, known in modern monetary theory. Two forms of money are known conceptually, namely: nominal money and real money. Nominal money income is at its actual value owned by money. For example, in one paper currency, the value of Rp. 100,000 – then the nominal value. Meanwhile, real money is money issued by the central bank as a legal payment instrument in a country, including paper money and coins (Aini *et al.*, 2016). This simple concept can quickly become an argument for categorizing the paper money implemented by Sheikh Ahmad Khatib Al-Minangkabawi as real money. But this is inadequate without identifying the elements of Sheikh Ahmad Khatib Al-Minangkabawi's interpretation of paper money following the underlying historical context because paper money in the era of Sheikh Ahmad Khatib Al-Minangkabawi is undoubtedly more straightforward and not as complex as paper money known in the modern period.

Nikolas Siegfried (2001) identifies that the introduction of paper money has fundamentally changed the human and economic situation. Paper money were agreed as an essential instrument in financial transactions. Thus, the legal concept of paper money developed and continued to be formulated by legal experts, including *fiqh* experts. It is done because paper money is not just real money; it is just a medium of exchange. However, various concepts and definitions are attached to paper money. However, this concept encourages debate among scholars (Siegfried, 2001). For example, Sheikh Ahmad Khatib Al-Minangkabawi equated the law of paper money with fulus (Al-Minangkabawi, 1911). It can also find in classical legal thought. This equation lies in the use of local folded paper money and is limited to small transactions in size (Siegfried, 2001). In this case, paper money can be categorized as real money. The argument is that paper money has a legitimate use as a medium of exchange. However, it is limited and is limited to transactions that are small in scale. Departing from the assumptions and concepts put forward by Sheikh Ahmad Khatib Al-Minangkabawi, the categorization of paper money as real money is also a dilemma when faced with an approach that makes meaning; the function and nature of reduced paper money.

There are several classical *fiqh* approaches to paper money. This approach forms the foundation for categorizing paper money: whether or not they are classified as real money. First, the view that positions paper money as bonds on the storage of gold and silver (Mani', 1984). In the context of Al-Azhar cleric's fatwa, paper money are not categorized as real money because it is only collateral for bonds *per se*. Second, the suftaja approach positions paper money as money that replaces gold and silver coins and has a value compared to both of them for the legality of power (Siegfried, 2001). In this sense, paper money can be categorized as real money because it is real money like gold and silver coins. Meanwhile, Al-Minangkabawi (1911) did not implicitly categorize paper money as real money. But he was looking at paper money from two dimensions. First, paper money has value because a nominal amount is imprinted on the money (Al-Minangkabawi, 1911, p. 3). So in this context, paper money can be categorized as real money because it has wad'iyah values or is determined and legally used as a medium of exchange. Second, Ahmad Khatib Al-Minangkabawi also confirmed that paper money are bonds on deposits of gold or silver (Al-Minangkabawi, 1911, p. 3). In this sense, paper money is nothing more than a dayn that reflects collateral for several gold and silver coins. Because it is just a dayn, it seems that paper money in this sense is not real money. However, the real money category for the context of paper money at the time of Sheikh Ahmad Khatib Al-Minangkabawi in the early 20th century is not so relevant. Paper money was already used as a medium of exchange, not only in the archipelago. But in some Islamic empires, such as the Byzantine empire (Siegfried, 2001). The widespread use of paper money during Sheikh Ahmad Khatib Al-Minangkabawi must be seen as a *fiqh* issue, giving birth to some of Sheikh Ahmad Khatib Al-Minangkabawi's essential thoughts on muamalah issues. For example, whether paper money is a *rbawi* or non-*rbawi* commodity. This issue is one of the critical issues discussed by Sheikh Ahmad Khatib Al-Minangkabawi in his work, Raf'u Al-Iltibas.

3.3 Paper money: rbawi or non-rbawi commodity?

Discussion regarding whether paper money is a usury commodity like gold and silver (Oberauer, 2018) has attracted various ulama circles. It is because the issue of usury includes multiple dimensions. In *fiqh*, the practice of usury can occur not only in transactions that apply "interest" and "usury." But riba can also be identified from the exchange of money (Oberauer, 2018). In the *fiqh* tradition, it is found, and it can determine that usury on gold occurs when the sale of gold is not equal in weight or type, likewise with silver. Because of that, later, the scholars classified gold and silver as commodities of usury. Then what about paper money? Sheikh Ahmad Khatib Al-Minangkabawi in answering this problem by identifying the law of buying and selling paper money. In a straightforward illustration, individual paper money with paper money on credit (*mu'ajalan*) for six months. Then he said: "I sold this paper money for 200 rupiah or one thousand rupiah silver for 6 months." According to Sheikh Ahmad Khatib Al-Minangkabawi, illegal trading, or *vanity*. Because of buying and selling *dayn bil-dayn* (Al-Minangkabawi, 1911, p. 4). Apart from that, mentioning its comparability to silver makes the transaction including usury. The same view is also found in several classical scholars (Imam Jalaluddin Al-Mahaly; and Imam Safi'i) that the sale and purchase of paper money must be in cash and have the same nominal value. It is not an exaggeration if-then Sheikh Ahmad Khatib Al-Minangkabawi holds this opinion. Referring to Sheikh Ahmad Khatib Al-Minangkabawi's view, it is clear that he considers paper money as a "bond," which is debt in nature. It can also be identified from the opinion of Al-Habib Abdullah bin Samith.

Sheikh Ahmad Khatib explains why paper money have the characteristics of debt because basically bills of material aspect have no value but merely "dāl" above what is shown to him. The value of money attached to paper money is a "dayn" for the government. It is different from *al-fulus al-maliyah*, where there is a value attached to it and not as a "debt" for the government (Al-Minangkabawi, 1911, p. 6). Due to the "debt" secured to paper money, making money transactions with money must be based on the following conditions: (1) cash and (2) have a nominal equivalent. It does not apply when transacting paper money with goods (*sil'ah*) so that the reference value is determined by an agreement between the seller and the buyer. Sheikh Abdurrahman Al-Sa'adi has also issued a fatwa on this issue. One time he explained the law of banknote transactions with gold. According to him, as long as it is carried out in cash, according to him, such transactions are not considered vanity transactions (Al-Sa'diyah, 2002, p. 89). He firmly answered questions about the sale and purchase of paper money and gold in cash as something legal as long as he did it in cash. But when it is done in cash, the transaction includes transactions that contain usury. Because it is not allowed, even if there is a "value" in paper money, the reasons put forward by Al-Sa'adi have in common with Sheikh Ahmad Khatib Al-Minangkabawi, namely: "paper money basically has the characteristic of debt in it." Therefore, a person must make the exchange in cash.

However, paper money cannot wholly be valued as debt because it has a government value (Yaacob, 2014). Therefore, the opinion of Sheikh Ahmad Khatib Al-Minangkabawi; Likewise, Sheikh Abdurrahman Al-Sa'adi must be positioned in its context. Because historically, paper money developed in several phases: (1) the first phase, paper money are set as "a letter of declaration" in exchange for money or "a receipt of debt (bank money); (2) paper money with guaranteed gold value; (3) paper money as a means of payment; (4) paper money as a complete substitute for gold and silver coins (Yaacob, 2014). In this context, it can be concluded that Sheikh Ahmad Khatib Al-Minangkabawi's thoughts regarding paper money are in the first phase. Paper money is basically "a letter of declaration" in exchange for money (*fulus*). Shah Waliyullah Ad-Dahlawi sees the use of paper money as a necessity and "al-hikmat", where there is a need to develop payment instruments because the barter system is no longer capable of being a solution to increasingly complex human needs (Azmi and Syamsuri, 2019). Therefore, it is necessary to stipulate conditions so that paper money in the form of "a letter of declaration in substituting money" do not become a new tool to institutionalize the practice of *rbawi*. Sheikh Ahmad Khatib Al-Minangkabawi required that the exchange of money for paper money be done in cash (Al-Minangkabawi, 1911, p. 6). Arguments why then Al-Minangkabawi (1911) requires that cash transactions on the exchange of paper money, as well as essentially paper money at that time significantly as the letter of declaration substitute for money, view Sheikh Ahmad Khatib also apply the methods of analogy*(qiyās)* against the exchange of gold and gold. In the context of delaying the delivery of gold, it will cause the value of gold received in the future to experience changes: "decrease" or "increase" (Oberauer, 2018). This condition that the *'illat* why selling "mua'ajal" (i.e. credit) is not allowed and considered as acts that can plunge to the practice of usury. In the context of paper money, price changes are unpredictable. Because paper money's value is a determinant of government policy, the government can increase the value of paper money at any time, or vice versa, decrease the value.

Thus, Al-Zuhaili (2009) introduced at least several forms of money that were widely used by the public, namely: "dinar zahbiyah"; "Blood fidiyah"; "Fulus nuhasiyah" (currency other than gold and silver); and "warqiyah" (Al-Zuhaili, 2009). When Sheikh Ahmad Khatib Al-Minangkabawi made an analogy of *warqiyah* and the terms of the transaction that accompanied it with gold or silver money, it was justified because both paper money and gold or silver coins have the same function, namely as money and a medium of exchange. However, paper money was not categorized explicitly by Sheikh Ahmad Khatib Al-Minangkabawi as a *rbawi* commodity like gold, silver and foodstuffs. It was explained later by Sami Hamud, that paper money reflects the price for something (*tsamanul asyya'*) so that it applies in it to its *rbawi* nature, even being subject to *zakāt* (Al-Zuhaili, 2009, p. 150). For Sheikh Ahmad Khatib Al-Minangkabawi and Sheikh Hamid Al-Syarwani, because of paper money's *rbawi* nature, it must carry out money transaction according to the same criteria; value and must be in cash. It is based on the argument (*Ḥadīth*), in which the Prophet(s) emphasized that: "[buying and selling] gold for gold, silver for silver, wheat for wheat, *sha'ir* with *sya'ir,* dates with dates, and salt with salt can be done (on condition) the same and the same kind and in cash. If different, sell as you wish if done in cash (Muslim)." It means that there is a standard view among contemporary scholars, including Sheikh Ahmad Khatib Al-Minangkabawi, that paper money is a *rbawi* commodity, based on analogy to gold and silver. Therefore, banknote transactions must meet the requirements outlined in the *fiqh* tradition, i.e. of the same type; score and done in cash.

3.4 Zakāt on paper money: based on Sheikh Ahmad Khatib's view

Al-Minangkabawi (1911) started discussing *zakāt* on paper money by revealing several scholars' views regarding *zakāt* on paper money. First, scholars who do not oblige *zakāt* on paper money. The arguments constructed by this group are based on analogical reasoning, or *qiyas,* where paper money are equated with *fulus al-nihas*. The scholars in this group were Ibn Taymiyyah; Al-Azhar scholar, Al-Minangkabawi (1911, p. 5). Nevertheless, the attitude of the *ulema* who rejects *zakāt* on paper money is not absolute. They refuse *zakāt* on the paper money material, for the reason that the material paper money is not the object of *zakāt* like gold and silver. Because paper money has no value, however, the law of paper money will be different, used as capital in trade. Profits from business obliged his *zakāt*. This view is also found in the shafi'te such as Imam Al-Jalalain, where he argues that it does not oblige *zakāt* on paper money. Except when paper money is used in commerce and makes a profit, then *zakāt* must be paid (Al-Minangkabawi, 1911). However, not historically, the scholars of *fiqh* among scholars with shafi'ite have different opinions regarding *zakāt*'s obligation on paper money. The first group is scholars who oblige *zakāt*. This opinion can be identified from the viewpoint of Jumhur Ulama.

Abdurrahman Al-Jaziri emphasized that: "the jumhur ulama obliges *zakāt* on paper money. The argument that paper money replaced gold and silver as a medium of exchange and could be exchanged for silver easily. Therefore, it does not make sense if some people do not oblige *zakāt* on paper money. On this basis, the three madhabs agreed to state that paper money was a commodity that was obliged to do *zakāt* on, except for the Hanbali madhab who did not agree with this opinion (Al-Jaziri, n.d., p. 974)." Nevertheless, Wahbah Al-Zuhaili doubts that three madhabs apart from the Hanbali madhab agree on *zakāt* on paper money. Historical fact, paper money as it is known today was only issued after the second world war. It seems that this opinion was attributed to the classical ulama with the madhab of shafi'i; maliki; and hanafi by mere analogy reasoning. In this context, Wahbah Al-Zuhaili wrote: "The classical *fiqh* expert does not discuss the issue of paper money. However, contemporary jurisprudence experts discuss currency exchange, especially concerning the obligation of *zakāt* on it. Contemporary scholars affiliated with the shafi'ite; hanafiyah; and Malikiyah argues that paper money is a commodity for which *zakāt* must be paid. The reason is that paper money is a "state treasury" that has value. Therefore, everything that has value is the object of *zakāt*. In contrast to that, a jurisprudence expert with a mashab hanbali argues that paper money is not a commodity that must be issued *zakāt* unless the notes are first exchanged into gold and silver. Paper money is only "a received debt" (Al-Zuhaili, 2009). Among the debates and khilafiyah Wahbah Al-Zuhaili obliged *zakāt* on paper money because, according to him, paper money today replaced gold and silver coins as a medium of exchange (Yasir *et al.*, 2019). Sheikh Ahmad Khatib Al-Minangkabawi (1911) identified that the root of the *khilafiah*, or debate regarding *zakāt* on paper money, lies in the meaning of the value contained in paper money (Al-Minangkabawi, 1911, p. 6). Differences in formulating the value attached to paper money will result in different laws attached to paper money.

Al-Minangkabawi (1911) explained that *'illath is* debated regarding *zakāt* on paper money, revolving around the argument that the paper material is not something with value. But he was only "*dālatu*" for what was written on him as "*al-nuqud*" and became a debt to the government. It is different from what is written in *al-fulus al-maliyah.* It is written the value based on the material's size that becomes the material for money and is not a debt to the government (Al-Minangkabawi, 1911, p. 6). Beyond this, Sheikh Ahmad Khatib Al-Minangkabawi (1911) formulated another argument why *zakāt* on paper money is indispensable and must be paid. According to him, the argument based on this obligation was that paper money now, and even in the future, would be the most desirable asset; and humans will try to get it. It means that paper money is something valuable (Al-Minangkabawi, 1911, p. 11). Therefore, *zakāt* on paper money is the same as *zakāt* on gold or silver. The material, but the price attached to paper money, makes it a "treasure" (*al-māliyah*), which is valuable. Therefore, it is obligatory for *zakāt* on paper money because it is one of the most critical property forms for human life.

Al-Minangkabawi (1911) agreed with the shafi'ite cleric who analyzed *zakāt* on paper money at two levels, namely: (1) at the material level of paper money, scholars of shafi'ite decided that there was no value if identified from the paper money material. Paper money in this form are only a medium of exchange. Therefore it is not obligatory to *zakāt*; (2) paper money is obliged to do *zakāt* on it when paper money is used as capital in economic transactions (Al-Minangkabawi, 1911). The views of these shafi'ite scholars then continued and even developed by contemporary *fiqh* experts. In this context, several scholars' opinions regarding *zakāt* on paper money can be cloned: First, scholars who oblige *zakāt* on paper money absolutely, without conditions. In this group, there was Sheikh Muhammad bin Salih Al-Uthaimin; Second, the group that requires *zakāt* on paper money with several states, such as it is diverted and the nisab has reached the gold and silver measurement. Scholars like Wahbah Al-Zuhaili; Yusuf Al-Qardhawi and including scholars in the early 20th century, namely, Sheikh Ahmad Khatib Al-Minangkabawi, including scholars who argue that *zakāt* is compulsory on paper money with conditions.

Al-Qardhawi (1973) even wrote a detailed chapter of *zakāt* money in his work, *fiqh zakāt.* Yusuf Al-Qardhawi specifically builds the argument why paper money is obligatory *zakāt* on him through analogical reasoning. Yusuf Al-Qardhawi accepted the controversy created by the shafi'ite obliged *zakāt* on paper money. A popular general idea regarding this is that paper money and other securities (i.e. bonds and stocks) are analogous to gold and silver. The aspect that makes it the same is that paper money and gold and silver coins function as a medium of exchange (Fauziyah, 2012). Besides, paper money also has economic value and can be developed because it contains *maliyah* and *nama'* and *istinma'* (Al-Qardhawi, 1973). In this case, Yusuf Al-Qardhawi agrees with Al-Minangkabawi (1911) that paper money contains elements of *maliyah* (assets)*; nama'* and *istinma'* or can be invested (Al-Minangkabawi, 1911). When Sheikh Ahmad Khatib Al-Minangkabawi denied his view, "how can paper money be valued as a treasure while the material is just a piece of paper which is worthless?" Sheikh Ahmad Khatib Al-Minangkabawi simply explained that the value of "property" in paper money does not lie in the material. But it refers to the nominal value stated on it, when it was issued by the government (Al-Minangkabawi, 1911, p. 10). So, Sheikh Ahmad Khatib Al-Minangkabawi can be grouped into shafi'ite also require *zakāt* on paper money. The arguments he builds are also based on qiyas reasoning or analogy. He also identified and predicted that paper money would become an economic treasure like gold and silver. Therefore, paper money holders must issue *zakāt* when the conditions have been met.

3.5 Beyond Ahmad Khatib's thought on paper money: a critical commentary

Sheikh Ahmad Khatib Al-Minangkabawi's view regarding paper money can be considered a view colored by the shafi'ite. It can be identified through the similarity of Sheikh Ahmad Khatib Al-Minangkabawi, with the views of other Shafi'te scholars regarding paper money. However, the uniqueness of Sheikh Ahmad Khatib al-Minangkabawi's thoughts and opinions lies in several aspects, namely: First, Al-Minangkabawi (1911) did not fully agree to equate paper money with *fuls al-nuhs*. According to him, the fundamental difference lies in the argument over assets on paper money and *fuls an-nuhs*. In paper money, the value of the property does not lie in its material. But what becomes a reference is the value that was printed when it was first published. In comparison, the *spirit of an-nuhs* is precisely the value of property attached to the material (Al-Minangkabawi, 1911, p. 10). It means that paper money categorization as assets depends very much on the value inherent in these paper money.

Second, the value of paper money in its initial form did not fluctuate. Because it can only change the stated value, i.e. increased or decreased based on government policy (Al-Minangkabawi, 1911, p. 18). It is different from *al-nuhs' money*. The value may fluctuate depending on the price of the material into which the product *pulsed* is made. From the two fundamental views of Sheikh Ahmad Khatib Al-Minangkabawi, it can introduce the thoughts of Al-Minangkabawi (1911) in response to the use of paper money as "a letter of declaration in substituting money" (Al-Minangkabawi, 1911). The thought of Sheikh Ahmad Khatib Al-Minangkabawi is not intended as a response to the development of paper money as "replacing and substituting gold and silver," as it is widely known today by the public.

Today's widely recognized paper money differ from the paper money commented on by Sheikh Ahmad Khatib Al-Minangkabawi in the early 20th century. Davies (2002) did a good study that the paper money known in the Al-Minangkabawi period (1911) was paper money which he called the primitive form of paper money (Davies, 2002). It is termed a "primitive form" because paper money in the early 20th century was not paper money that replaced or was *backed up* by the value of gold and silver, but only "a letter of declaration." Its value was highly dependent on the political-economic policies of power. Therefore, Abdullah (2018) assesses that the paper money known today is much more complex in dimensions than the paper money known in the era of Sheikh Ahmad Khatib Al-Minangkabawi. The latter lived and wrote paper-related works (Abdullah, 2018). In this case, Abdullah (2018) understands that money development, including paper money, is inseparable from cultural, social, market conditions and even technological developments. Therefore, all paper money laws discussed in the early 20th century by scholars such as Sheikh Ahmad Khatib Al-Minangkabawi need to be reread critically. Critical readings include: First, Sheikh Ahmad Khatib Al-Minangkabawi's thoughts regarding paper money, not covering the monetary value of paper money; Second, legal issues arising from fluctuations in the value of paper money, as it follows the law of supply and demand.

Abdullah (2018) introduced the Islamic monetary theory related to the value of money by emphasizing that: "the value of money reflected in the exchange rate, both in the value of precious metals: 'depreciate or appreciate,' because of an excessive increase or decrease in the supply of money concerning Request. It affects the price level (Abdullah, 2018)." Paper money, whose value follows the law of supply and demand, are certainly not discussed, or even Sheikh Ahmad Khatib Al-Minangkabawi never thought of it. Therefore, not surprising that the direction that he enacted regarding paper money was a very determinant of the views of the number of ulama from hanafiyah circles; malikiyah and shafiyes'. Meanwhile, paper money today has a complex monetary dimension. It reflects exchange rates but contains psychological problems: economic politics; and even culture (Simmel, 2011). As a consequence, paper money which is known in modern society, has fluctuated in value due to various reasons. Not only economic factors such as market dynamics, demand and supply. It also a matter of global money, such as the dollar. In this context, paper money continues to grow and require careful but rational Ijtihād. Of course, the qiyas methodology commonly used in Sheikh Ahmad Khatib Al-Minangkabawi's reasoning is inadequate. Therefore, he needs other methods as support, for example, maqasid-based reason.

4. Conclusion

In principle, there are several concepts offered by Sheikh Ahmad Khatib Al-Minangkabawi in commenting on and then issuing fatwas related to paper money. First, Sheikh Ahmad Khatib Al-Minangkabawi distinguishes between *fuls an-nuhas* and paper money, especially in terms of value. According to him, paper money's value is *fixed* per the determination by the power (sultan). Meanwhile, the value of the *fuls an-nuhas* follows the material value. Second, *zakāt* on paper money must be paid as long as the paper money are used as capital and generate profit. The reasoning built by Sheikh Ahmad Khatib Al-Minangkabawi is an argumentation based on the *qiyās* method, or analogy. Third, paper money known during Sheikh Ahmad Khatib Al-Minangkabawi cannot be categorized as real money like gold and silver coins. Paper money was only a declaration letter to replace gold and silver coins.

Thus, Sheikh Ahmad Khatib Al-Minangkabawi considered paper money to have a "*dayn* character," or debt. Fourth, Sheikh Ahmad Khatib Al-Minangkabawi understands that paper money is a commodity of usury and gold and silver coins. Therefore, paper money's exchange must be done in cash and not justified on a delayed or deferred or "mu'ajjal basis." Although several essential points of Sheikh Ahmad Khatib Al-Minangkabawi's concept regarding paper money can be identified and offered in this article, there are limitations in writing that need to be honestly acknowledged. Among them, this paper does not make in-depth comparisons with rigorous reasoning against *fiqh* thoughts related to one-time paper money with Sheikh Ahmad Khatib Al-Minangkabawi. The dynamics of *fiqh* thinking in Sheikh Ahmad Khatib Al-Minangkabawi's era could not be touched and elaborated in-depth. It seems to be an issue for further research by other researchers in the future.

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Corresponding author
Muhammad Sholihin can be contacted at: sholihin@iaincurup.ac.id