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BIBLIOMETRIC ANALYSIS AND REVIEW OF HALAL TOURISM

Sutan Emir Hidayat, Ahmad Rafiki, Muhammad Dharma Tuah Putra Nasution

OPTIMUM OF STRATEGIC ASSET ALLOCATION FOR INDONESIAN HAJJ FUND

Beny Witjaksono, Hamzah

DOES WOMEN'S PARTICIPATION IN POLITICS MATTER FOR ECONOMIC DEVELOPMENT IN OIC-15? AN ISLAMIC PERSPECTIVE

Sari Ramdayani, M. Shabri Abd. Majid, Suriani

RESTRUCTURING AND BANK PERFORMANCE IN DUAL BANKING SYSTEM

Raditya Sukmana, Mansor H. Ibrahim

INCORPORATING PRIVATE SAVINGS BEHAVIOR IN PRODUCT OFFERINGS: A CASE STUDY OF PAKISTAN

Salman Ahmed Shaikh

OPPORTUNITIES AND CHALLENGES OF RETAIL SOVEREIGN SUKUK ISSUANCE: LESSONS FROM TWELVE YEARS' EXPERIENCE

Masruri Muchtar

ROLE OF CASH WAQF LINKED SUKUK IN ECONOMIC DEVELOPMENT AND INTERNATIONAL TRADE

Hendri Tanjung, Agus Windiarto

IMPACT OF CORONAVIRUS AND MACROECONOMIC INDICATORS ON SHARIA OBLIGATION WITH SIMULTANEOUS MODEL

Anton Bawono, Mohammad Rofiuddin, Rifda Nabila, Saiful Anwar

THE IMPACT OF ISLAMIC BANK FINANCING, GOVERNMENT SPENDING, AND INVESTMENT ON ECONOMIC GROWTH IN INDONESIA

Nofrianto, Yunie Muliana, Adi Cahyadi

TRADE AGREEMENT AND ECONOMIC GROWTH: EVIDENCE IN D-8 COUNTRIES

Arisman, Mohammad Nur Rianto Al Arif, Darwis Harahap

DETERMINANTS OF BEHAVIORAL INTENTIONS TO USE SHARIA FINANCIAL TECHNOLOGY

Dani Setiawan, Darwanto, Edy Yusuf Agung Gunanto

THE ROLE OF ISLAMIC CROWD INVESTING FOR SUSTAINABLE AGRICULTURE IN INDONESIA

Ike Purnamasari, Salina Kassim

CORPORATE GOVERNANCE FROM AN ISLAMIC MORAL ECONOMY PERSPECTIVE: THE DIMENSIONS AND ANALYSIS

Muhammad Rizky Prima Sakti, Mohammad Ali Tareq, Hajime Kamiyama

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Contents

Bibliometric Analysis and Review of Halal Tourism	177
<i>Sutan Emir Hidayat, Ahmad Rafiki, Muhammad Dharma Tuah Putra Nasution</i>	
Optimum of Strategic Asset Allocation for Indonesian Hajj Fund	195
<i>Beny Witjaksono, Hamzah</i>	
Does Women's Participation in Politics Matter for Economic Development in OIC-15? An Islamic Perspective	209
<i>Sari Ramdayani, M. Shabri Abd. Majid, Suriani</i>	
Restructuring and Bank Performance in Dual Banking System.....	223
<i>Raditya Sukmana, Mansor H. Ibrahim</i>	
Incorporating Private Savings Behavior in Product Offerings: A Case Study of Pakistan...	247
<i>Salman Ahmed Shaikh</i>	
Opportunities and Challenges of Retail Sovereign Sukuk Issuance: Lessons from Twelve Years' Experience	259
<i>Masruri Muchtar</i>	
Role of Cash Waqf Linked Sukuk in Economic Development and International Trade	275
<i>Hendri Tanjung, Agus Windiarto</i>	
Impact of Coronavirus and Macroeconomic Indicators on Sharia Obligation with Simultaneous Model	291
<i>Anton Bawono, Mohammad Rofuiddin, Rifda Nabila, Saiful Anwar</i>	
The Impact of Islamic Bank Financing, Government Spending, and Investment on Economic Growth in Indonesia.....	299
<i>Nofrianto, Yunie Muliana, Adi Cahyadi</i>	
Trade Agreement and Economic Growth: Evidence in D-8 Countries.....	311
<i>Arisman, Mohammad Nur Rianto Al Arif, Darwis Harahap</i>	
Determinants of Behavioral Intentions to Use Sharia Financial Technology	325
<i>Dani Setiawan, Darwanto, Edy Yusuf Agung Gunanto</i>	
The Role of Islamic Crowd Investing for Sustainable Agriculture in Indonesia	343
<i>Ike Purnamasari, Salina Kassim</i>	
Corporate Governance from an Islamic Moral Economy Perspective: The Dimensions and Analysis	359
<i>Muhammad Rizky Prima Sakti, Mohammad Ali Tareq, Hajime Kamiyama</i>	

Bibliometric Analysis and Review of Halal Tourism

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Abstract

The purpose of this paper is to review the existing works and literature on halal tourism using bibliometric analysis in an attempt to explore the expanding journey of this concept since its conceptualization. Based on a bibliometric analysis of 77 articles retrieved from the Scopus database from 2004 to Sept 2020, this study employs the following bibliometric techniques such as citation, co-citation, and co-occurrence of author keywords. This study finds the nature and direction of research on halal tourism had been conducted over the past decades. It also finds the most dominant authors, journals, institutions, and countries about the works on halal tourism. However, using a single source of the database could be a limitation of this study that, thus expectedly, additional techniques are needed for future researches. For academicians and practitioners, they could get comprehensive insights on the halal tourism concept from this study, which can reference strategic initiatives to encourage Muslim traveler loyalty and obtain Muslim tourist satisfaction.

Keywords:

halal tourism, muslim friendly tourism, bibliometric analysis, citation analysis.

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Introduction

The research on the interrelationship between religion and tourism would be an interesting topic in some countries. However, due to the high sensitivity of the subject, the researchers must be very selective and careful. Thus the topic of religious tourism is still open to be explored and studied (Collins-Kreiner & Wall, 2015; Kartal et al., 2015; El-Gohary, 2016). On another side, the scholars perceived that some ideas or basic concepts of the religious tourism industry had been discussed but might need to expand with significant findings (El-Gohary, 2016). For example, every Muslim had visited the holy cities of Mecca and El-Madina to conduct Hajj as required in the Islamic teachings; this indicated that religious or halal tourism is begun. Historically, Muslims had visited other religious places around the world. However, these days, when religious tourism extended to halal tourism. Thus the topic is open to be studied as long as the principles and requirements comply with shari'ah (Islamic law) (El-Gohary, 2016).

Moreover, tourism and hospitality are considered an element closely related to social and cultural, which then represent the dimensions of ethnicity and religion (Stephenson et al., 2010), which means that tourism is not only perceived in the Islamic view but may associate with other religions. However, the segment of Muslim tourists or Islamic tourism has enormous potentials and was aimed as a progressive industry such as Turkey, Egypt, or Palestine, or by the Muslim minority countries that invited the Muslim tourists to their places like Korea and Japan. The State of the Global Islamic Economy Report in 2019, \$189 billion of spending in Muslim-friendly travels, which \$1.8 billion of it spent by Muslims. The market in this sector is estimated will reach to \$274 billion in 2024. Based on the indicator ranking set by the Dinar Standard, Malaysia is recognized as a country that fulfills all the criteria, followed by United Arab Emirates (UAE) and Turkey in the second and third place. However, the Muslim minority countries like Thailand are in the top ten ranks. This report tells that Muslim tourism is tremendously acknowledged, and the market itself is growing significantly.

The literature reveals that the tourism products and services that cater to the needs of Muslim tourists are conceptualized as "Halal tourism," "Islamic tourism," or "Muslim friendly tourism," or "Sharia tourism." These terms are relatively new in the academic literature and appear as a new type of tourism (Yagmur et al., 2019; El-Gohary, 2016; Bhuiyan et al., 2011; Ryan, 2016). However, those terms have not clearly defined the attributes to distinguish them (Khan & Callanan, 2017). Nevertheless, these entire terms can be defined as travel with the core motive of experiencing religious forms, or the products they induce, like art, culture, traditions, and architecture (FICCI Religious Tourism Report, 2012).

Halal tourism is one of the emerging concepts related to the halal concept and has been defined differently. Simply, the halal concept refers to the permissible activities based on the sharia that Muslims must obey. Not all activities are allowed in the halal concept and must be with good conduct (Mohsin et al., 2016; Battour & Ismail, 2016). This concept can be easily related to tourism activities whereby usually there is no limit for such activities in hotels, resorts, restaurants, beaches, other recreational places, or

promotional and marketing-related activities. This concept includes tour packages and destinations that are particularly designed to cater to Muslim considerations and needs. Halal tourism has concern and very selective in choosing activities that comply with sharia (Jafari & Scott, 2014). Zamani-Farahani & Henderson (2010) added that halal tourism is the type of tourism, which mainly attracts Muslims who prefer to stay in their own culture, while Ala-Hamarneh (2011) described halal tourism consists of as an economic, cultural, and religious concept (El-Gohary, 2016).

In comparison, Duman (2011) highlighted that it is a concept of Islamic motivation-based tourism activities that are carried out following the rules of sharia. Halal tourism is comprised and interrelated to other elements such as halal food, halal transportation, halal hotel, halal logistics, Islamic finance, Islamic travel packages, and halal spa (El-Gohary, 2016). Again, this concept is meant for tourists of both Muslims and non- Muslims in specific Muslim and non-Muslim destinations of the tourism industry.

Meanwhile, there are many terms related to halal tourism, such as Islamic tourism, Sharia tourism, and Muslim Friendly Tourism.

Islamic tourism is well-rooted in sharia (Islamic law) and had been practicing from the early days of the Islamic civilization till today which seen when all Muslims are required to perform Hajj or Umrah or in other words, some of them visit the sacred places as obligated by the sharia (El-Gohary, 2016). Meanwhile, Henderson (2010) referred the Islamic tourism as the product development and marketing efforts that have been designed for and directed at Muslims. Other defined Islamic tourism as “a type of religious tourism that is in conformity with Islamic teachings regarding behaviorisms, dress, conduct, and diet” (Battour et al., 2010), and Jafari & Scott (2014) mentioned that Islamic tourism offers a new touristic meaning of pilgrimage that merges religious and leisure tourism which far from the hedonistic perspective. These concluded that Islamic or halal tourism concept and practice is guided by the Islamic principles that emphasize ethical, moral, good customs/manners and attempts giving choice, option, and preference than mainstream tourism activities. Islamic tourism focuses on various issues such as participation and engagement (by Muslims), tourism places and destinations (Islamic destinations), product(s) (residential places, food, entertainment, beverage), dimensions (social, economic, cultural, religious), and managing the offered service processes (marketing, ethical considerations) (Duman, 2011; Tajzadeh, 2013).

Sharia Tourism is used mainly by Indonesian researchers and not in other countries. This condition because the use of Islamic or Islam words is considered sensitive by other perspectives or groups. Although sometimes, the meanings become narrow because ‘sharia’ refers only to Islamic law, rather than the word ‘Islam’ that has a more comprehensive understanding. All Islamic institutions called sharia bank, sharia rural bank, sharia restaurants, sharia hotels, sharia insurance also had used this term. Moreover, sharia tourism is the preferred term of some tourism destinations in Indonesia, such as Lombok, also known as one of the best destinations to visit, promoting self-styled Island of 1000 mosques (Osman, 2013; AFP 2015). This data includes the initiative that comes from the

Indonesian government that highlights Lombok as the archipelago's best 'sharia tourism destinations' (AFP 2015; Delaney 2015).

The term Muslim Friendly Tourism emerged due to being adapted to the surrounding environment, such as the minority Muslim society or countries such as Korea, Japan, or United Kingdom. It tries to delete the words 'sharia' or 'Islam.' However, the meaning is similar, which refers to the tourism product(s) or activities that must be halal (permissible) which comply with the rules and guidelines set by the sharia (Islamic law). Examples of initiatives that those minority societies had done were serving the halal food in their restaurants, having a place to pray (salat) and a clean environment, staying in a hotel with no prostitution or any other immoral activities. These might be the issues, challenges, and difficulties by them, but somehow, when they perceived this concept would bring businesses than the values, thus they accept it. They realized the benefit of halal products/environment is good for them in that sense. Meanwhile, due to certain conditions of reluctance in some countries, the halal tourism term is changed to just "Muslim friendly" tourism (El-Gohary, 2016).

Given the importance of this subject, practitioners and academicians expectedly will get some valuable insights, thus essential to have a proper understanding of this subject's progress and potential for further applicability in other disciplines. Also, due to the recent exponential increase in the halal tourism literature and limitations in the methodological approach employed, therefore there is a need for a rigorous review in a more systematic and well-rounded manner using bibliometric analysis. The use of a comprehensive study in the form of a bibliometric analysis would explore the halal tourism literature for 16 years since 2004. To the best of our knowledge, the studies by Yagmur et al. (2019) and Ismail et al. (2019) are the only bibliometric analyses carried out so far on Halal tourism.

Bibliometric analysis is a meta-analytical research technique that summarizes a set of bibliographic papers to show the interconnections among articles based on multiple measures by analyzing citations and co-citations using quantitative methods and indicating key research themes related to a given topic, i.e., halal tourism. Thus in this study, expectedly, the most eminent contributors of a given subject will be identified, most dominant papers and journals will be identified, and sequent progress in the subject will be elaborated.

Methods

A rigorous bibliometric analysis in this study aimed to address all the pre-defined research questions. Bibliometric analysis manifests interconnections among the articles regarding the frequency with which an article is cited and co-cited by other articles, as seen in Table 1.

This study has retrieved data from Scopus, a comprehensive database used extensively by various researchers to carry out bibliometric analysis in multiple domains. The primary reason for choosing Scopus is its availability, nearly 60 percent larger than the Web of Science (WoS) database (Zhao & Strotmann, 2015). The authors, hence, searched for articles that would be relevant for this study from the Scopus database with the following

titles; “Halal Tourism,” “Islamic Tourism,” “Muslim Friendly Tourism,” “Sharia Tourism,” “Halal Friendly Tourism.” The study limits its analysis only to the discipline of “business” and “management,” which emphasizes halal tourism.

Table 1. Search syntax on Scopus database

Data Source	Search syntax
Search syntax on Scopus database	TITLE (“islamic tourism” OR “halal tourism” OR “muslim friendly tourism” OR “sharia tourism” OR “halal friendly tourism”)AND (EXCLUDE (SUBJAREA, “ENGI”))AND (EXCLUDE (SUBJAREA, “BIOC”))AND (EXCLUDE (SUBJAREA, “AGRI”))AND (EXCLUDE (SUBJAREA, “MEDI”))AND (EXCLUDE (SUBJAREA, “PSYC”))AND (EXCLUDE (SUBJAREA, “DECI”))AND (EXCLUDE (SUBJAREA, “EART”))AND (EXCLUDE (SUBJAREA, “COMP”))AND (EXCLUDE (DOCTYPE, “cp”))

Source: Author compilation

The publication dates of the articles range from 2004 to 2020. Additionally, articles and reviews were published only in journals considered for this study, while conference papers are excluded from this study, and the articles were published only in English (see Table 1). Moreover, a review or search query is based on the retrieved total of 77 articles. The query begins with searching for the indicated keywords in the parts of the journals, such as a title. A thorough review is done based on 77 selected articles.

Result and Discussion

In this part, the results of the analysis using the techniques of bibliometric analysis are elaborated. Firstly, it would present the citation analysis results, sequentially followed by analyses of co-citation and co-occurrence of author keywords. There are items to be reviewed in this citation analysis, such as the number of publications per year, most cited documents; most dominant authors; most dominant journals; most dominant institutions, and most dominant countries.

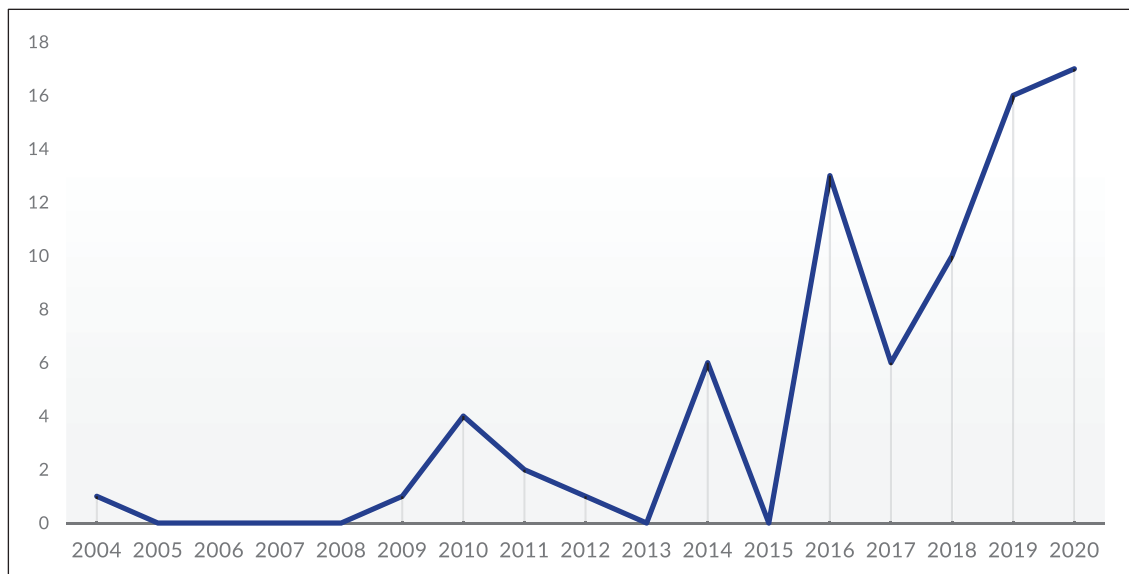
As depicted Table 2, it shows a total of 77 articles from 40 journals, written by 179 authors affiliated to 95 institutions from 29 countries, with a total number of references cited of 1111. These general results give a portrait of all the articles being reviewed on the subject of halal tourism.

Table 2. General Results

Summary of General Results	
Criteria	Quantity
Articles	77
Journals	40
Authors	176
Institutions	95
Countries	29
Cited references	1111

The trend in the number of publications on halal tourism from 2004 to 2020 shows two interesting stages. First, from 2004 to 2014 is the beginning of the concept of Islamic and halal tourism in the context of the tourism business. Publications in those years were the highest point in 2014. During the 2014-2020 period, there was an increase in the number of publications that were more than twice the initial stage. The year 2019 presents the highest number of publications compared to 2016, with a slight increase in 2020 (see Figure 1). However, looking at the trend in the number of publications received up to the third quarter of 2020. It can be assumed that the following years tend to be more constant compared to the year 2019.

Figure 1. Number of publications per year



As depicted in Table 3, there are 23 most cited documents with at least ten citations in the subject of Islamic and Halal Tourism. The documents are ranked in descending order of the number of citations received. Twenty-three articles received at least ten citations for 91 percent of the total cited documents or more. The article by Zamani-Farahani & Henderson (2010) is the most cited article with 159 citations. In this article, the authors explain, Islam has proven to have significant consequences on the conditions of incoming and outgoing tourists and destinations and has an influence in setting the content, direction, and application of tourism policies. The impact on tourism in Islamic countries such as Iran and Saudi Arabia might dictate societal and economic behavior. Although the countries have many unique tourist spots, they only attract relatively few tourists from developed countries. Thus those countries do not get the full benefits from tourism industry in terms of the economic or business income except the pilgrims who came purposely in fulfilling the obligation of the religion. It seems that the Islamic countries have a severe barrier to tourism development, but at the same time, it must be acknowledged that certain types of development are not always desirable, and officials and residents may deem the absence of large numbers of Western tourists highly desirable.

Furthermore, the next most cited article is the work of Al-Hamarneh & Steiner (2004). In this article, the author conceptualizes Islamic tourism as having real opportunities only if the intra-regional political situation and cooperation in travel and visa issuance are accepted widely. Cultural and religious concepts can play a positive role as complementary options in the tourism landscape. Hence, these two articles are related to the conceptualization and definition of tourism in Islam and eventually receive a very high number of citations in the halal tourism papers.

Table 3. Most cited documents in Islamic and Halal Tourism Literature

Rank	Document	Author	Citation
1	Islamic tourism and managing tourism development in Islamic societies: The cases of Iran and Saudi Arabia	(Zamani-Farahani & Henderson, 2010)	159
2	Islamic tourism: Rethinking the strategies of tourism development in the Arab world after September 11, 2001	(Al-Hamarneh & Steiner, 2004)	110
3	Halal tourism: Concepts, practices, challenges and future	(Battour & Ismail, 2016)	95
4	Toward a halal tourism market	(Battour, Ismail, & Battor, 2010)	63
5	Halal tourism: Emerging opportunities	(Mohsin et al., 2016)	61
6	Islamic tourism: an empirical examination of travel motivation and satisfaction in Malaysia	(Battour et al., 2017)	60
7	Halal tourism, is it really Halal?	(El-Gohary, 2016)	58
8	Halal food, certification and halal tourism: Insights from Malaysia and Singapore	(Henderson, 2016)	48
9	Islamic Tourism Reviewed	(Henderson, 2009)	40
10	The capacity of New Zealand to accommodate the halal tourism market - Or not	(Razzaq, Hall & Prayag, 2016)	36
11	Is Islamic tourism a viable option for Tunisian tourism? Insights from Djerba	(Carboni, Perelli & Sistu, 2014)	35
12	Current trends on Halal tourism: Cases on selected Asian countries	(Samori, Md Salleh & Khalid, 2016)	33
13	Halal tourism	(Ryan, 2016)	25
14	Halal tourism: antecedent of tourist's satisfaction and word of mouth (WOM)	(Wardi, Abror & Trinanda, 2018)	24
15	Potentials of Islamic tourism: A case study of Malaysia on East Coast Economic Region	(Bhuiyan et al., 2011)	24
16	Halal tourism de facto: A case from Fez	(Carboni & Idrissi Janati, 2016)	21
17	Halal tourism: state of the art	(Vargas-Sánchez & Moral-Moral, 2019)	18

Rank	Document	Author	Citation
18	Muslim tourist perceived value: a study on Malaysia Halal tourism	(Isa, Chin & Mohammad, 2018)	14
19	Islamic tourism as an ideological construction: A Jordan study case	(Neveu, 2010)	14
20	Halal tourism: conceptual and practical challenges	(Boğan & Sarıışık, 2019)	13
21	The perception of non-Muslim tourists towards halal tourism: Evidence from Turkey and Malaysia	(Battour et al., 2018)	13
22	The invention of al-Andalus: discovering the past and creating the present in Granada's Islamic tourism sites	(Calderwood, 2014)	13
23	The impact of Halal tourism, customer engagement on satisfaction: moderating effect of religiosity	(Abror et al., 2019)	12

As depicted in Table 4, it shows the most dominant authors in the halal tourism subject. The influence of the authors is measured by the number of articles they have published about halal tourism vis-a-vis the citations received by each of them. In terms of the total number of citations received, Henderson and Battour are the most dominant authors, with 247 and 239 citations.

Table 4. Most Dominant Authors (in terms of total citations received)

Rank	Author	Document	Citation
1	Henderson J.C.	3	247
2	Battour M.	5	239
3	Ismail M.N.	5	239
4	Zamani-Farahani H	2	159
5	Battor M.	3	131
6	Al-Hamarneh A.	1	110
7	Steiner C.	1	110
8	Awais M.	2	68
9	El-Gohary H.	2	67
10	Mohsin A.	2	61

As depicted in Table 5, shows that the average of citations per document led by Al-Hamarneh and Steiner as the most dominant authors with 110 and 110 citations per document, respectively.

As depicted in Table 6, it shows the most dominant journals have narrated about the concept of halal tourism where the Journal of Islamic Marketing has a higher rank with the number of published articles of 12 and followed by Tourism Management Perspectives

with the number of published articles of 10. On the total number of citations received, the Tourism Management Perspectives attests as the most dominant journal with a total of citations of 413, followed by the International Journal of Tourism Research with a total citation of 159.

Table 5. Most Dominant Authors (in terms of average citation per document)

Rank	Author	Document	Citation	Average citation per document
1	Al-Hamarneh A.	1	110	110
2	Steiner C.	1	110	110
3	Henderson J.C.	3	247	82.3
4	Zamani-Farahani H	2	159	79.5
5	Ramli N.	1	61	61
6	Alkhulayfi B.A.	1	61	61
7	Battour M.	5	239	47.8
8	Ismail M.N.	5	239	47.8
9	Battor M.	3	131	43.7
10	Razzaq S.	1	36	36

Table 6. Most Dominant Journals (in terms of the total article published)

Rank	Journal	Article	Citation
1	Journal of Islamic Marketing	12	50
2	Tourism Management Perspectives	10	413
3	Tourism Analysis	3	74
4	Current Issues in Tourism	3	68
5	Asia Pacific Journal of Tourism Research	3	39
6	Tourism Recreation Research	2	41
7	Tourism Review	2	24
8	Journal of Travel and Tourism Marketing.	2	12
9	International Journal of Tourism Research	1	159
10	Comparative Studies of South Asia, Africa and the Middle East	1	110

As depicted in Table 7, shows the average citations received per article, whereby the International Journal of Tourism Research attests as the most dominant journal with 159 average citations per article; followed by Comparative Studies of South Asia, Africa, and the Middle East with average citations per article at 110.

Table 7. Most Dominant Journals (in terms of average citation per document)

Rank	Journal	Article	Citation	Average citation per document
1	International Journal of Tourism Research	1	159	159
2	Comparative Studies of South Asia, Africa, and the Middle East	1	110	110
3	Tourism Management Perspectives	10	413	41.3
4	Tourism Analysis	3	74	24.7
5	Current Issues in Tourism	3	68	22.7
6	Tourism Recreation Research	2	41	20.5
7	Asia Pacific Journal of Tourism Research	3	39	13
8	Tourism Review	2	24	12
9	Journal of Travel and Tourism Marketing.	2	12	6
10	Journal of Islamic Marketing	12	50	4.1

As depicted in Table 8 shows the most dominant institutions that have published articles on halal tourism. The institutions are plotted based on the authors who have published articles, received citations, and affiliations were with those institutions. On the total number of published articles, the University of Malaya and Tanta University is in the top list, while for the total citations received, the University of Malaya is the highest in the rank with a total citation of 508, followed by the Nanyang Technological University with a count of 247.

Table 8. Most Dominant Institutions (in total citations received)

Rank	Institution	Country	Document	Citation
1	University of Malaya	Malaysia	7	508
2	Nanyang Technological University	Singapore	3	247
3	Tanta University	Egypt	4	231
4	Middlesex University	United Kingdom	2	68
5	Universiti Utara Malaysia	Malaysia	2	68
6	International Islamic University of Malaysia	Malaysia	1	61
7	University of Waikato	New Zealand	1	61
8	Cairo University	Egypt	1	58
9	Birmingham City University	United Kingdom	1	58
10	University of Canterbury	New Zealand	1	36

As depicted in Table 9, based on the average of citations received per article, Nanyang Technological University is the most dominant institution with 82.3 average

citations per document, followed by the University of Malaya with average citations per document of 72.3.

Table 9. Most Dominant Institutions (in average citation per document)

Rank	Institution	Country	Document	Citation	Average citation per document
1	Nanyang Technological University	Singapore	3	247	82.3
2	University of Malaya	Malaysia	7	508	72.3
3	International Islamic University of Malaysia	Malaysia	1	61	61
4	University of Waikato	New Zealand	1	61	61
5	Cairo University	Egypt	1	58	58
6	Birmingham City University	United Kingdom	1	58	58
7	Tanta University	Egypt	4	231	57.5
8	University of Canterbury	New Zealand	1	36	36
9	Linnaeus University	Sweden	1	36	36
10	University of Johannesburg	South Afrika	1	36	35

Table 10 shows the most dominant countries with highly cited papers related to halal tourism. Based on the total citations received, Malaysia attests to be the most dominant country with a citation count of 561, followed by Egypt with a count of 307.

Table 10. Most Dominant Countries (in total citations received)

Rank	Country	Document	Citation
1	Malaysia	25	561
2	Egypt	8	307
3	Singapore	3	247
4	United kingdom	5	144
5	New Zealand	5	97
6	Italy	4	58
7	Indonesia	16	47
8	South Africa	3	40
9	Sweden	1	36
10	Turkey	4	28

However, based on the average citation per document, interestingly, the country of Singapore is in the top list, as seen in Table 11, where the publications of highly cited articles belong to the authors from this country. Other dominant countries are Egypt, Sweden, and the United Kingdom, with some average citations per document of 38.3, 36, and 28.8, respectively.

Table 11. Most Dominant Countries (in average citation per document)

Rank	Country	Document	Citation	Average citation per document
1	Singapore	3	247	82.3
2	Egypt	8	307	38.3
3	Sweden	1	36	36
4	United kingdom	5	144	28.8
5	Malaysia	25	561	22.4
6	Marocco	1	21	21
7	New Zealand	5	97	19.4
8	Italy	4	58	14.5
9	South Africa	3	40	13.3
10	Denmark	1	12	13

This analysis describes the results of author co-citation with cited authors. Based on the analysis of the cited references of the 77 articles, 1086 authors have been identified. Then this set was narrowed down to authors with at least 20 citations resulting in 64 articles. While based on the co-citation analysis as depicted in Figure 2, it shows the most frequently cited authors in sequence are Battour M (95 citations), Henderson J.C (88 citations), Mohsin (61 citations), El-Gohary (58 citations), Carboni (35 citations) and Samori (33 citations). This list of frequently cited authors exhibits the tremendous contributions to halal tourism literature.

A co-citation analysis was conducted to search the most frequently cited journals. This analysis describes the results of co-citation journals with cited journals. As depicted in Figure 3, it shows, the most frequently cited journals are the Tourist Management, Tourist Management Perspective, Journal of Islamic Marketing, Annal of Tourism Research, and International Journal of Tourism Research. This list of frequently cited journals means the significance of these journals for researchers interested in the halal tourism subject.

Figure 2. Network of co-cited authors

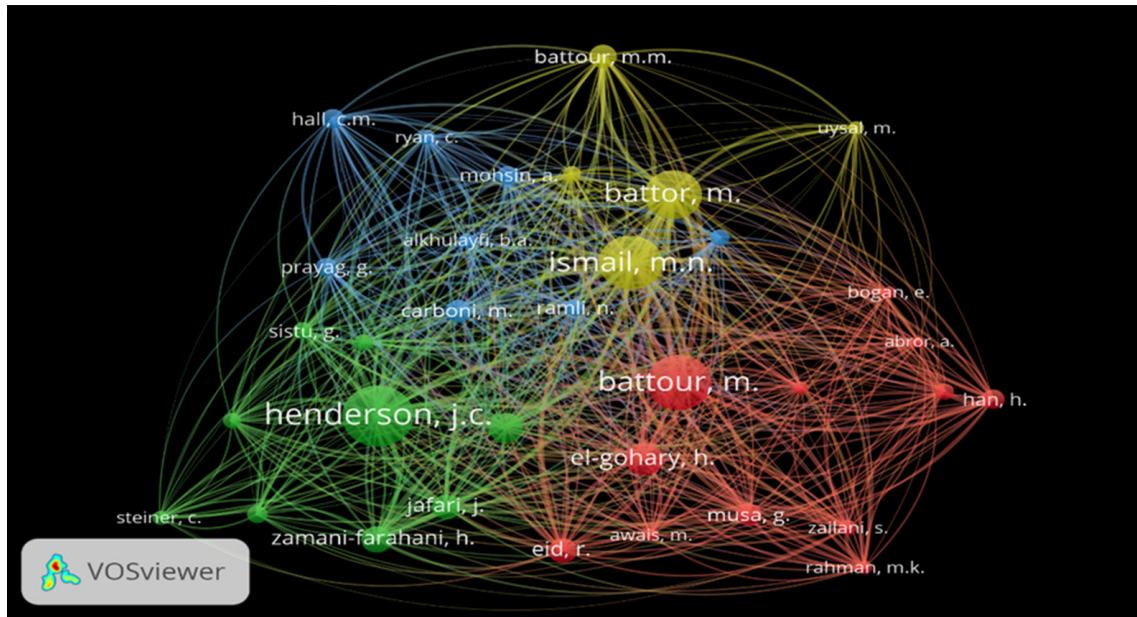
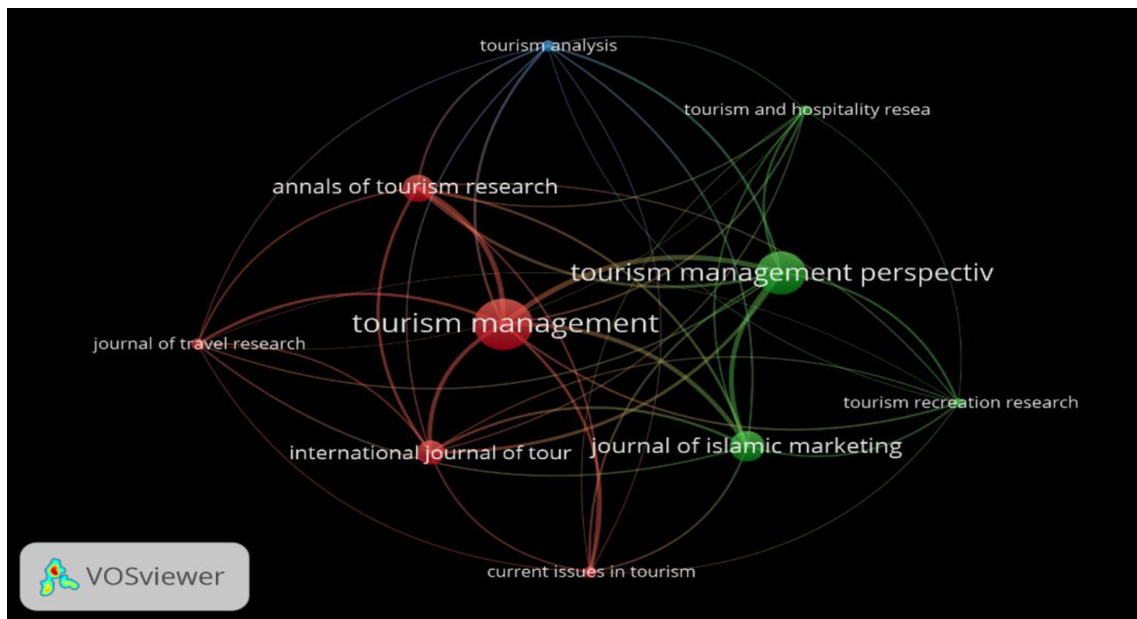


Figure 3. Network of co-cited journals



This analysis describes the most frequently used keywords. As depicted in Figure 4, it illustrates the terms of 'halal tourism,' 'Islamic tourism,' 'halal hospitality,' 'destination marketing,' 'halal,' 'tourism,' 'Islam,' 'satisfaction' and 'halal product' are considered as the most eminent keywords in the halal tourism papers over the past 16 years. Some other encouraging keywords to be adopted for future works on halal tourism are 'halal-friendly tourism,' 'Muslim friendly tourism,' 'halal tangible attributes,' 'halal intangible attributes,' 'Muslim friendly zone,' and 'Muslim friendly destination.' These keywords give precious information on the central concepts in halal tourism literature over the years.

institutions globally. Moreover, based on the results of a co-citation analysis, it reveals that Henderson and Battour are the two most frequently cited authors in the subject of halal tourism. Further, there are five journals in the most frequently cited journals as the top contributors to halal tourism.

With regards to the co-occurrence of author keywords, nine keywords had been related to halal tourism. This result means the concept of halal tourism has broader aspects that researchers could explore. Meanwhile, six other encouraging keywords considerably could shape the future works of halal tourism.

Conclusion

This study attempt to complement the existing works on halal tourism by providing insightful content that adopts a systematic review. Each of the studies has limitations, including for this study despite the significant contribution of this study. One limitation is that this study adopted a single source or database for data collection and synthesis. Although other bibliometric researches were using a single database to avoid duplication, there are possibilities to include other methods in analyzing the literature on the halal tourism subject. Another limitation is the inability to capture a broader and deeper context of the citation structure of the articles. However, this study has sufficiently explained some other citation structures for the literature on halal tourism.

The study has some significant implications. Among others, it gives some important information on the dominant contributors to halal tourism, giving data on the most impactful studies, journals, and institutions that contribute to the halal tourism subject. The study also reveals the development and progression of the halal tourism subject over the years as well as disclosing the key research themes that emerge from the literature of halal tourism, and describes a comprehensive insight on the concept of halal tourism that can be used as a reference for any strategic initiatives.

Future research should focus on analyzing the concept from the lens of various other disciplines of study and expand to more dominant papers that are to be witnessed in this topic. Moreover, it is suggested to continue carrying out such bibliometric studies on halal tourism within intervals of every five years, thus contributing to the theoretical development. Finally, the literature review using bibliometric analysis can be carried out through a wide array of techniques, which are more than three techniques adopted by this study.

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Optimum of Strategic Asset Allocation for Indonesian Hajj Fund

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Abstract

Hajj fund must be managed effectively with a diligent approach of standard risk management. This study examines the level of risk management The Hajj Fund Management Agency (BPKH) performs in optimizing its investments: fund and fixed asset portfolios. The measurement data was initially and purposively retrieved. It was later run and processed through linear programming for further analyses. The results indicate that Sharia banking deposits and gold are riskless assets. As far as other asset portfolios, investments are placed strictly based on direct and indirect participation according to the government's regulations to avoid the pressures of market volatility. This study serves as a reference for regulators in formulating appropriate strategic asset allocation to applied related optimized management of hajj fund investment.

Keywords:

optimization of investment, risk and return, strategic assets allocation, BPKH.

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Introduction

Increasing people's economic welfare allows the people to participate in broader social, economic, and religious activities. One of them is the pilgrimage. The pilgrimage requires participants' self-supporting capabilities in physical fitness as well financial sufficiency. Despite long and tedious preparation for the pilgrimage, the number of registrars for pilgrimage each year can exceed the total quota of hajj. For example, the waiting period for selected embarkation can take as long as 39 years. The backlog is due to the number of Hajj registrants exceeds three times the annual Hajj regular quota that is only pegged at 204.000 individuals per year for Indonesia.

The waiting list for pilgrims has resulted in unemployed hajj funds. It is a call for The Hajj Fund Management Agency (BPKH) as a legal fund manager under the Ministry of Religion to manage the accumulated deposits effectively. The growing size of the managed funds can be illustrated from the perspective of the Hajj participants: initial deposit per regular hajj was about IDR 25 million in 2010, then it has increased annually from 2011 to 2018 by 8.17% per year (Hidayati 2018). Therefore, the accumulated funds need to be managed for future benefits. It is essential to have an Indonesian Hajj Bank (BHI) that focuses explicitly on Shariah-related instruments (Nazri, 2013).

In implementing the preceding, hajj funds investment establish in Indonesia based on law number 13 of the year 2008 articulating the implementation of hajj. The 2008 law triggers law number 34 of 2014 concerning hajj financial management in response to the growing variety of available market instruments. However, differentiating from common investment manager roles, BPKH as an investment manager of Hajj funds, is strictly regulated by government regulations: PP No.5 of 2018 articles 27, 28, 29, and 30, which only allows Shariah principle-based. The market instruments BPKH can place are Shariah Certificate of Deposits, State Sharia Securities (SBSN) in the form of the Hajj Funds Sukuk (SDHI), Central Government bonds, gold, and other relevant asset management. Three years after issuing preceding regulations, BPKH managed to have its portfolio performances annually yielded to 3 percent (Lisnawati, 2017). Due to the amicable investment performance in 2017, the concerns of securing the future investment yield of Hajj funds against capital market volatility; the Religion Ministry issued law number 23 of 2011 that restricts investment optimization to instruments guided by the corresponding articles stated in PP no 5 of 2018. The minister sees this Hajj savings model in Islamic financial institutions as an alternative contribution to the country's economic development (Shuhaimi, 2011).

One of the challenges that will be faced in doing diversification is a total asset or individual instrument in the capital market. With the number of the instrument, it will be easy to do diversification and reach its purpose. In an emerging market like Indonesia, the amount of stock listed on the Indonesia Stock Exchange is about 570 issuers suitable for the business category, while 366 issuers fulfill the term as Sharia stock. Half of the 366 issuers are the sleep stock or the stock that is rare to be transacted such an investor's choice or manager investor in arranging portfolio is very limited.

Based on the statement above, the study related to strategic asset allocation optimal for funds that are BPKH manages becomes essential. The purpose is that an investment that BPKH does can produce a rate of return which optimal and produce the investment's benefit that fulfills two main functions.

The objectives of this research are (1) Mapping and measuring BPKH risk profiles related to investment; (2) Mapping the risks and returns of various financial instruments available for investment; (3) Measuring optimal asset allocation strategies for investment in financial and non-financial instruments that can provide the best risk and return combination for BPKH. This research is expected to consider BPKH to evaluate performance so that investment and asset allocation in hajj funds management are effective and risk appetite. For BPKH, it is to apply the strategic allocation of an optimized investment fund with various financial instruments according to the combination of the best return risk or a specific target investment. In practical terms, the novelty of this research is to provide an alternative strategy for optimal asset allocation of Hajj funds in Indonesia that has never been studied before by considering risk and return, and effectiveness.

Methods

This research was done in Hajj Financial Management Agency (BPKH) Jakarta. The time to take the data was done in 2018-2019. The approach method used is the linear programming approach. The data collection technique gets from secondary data. Secondary data is taken from time-series data that is valuable data of various asset groups and also the price of an individual asset. The detail of secondary data that will be used are (1) Index data price including market index and also sectorial index; (2) Data of the individual stock price from all stock price in Indonesia Stock Exchange; (3) Data of commodity price; (4) Available index Sukuk; (5) data of Sukuk price; and (6) Data of issuer financial report in Indonesia Stock Exchange.

The method that used in this research is strategic asset allocation. Perold & Sharpe (1988) showed four strategies that can be used by the investment manager in setting asset group composition in the portfolio. Those strategies are: (1) Buy and hold; (2) Constant mix; (3) Constant proportion; (4) Option-based portfolio insurance.

Strategic Asset Allocation simulation method, which is used in this research using optimized approach linear programming, in the portfolio with two kinds of asset, the equation (1) can be purpose function where W_A and W_B are variable which is sought, so σ_P^2 be on the lowest level. In the notation of linear programming, the equation is:

$$\text{Min } \sigma_P^2 = \sigma_P^2 \sigma_P^2 + \sigma_P^2 \sigma_P^2 + 2W_A W_B \text{Cov}(r_A r_A)$$

Subject to

$$W_A + W_B = 1$$

$$W_A, W_B \geq 0 \tag{1}$$

While strategic asset allocation decides the spread of investment for each group by using the proposed function in equation (3), the aim is to maximize the rate of return.

$$\max E(R_P) = W_A R_A + W_B R_B$$

Subject to

$$W_A + W_B = 1$$

$$W_A, W_B \geq 0 \quad (2)$$

Simulation from equations (2) and (3) will be applied to do strategic asset allocation, choosing proportion allocation of hajj funds to be invested in the financial instrument such as Sukuk (corporation and government), stocks, and direct investment. Besides that, equations (2) and (3) can be used to do strategic asset allocation sectorial or regional, especially for investment allocation assets on the stock.

Result and Discussion

Descriptive Statistics

Strategic Asset Allocation is done first to know risk-return profiles from various available investment assets, and there are Sharia deposit banking, Sukuk, stocks, gold, and direct inclusion. Risk and return profiles from various asset groups can be known by estimating descriptive statistics for each group asset (see Table 1). Based on Table 1, risk profile and the rate of return, sharia deposit banking is categorized as a riskless asset while default sharia banking is still there. However, with the deposit insurance agency (LPS), the probabilities of loss from default risk become low. Table 1 shows that the standard deviation is very high. So, gold cannot be an instrument in short-term investment because of the high volatility of the gold price.

While the performance of sharia-based investment instruments is not significantly different from conventional investment instruments, during the research period, Islamic investment instruments showed slightly better performance (Syafrida et al., 2014). Mockus et al. (2014), the author, provided that the minimal prediction errors do not provide the maximal profits.

Table 1. Profile of Risk-return in Various Investment Instrument

Types of Asset	Average	Std.Deviation	Min	Max	Frequency
Sharia Deposit Banking	6.91%	0.31%	4.79%	10.77%	Monthly
Gold	7.27%	18.55%	-20.23%	15.64%	Monthly
Total Sukuk	7.56%	6.73%	-5.07%	5.96%	Monthly
State Sukuk	7.66%	7.13%	-5.08%	6.28%	Monthly
Corporation Sukuk	9.33%	5.43%	-4.58%	6.21%	Monthly
Stocks	12.41%	19.09%	-17.55%	20.06%	Monthly
Rupiah-US Dollar exchange rate	4.66%	10%	-9.26%	20.58%	Monthly
Direct inclusion	14.03%	8.89%	3.78%	36.66%	Quarterly

Source: Data processed

In a company's risk profile, Hudakova & Dvorsky (2018) said that the biggest risk in a company is market risk, financial risk, and economic risk. 80% of companies do not invest in manager training for managing risk. The investment should do to for prevention rather than spending costs to finish the problem. Risk management is applied to give the specific direction to solve the company risk. Besides that, Nasr et al. (2019) stated that enterprise risk management (ERM) positively impacts implementation and Tobin's Q ratio to calculate organization work. Belan (2015) said that the management risk process is implementing systematic policy management, starting from the observation until the management of risks. This problem is an important part of management sight according to the function, component, service, and facility.

Next, Preda (2013) said that implementation of managing risk is a difficult thing, the additional value which is getting from the risk management implementation influenced by executive management and its contribution to the system of managing risk in culture risk, process, and experience—related to enterprise risk management (ERM). Shaheen et al. (2020) state that company probability has a positive influence on ERM implementation. Risk management is important; Szaruga (2020) said that the law rule and dynamic change push in the risk management in strategy that is used by the regional government that involves even all units of staff/organization. Because of that, it is needed management risk model that is the maturity to get the satisfaction. Radomska (2014) in management risk implementation needs some aspect that is calculated as an internal process, people or actor, and environment to reach high effectiveness. Related to enterprise risk management, Al-Qaishi & Al-Batayneh (2018) also said that the theory of risk management is not effective if it is implemented in real conditions, some assumptions are not relevant if it is done in real market conditions, so it is needed deep analysis related how that ERM implementation.

Indonesia Hajj Bank (BHI) can repair the hajj financial management in Indonesia. The optimized strategy of hajj funds management can be done in every aspect. The choosing of investment and cooperation should be able with benefit value that can be reached, do the careful and calculative discussion, and implement Strategic Asset Allocation based on Markowitz to get optimized profit.

Optimized Strategic Asset Allocation for Hajj Funds Management

Strategic Asset Allocation aims to find out the best combination of investment allocation that can fulfill the purpose of investment from hajj funds management in Indonesia. There are: (a) The purpose of investment to get the lowest total risk portfolio (conservative); (b) The purpose of investment to get the maximum rate of return portfolio (aggressive); (c) The purpose of investment to get equal or higher return rather than average of increasing exchange rate Rupiah to US Dollar (moderate).

Nazri (2013) states that Indonesia Hajj Bank (BHI) can repair hajj financial management in Indonesia as of need analyze the probabilities strategy in optimize hajj funds. Table 1 shows that sharia deposit banking and gold can be categorized as riskless

assets while left including risky asset category. Optimized simulation is done in three parts that will be done on two conditions. It is a condition without rule limitation and condition with investment limitation on Government Regulation Number 5 the year 2018 about Hajj Financial Management. The research also used some general investment that refers to best practices related to strategic asset allocation, and there are: First, conservative strategy: riskless asset allocation 50% and Sukuk ratio to stock 1.5. Second, moderate strategy: riskless asset allocation 25% and Sukuk ratio to stock 1. Third, moderate strategy: riskless asset allocation 5% and Sukuk ratio to stock 0.5.

Strategic Asset Allocation without Direct Inclusion

Risks in investment activities cannot be eliminated but can be minimized. Therefore, it is needed a strategy and implementation of portfolio management by the investment characteristics in preparing an optimal portfolio to minimize risk (Macenning et al., 2013). Based on the optimized simulation result, strategic asset allocation for hajj funds management in Indonesia shows in Table 2 and Table 3.

Table 2. Return and risk portfolio from strategic asset allocation

Risk Profile	Purpose 1		Purpose 2		Purpose 3	
	E(Rp)	σp	E(Rp)	σp	E(Rp)	σp
Conservative	8.20%	3.50%	8.39%	9.13%	9.67%	6.75%
Moderate	9.21%	5.59%	9.31%	7.77%	9.83%	6.92%
Aggressive	10.60%	7.98%	10.62%	8.29%	10.30%	7.49%

Table 3. Allocation of Investment Funds for Each Group (%)

Group	Purpose 1			Purpose 2			Purpose 3		
	Cons.	Mod.	Agr	Cons.	Mod.	Agr	Cons.	Mod.	Agr
Asset									
Sukuk	30	37.5	31.67	30	37.5	31.67	42	38.67	29
Stock	20	37.5	63.33	20	37.5	63.33	45	48.33	58
Gold	0	0	0	50	25	5	3	3	3
Deposit	50	25	5	0	0	0	10	10	10
Total	100	100	100	100	100	100%	100.00%	1000%	100%

Note:
Cons: conservative;
Mod: moderate;
Agr: aggressive

Syakir (2020) stated that placed instrument and investment in the form of deposit and Sukuk has a chance to increase benefit value through the instrument of capital market and application of tax-saving strategy, allocation strategy of Geld to Maturity, and Available for Sale. From portfolio simulation construction done by Markowitz method

using Microsoft Excel Solver, there is a benefit value result that is better than the historical data. It is the investment of various instruments and processed weights. So, Hajj Financial Management Agency (BPKH) needs optimum profit. That research is more focused on Strategic Asset Allocation in some kinds of instruments.

Ghofar et al. (2019) said that the hajj fund is much enough (IDR 109.2 trillion), and for each year, it is increasing, and it must be managed by pay attention to the sharia aspect, return, liquidity, risk, and benefit. Hajj funds should not be accumulating and only be utilized by a particular group that can access the banking only, and the benefit should be shared with many people. Strategic Asset Allocation is very useful and has a lot of big benefits. The manager recommended increasing the commitment to common stock to increase the return target.

For purpose 1, the expected rate of return for three strategies there is, for conservative 8.2%, for moderate 9.21%, and aggressive strategy 10.6%. If the purpose of investment changes into purpose 2 (maximum return), the result expectation of return is not far different from the expectation of return portfolio for purpose 1.

While riskless asset on Purpose 2 is gold, cause gold offers a higher return than risk portfolio on three strategies of Purpose 1. A riskless asset on Purpose 1 is Sharia deposit banking because it has a low volatility value. The market mechanism causes the high volatility of the gold price. The price is made as to the effect of interaction supply and demand in the market. So, Sharia deposit banking is more priority to be chosen as a riskless asset.

Purpose 3 tries to find out optimized allocation asset that results in rate return portfolio minimum equal with the average depreciation of exchange rate Rupiah to US Dollar. It means the target of return that wants to be reached is a minimum of 9.67%, so depreciation exchange rate Rupiah to US Dollar can be pressed. Table 2 shows that a conservative strategy can still result in the rate of return, which is equal to the average depreciation of the exchange rate Rupiah to US Dollar if hajj funds allocated on stock 56.51% and Sukuk 43.49%.

Sawitri (2012) states that investment in sharia insurance in Indonesia on the optimal portfolio where mudharaba deposits and Islamic bonds are the most optimal types of insurance for company A. In comparison, the optimal type of insurance for company B is through sharia mutual funds. Natalina (2015) shows that investment strategies in sharia mutual funds are highly dependent on investment managers and can be seen from their investment portfolios. On the other hand, the determination of BPKH's investment portfolio in the future shows that Islamic banking deposits and gold are riskless assets.

Gold and Sharia deposit have the position as riskless assets do not get fund allocation because it is difficult to reach the needed purpose but still must allocate funds on a riskless asset. Suppose a moderate strategy is chosen, which stock being increased to be 47.62% and Sukuk become 52.38 so the rate of return portfolio result is less high than average of depreciation of exchange rate rupiah to US Dollar. Meanwhile, if an aggressive strategy is chosen, the return portfolio is 10.25% higher than the average depreciation of

the exchange rate Rupiah to US Dollar. In comparison, it is not included sharia deposit banking (riskless asset) in the portfolio. The portfolio, which is made from the stock combination and Sukuk still relatively safe because most outstanding Sukuk states Sukuk has low relatively default risk.

Strategic Asset Allocation with Direct Inclusion

SAA explains anywhere between 80% and 100% of long-term fund performance depending on various interpretational subtleties, while active management can be an essential differentiator superposed on asset allocation (EMEA 2013). An optimal portfolio is a portfolio that provides the most significant rate of return with a certain level of risk (Vincent et al., 2019). In this part, direct inclusion on the company is allowed in strategic asset allocations that returns and risks from direct inclusion measure with ROIC size, which shows the company's ability to produce a profit from all operational assets that the company owns. In direct inclusion, financial investment instruments, investor-only face the little business risk.

In doing the simulation with linear programming, the constraint function which is used in this part, are:

Purpose 1 (portfolio with low risk)

First, conservative scenario: total allocation for deposit and gold is 50%, Sukuk's ratio to stock is 1.5. The total weight of investment is 100%, and the weight for each asset minimum is 0%. Second, moderate: total allocation for deposit and gold is 25%, Sukuk ratio to stock is 1, the total weight of investment is 100%, and weight for each asset group minimum 0%. Third, aggressive: total allocation for deposit and gold is 5 %, Sukuk ratio to stock is 0.5, the total weight of investment is 100%, and weight for each asset group minimum 0%

Purpose 2 (portfolio with maximum return):

First, conservative scenario: total allocation for deposit and gold is 50%, Sukuk's ratio to stock is 1.5. The total weight of investment is 100%, and weight for each asset group minimum of 0%. Second, moderate scenario: total allocation for deposit and gold is 25%, Sukuk ratio to stock is 1, the total weight of investment is 100%, and weight for each asset group minimum 0%. Third, aggressive scenario: total allocation for deposit and gold is 5 %, Sukuk ratio to stock is 0.5, the total weight of investment is 100%, and weight for each asset group minimum 0%

Purpose 3 (portfolio with the lowest risk and minimum return equal with an average of Rupiah depreciation):

First, conservative scenario: total allocation for deposit and gold minimum 15 %, Sukuk ratio to stock maximum 100%, the total weight of investment is 100%, weight

for each group of asset minimum 0%, and return of portfolio minimum as the average of depreciation Rupiah plus 0.5 from its standard deviation. Second, moderate scenario: total allocation for deposit and gold minimum 15 %, Sukuk ratio to stock maximum 80%, the total weight of investment is 100%, weight for each group of asset minimum 0%, and return of portfolio minimum as the average of depreciation Rupiah plus 0.5 from its standard deviation. Third, aggressive scenario: total allocation for deposit and gold minimum 15 %, Sukuk ratio to stock maximum 50%, the total weight of investment is 100%, weight for each group of asset minimum 0%, and return of portfolio minimum as the average of depreciation Rupiah plus 0.5 from its standard deviation.

Table 4. Return and Risk Portfolio from Strategic Asset Allocation With Direct Inclusion

Risk profile	Purpose 1		Purpose 2		Purpose 3	
	E(Rp)	σp	E(Rp)	σp	E(Rp)	σp
Conservative	8.35%	1.90%	9.58%	2.50%	9.67%	1.87%
Moderate	9.57%	2.38%	11.19%	4.18%	10.68%	3.47%
Aggressive	10.27%	3.00%	12.48%	5.54%	12.14%	5.05%

The estimation result of strategic asset allocation simulation with direct inclusion shows in Tables 4 and 5. The scenario on strategic asset allocation simulation with direct inclusion is as same as the scenario without direct inclusion. However, some adaptation in deciding optimized limitation did because of limitation has much potency not finding solution of optimized asset allocation as expected.

Based on Table 4 and Table 5, the different purposes will result from a return and risk portfolio rate that has a significant difference. Table 4 shows that investment in direct inclusion has a significant effect on the profile of the risk-return portfolio.

Table 5. Allocation of Investment fund for Each Asset Group (%)

Group Asset	Purpose 1			Purpose 2			Purpose 3		
	Cons.	Mod.	Agr	Cons.	Mod.	Agr	Cons.	Mod.	Agr
Sukuk	30	37.5	47.5	10	10	10	10	18.75	15.83
Stock	0	0	0	15	27.5	37.5	10	18.75	31.67
Direct Stock	20	37.5	47.5	25	37.5	47.5	30.26	37.5	47.5
Gold	0	0	0	0	0	0	0	0	0
Deposit	50	25	5	50	25	5	50	25	5
Total	100	100	100	100	100	100	100	100	100

Note:
Cons: conservative;
Mod: moderate;
Agr: aggressive

The interesting finding related to the difference of investment purpose is strategic asset allocation for each purpose. In purpose one, it minimizes the risk portfolio, and the stock does not allocate the investment fund. If it is further observed (see Table 1), it shows that direct inclusion has a risk-return profile that is unique enough. It is that the average rate of return from direct inclusion is higher than other asset groups. However, the risk is higher than other asset groups, but the risk from direct inclusion (standard deviation) is relatively low, especially if compared with the stock as a part of a risky asset. So, in strategic asset allocation with the simulation approach, direct inclusion dominates asset allocation for stock because the risk is lower than the stock. Besides that, the high gold volatility (see table 1) caused this instrument not to allocate investment funds.

In purpose 2, the result aims to get optimized allocation composition that can produce a maximum rate of return. Because of that, purpose two is to add the limitation of fund allocation for Sukuk. It is a minimum of 10 % from the investment fund allocated to Sukuk. Table 5 shows that a combination of stock and direct inclusion can produce a maximum rate of return in various investment strategies. If conservative's strategy which wanted to do and aimed to get the maximum rate of return, so strategic asset allocation is about 10 % for Sukuk, 15% for stock, 25% for direct inclusion, and 50% for sharia deposit banking. If moderate and aggressive are chosen, asset allocation for sharia deposit banking is decreased and distributed evenly on stock and direct inclusion to produce maximum return rate.

For purpose 3, Tables 4 and 5 show information that is quite interest. Using conservative's strategy that minimum allocation for Sukuk is 10% and for sharia deposit banking is 50%, depreciation rate exchange Rupiah to US Dollar can be closed by return portfolio. The rate of return portfolio by using conservative's strategy is 9.67%, with the risk relatively low, about 1.87%. That strategy allocates investment funds on Sukuk 10%, sharia deposit banking 50%, stock 10%, and direct inclusion 30.26%. The rate of return portfolio will be more increasing when the portion for deposit of sharia banking is decreased and spread out by proportional on Sukuk, stock, and direct inclusion. With moderate and aggressive strategies, depreciation of exchange rate Rupiah to US Dollar can be closed well.

Strategic Asset Allocation According to Government Regulation

Alternative investments involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements, including minimum net worth tests. Investors should consider the special risks with alternative investments, including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements (James, 2019). Mubarak & Fuhaidah (2018) stated that the implementation plan of hajj funds through the BPKH agency is already appropriate with the applicable rule and law. In managing the hajj fund allocation that BPKH manages, there is government regulation that has related limitations. First, hajj financial placement can be a form of

sharia banking product, securities, gold, direct investment, and other investment. Second, fund allocation for sharia banking product maximum 50 % for 1-3 after BPKH was held and maximum 30% after that. Third, the maximum of gold investment is 5%. Fourth, investment in direct inclusion maximum 20%.

Table 6. Return and Risk portfolio from strategic asset allocation with Government Regulation

Period	Purpose 1		Purpose 2		Purpose 3	
	E(Rp)	σp	E(Rp)	σp	E(Rp)	σp
1 - 3 years	9.23%	2.75%	10.71%	5.84%	9.67%	3.35%
> 3 years	9.83%	4.59%	11.30%	7.46%	9.67%	4.38%

According to those requirements, related regulation with asset allocation limitation of hajj fund using strategy tends to be conservative because of high fund allocation for the riskless asset. Estimating strategic asset allocation simulation results are adjusting with government regulation requirements shows in Tables 6 and 7. In those tables, a strategy which is used is not adjust with the risk profile of hajj fund management because government regulation has given rule related with total hajj fund allocation for sharia deposit banking and gold which is the riskless asset

In Table 7, if the purpose that to get portfolio by lowest risk, so optimized asset allocation is 13.41%, it is allocated for Sukuk, 15 % allocated for stock, 20% for direct inclusion, 1.59% for gold, and the left 50% for a deposit of sharia banking. With those allocations, the return portfolio rate is 9.23%, with a risk of 2.75%. If compared with strategic asset allocation with direct inclusion like in table 4, the limitation given by the government related to investment allocation does not make the rate of return portfolio and its risk worse than if it does not use government requirements. If the allocation is to achieve purpose 2, the allocation for deposit of sharia banking reduces from 50% to 30%, which fund allocation for deposit of sharia banking transfer for Sukuk (23.10%) or stock (25%) so it can produce the rate of return portfolio 9.83% and risk 4.59%.

Table 7. Optimized Asset Allocation with limitation of Government Regulation

Group Asset	Purpose 1		Purpose 2		Purpose 3	
	1-3 years	> 3 years	1-3 years	> 3 years	1-3 years	> 3 years
Sukuk	13.41%	23.10%	10.00%	10.00%	7.35%	25.83%
Stock	15.00%	25.00%	40.00%	50.00%	22.38%	22.33%
Direct	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Gold	1.59%	1.90%	0.00%	5.00%	0.27%	1.84%
Deposit	50.00%	30.00%	30.00%	15.00%	50.00%	30.00%
Total	100%	100%	100%	100%	100%	100%

If we are using purpose 2, it allocated the asset to get maximum the rate of return portfolio, so the period 1-3 years after BPKH was held, the allocation for deposit of sharia banking reduces to be 30% from before, 50%. In comparison, fund allocation for Sukuk is 10%, stock 40%, and direct inclusion 20%. With those compositions, the return portfolio rate is 10.71%, with a risk of 5.84%. Profile of risk-return is competitive enough, especially if it compared with the result of simulation without government requirement. However, in purpose 2, hajj fund allocation for deposit of sharia banking should not reach maximum allocation it is 50% in the first of 1-3 years and 30% after that. That thing is done so the rate of return that got become maximal.

Meanwhile, to reach purpose 3, it has to function the rate of return portfolio as hedging of depreciation exchange rate Rupiah to US Dollar, optimized of asset allocation with government requirements still can be effective to reach purpose 3. In the first three years from BPKH was held, fund allocation for Sukuk is 7.35 %, stock 22.38%, direct inclusion 20%, gold 0.27%, and deposit of sharia banking is 50%. With those compositions, the rate of return portfolio can be the same with average depreciation exchange rate Rupiah to US Dollar, but with risk relatively low, it is 3.35%. Furthermore, after the third year, BPKH was held, the allocation for sharia banking reduces to be maximum of 30%, the allocation for Sukuk to be 25.83%, stock 22.33%, direct inclusion 20%, and gold 1.84%. With those compositions, the rate of return that got the same as the depreciation exchange rate Rupiah to US Dollar with higher risk (4.38%) was the effect of decreasing fund allocation for deposit of sharia banking. So, the government's requirements related to the limitation of hajj fund investment allocation do not make the rate of return portfolio less competitive if hajj fund allocation for other instruments (Sukuk, stock, and direct inclusion) can be optimized.

Conclusion

Analysis result of Strategic Asset allocation on aspect without direct inclusion is chosen as a moderate strategy. The results showed that the analysis result to risk-return profile from various investment assets is known to deposit sharia banking and gold as a riskless asset. The stock increase is 47.62% and Sukuk to be 52.38%, so the rate of return portfolio produced is less high average depreciation exchange rate rupiah to US Dollar.

In aspect with direct inclusion, in purpose 1, direct inclusion dominated asset allocation for stock because the risk that has is lowest than stock. In purpose two, if conservative's strategy wanted to be done and aims to get maximum the rate of return, strategic asset allocation is 10% for Sukuk, 15% for stock, 25% for direct inclusion, and 50% for Sukuk a deposit of sharia banking. In purpose 3, using conservative's strategy that minimum allocation for Sukuk is 10% and for deposit of sharia banking is 50%, depreciation value of exchange rate Rupiah to US Dollar can be closed by return portfolio.

In the aspect of Strategic Asset Allocation based on government regulation, if purpose two that used, so the time period 1-3 years after BPKH was held, the allocation for deposit of sharia banking can be reduced to be 30% from its before 50%. For the

purpose 3, which function the rate of return portfolio as hedging of depreciation exchange rate Rupiah to US Dollar. BPKH has a unique positive asset flow strength of around IDR 10-12T per year plus an average net return value of 6-7%. This condition allows BPKH to carry out an aggressive investment strategy if there is a correction in the Sukuk market, and vice versa, an active profit-taking strategy if the market is in a positive trend.

Based on the result of the research, it is suggested that: First, for BPKH, it is hoped to apply the strategic allocation of an optimized investment fund with the various financial instruments according to the combination of the best return-risk or based on the best return-risk specific target investment which is stated before. Second, for the next researcher, it is hoped to study better strategic, applied, optimized management of haji fund investment, which is customized with market conditions that tend more fluctuating related to the limitation that BPKH has.

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Does Women's Participation in Politics Matter for Economic Development in OIC-15? An Islamic Perspective

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Abstract

This study aims to empirically determine and analyze the role of women's participation in politics, female population growth, trade balance, and women's labor force participation in promoting economic development across 15 OIC countries during the 2006-2017 period, both in short- and long-run from an Islamic perspective. Using the Panel Autoregressive Distributed Lag (ARDL) method, this study found that, in the short term, trade balance and women's labor force participation have promoted Islamic economic development. In contrast, women's participation has a negative effect on the economic development of OIC countries. In the long term, on the other hand, all variables have promoted Islamic economic development in OIC countries, except for the trade balance variable. These findings suggest that coordination and synergy for strengthening economic development among OIC countries need to be enhanced, focusing on women's role in politics, labor force, quality of population, and economic dimensions.

Keywords:

female participation in politics, trade balance, Islamic human development index, women and OIC economies.

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Introduction

Economic development is one of the widely discussed issues in various parts of the world, both in developed, underdeveloped and developing countries. Although economic development issues are discussed in different ways and contexts, their objectives are the same: to achieve a better economic development condition that provides prosperity for society. In supporting economic development success, participation from all levels of society is indispensable, although the government is the most responsible institution to realize economic development. As a result, rapid economic development would be easily realized if it involves the community in the development process. The community's presence in every stage of development certainly presents a sense of belonging to the facilities and infrastructure to be built. Consequently, it fosters a sense of responsibility and results in a sustainable economic development process (Hasanah & Musyafak, 2017).

Economic development objectives are often defined as a continuous process of increasing real income per capita through economic resources and increasing productivity. However, measuring economic development using the increase in per capita income is considered unable to measure the overall improvement of human welfare because it focuses only on economic aspects and ignores other aspects of economic development. In 1990, the United Nations Development Programme (UNDP) introduced the Human Development Index (HDI) as an indicator of economic development that portrays human development in a measurable and representative manner (Rochmawati, 2018). HDI is used to measure the degree of human development, covering aspects of education, health, and the economy (Fadilah, 2019).

Measurement of economic development with HDI that has been considered able to measure the population's welfare, in fact, still reaped many criticisms. The criticism tends to think that the entire population is treated with the same treatment by the government. However, the reality is not so. Thus the concept of HDI offered by the UNDP to measure the level of human development cannot measure human development as a whole from an Islamic perspective. The direction of the theory and the underlying concept of HDI are not based on Maqashid Shari'ah. Therefore, it would be more appropriate for a Muslim-majority country if economic development is measured using the Islamic Human Development Index (I-HDI) (Anto, 2011). In Islam, economic development has a more comprehensive goal. Economic development focuses not only on improving welfare in the world alone, but it also emphasizes developing a more lasting life, namely the Hereafter life. Therefore, economic development should be referred to and based on the provisions justified in Shari'ah (Fadlan, 2010).

The success of economic development is inseparable from the participation of the community. The concept of development, in principle, must also provide justice and prosperity to all communities, both men and women. The involvement of women today has shown significant progress. Women have played various roles and engaged in many strategic positions in people's lives. The diversity of their roles shows that women are a potential resource if their quality is improved and given the same opportunities as men

to participate in various aspects, both in family life, society, nation, and state. Today, in the life of a nation and a country, many women plunge into the world of politics. This condition is demonstrated by the increasing number of women involved in political parties and even state officials. However, the representation of women in politics is still relatively low. According to World Development Indicators (2019), the number of women occupying parliaments worldwide has only reached 24.6%. Therefore, women's participation in politics still needs to be improved (World Bank, 2020).

Since the Beijing Action Platform was adopted in 1995, the average global female participation in national politics has gradually increased from 11.3% to nearly 23.8% in 2018, with 9,275 female Members of Parliaments (MPs) worldwide. As of June 1, 2018, 2,102 female MPs, or 19.2% of the world's total politician population, were in OIC member countries. Meanwhile, only 29.8% of female MPs were recorded in developed countries, and 23.9% of female MPs were from non-OIC countries. This condition indicates that the number of female politicians in the OIC countries is still far from the Beijing Platform's target, 30%. However, if we look at the developments and trends, it is estimated that OIC countries will reach the target of an average of 30% of female politicians in parliament by 2040. However, to achieve this target, the government must eliminate cultural, social, and other factors that hinder women's political participation (OIC, 2018).

Besides, the process of economic development is also inseparable from several other macroeconomic factors, such as the growth of the female population, trade balance, and the female workforce's participation. Cabeza-Garc et al. (2018) show that those women's high birth rates negatively affected economic growth. However, when women have greater access to secondary education and the labor market is equal to men, the effect is positive. In addition to the female population's growth, the trade balance is also documented as an economic factor that affects economic growth. In his research, Xu (2015) found that the trade balance, as measured by the number of exports and imports, had influenced economic growth. Another economic factor that also contributes to economic development is the participation rate of the female workforce. The female workforce's participation rate in the service industry sector positively affected economic development (Ustabas & Gulsoy, 2020).

The above-reviewed studies have only measured and analyzed the role of women's participation in politics, women's population growth, trade balance, and women's labor force participation in economic development from a conventional perspective. However, none of them has measured economic development from an Islamic perspective using the Islamic Human Development Index (I-HDI). Thus, previous researches that used HDI as an indicator of economic development have not been able to measure economic development in the OIC countries in the context of Maqashid Shari'ah. This fact prompted this research to be conducted, primarily to empirically measure and analyze the determinants of economic development of the OIC countries from an Islamic perspective using Islamic HDI (I-HDI). In addition, the present study includes the role of women in politics in the economic development of the OIC countries, one of the determinants of economic development that is often ignored by many previous studies.

Thus, this study intends to cover the weaknesses of previous researches, aiming at measuring and analyzing the role of women's participation in politics on economic development empirically. It also measures and explores the influence of several other economic factors, including the growth of the female population, trade balance, and the female workforce's participation rate on the economic development of the OIC countries from an Islamic perspective using I-HDI as the indicator for economic development.

This study's findings are hoped to shed some light on the OIC governments to design a proper policy to enhance women's roles in politics and other macroeconomic determinants to promote their economic development. The study's findings expect to provide policy references and guidelines for the macroeconomic policy harmonization among OIC countries to realize sustainable economic development.

Methods

This study quantitatively measures the impacts of Female Participation in Politics (FPP), Female Population Growth (FPG), Trade Balance (TB), and Female Participation in Labor Force (FPLF) on the Islamic Human Development Index (I-HDI) among selected organizations of Islamic Cooperation (OIC) countries over the period 2006-2017. The reason for choosing the independent variables is their ability to describe Islamic human development from various contexts, such as political factors represented by female participation in politics, demographic factors represented by female population growth, and economic factors characterized by the trade balance and female participation in the labor force. Due to data limitations of 57 OIC countries, this study only focuses its analysis on 15 OIC countries, namely Albania, Azerbaijan, Bahrain, Bangladesh, Cote d'Ivoire, Gabon, Guyana, Iran, Jordan, Kazakhstan, Kuwait, Libya, Malaysia, Oman, and Senegal.

The data used in this study are annual data for the period 2006-2017. All data in this study are gathered from the Economic and Social Research data in the OIC Statistics Database report released on the official website of the Statistical Economic and Social Research and Training Center for Islamic Countries (SESRIC). The dependent variable, I-HDI, is calculated based on Maqashid Shari'ah components, following the study by Anto (2011). The numbers of seats held by women in national parliaments measure the independent variables of female participation in politics. The female population growth is using the growth of females to the total population growth. The trade balance is measured by the ratio of exports and imports of goods and services to total GDP. Finally, female participation in the labor force is measured by the percentage of the female labor force (15-64 years old) to total employment, following the study by Xu (2015).

This study adopts an Autoregressive Distributed Lag (ARDL) panel regression analysis method to measure I-HDI determinants among selected OIC countries. In general, the ARDL equation can be written as follows:

$$\Delta IHD I_{it} = \varphi_i(\alpha, \beta'_1 IHD I_{it-1} - \alpha, \beta'_2 FPP_{it} - \alpha, \beta'_3 FPG_{it} - \alpha, \beta'_4 TB_{it} - \alpha, \beta'_5 FPLF_{it}) + \sum_{j=1}^p \alpha_{ij}^* \Delta IHD I_{i,t-j} + \sum_{j=0}^p \delta_{ij}^* \Delta FPP_{i,t-j} - \Delta FPG_{i,t-j} - \Delta TB_{i,t-j} - \Delta FPLF_{i,t-j} + \mu_i + \varepsilon_{it}$$

Where: IHDI is an Islamic Human Development Index; FPP is the female participation in politics; FPG is the female population growth; TB is the trade balance; FPLF is the female participation in the labor force; i is the country i; t is the period t; Δ is the change or the first difference, α is a short-term estimated coefficient; ρ is a long-term estimated coefficient; μ is an error correction term; ε is an error term.

Before the ARDL model is estimated, the study performs first the data stationarity tests, followed by the co-integration test. These tests are essential to ensure that the ARDL model estimation requirements are met. For stationarity tests, the method used is the standard unit root tests of Levin, Lin, and Chu (LLC) and individual unit root tests of Augmented Dickey-Fuller (ADF) Fisher and Phillips-Peron (PP) Fisher. As for the ARDL panel data co-integration test, the study utilizes the Pedroni Residual Cointegration test.

Result and Discussion

Descriptive statistics

Table 1 illustrates the descriptive analysis for investigated variables, namely: Islamic Human Development Index (I-HDI), Female Participation in Politics (FPP), Female Population Growth (FPG), Trade Balance (TB), and Female Participation in Labor Force (FPLF) over the period 2006-2017.

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
I-HDI	0.19	0.63	0.35	0.09
FPP	1.54	43.33	13.02	9.43
FPG	0.41	1.07	0.92	0.15
TB	12.47	235.54	93.30	34.02
FPLF	13.27	77.45	42.54	15.71

Source: Data processed (2021).

Table 1 shows that the minimum value of I-HDI that represents the Islamic economic development is recorded for Libya by 0.19% in 2011. This condition because the fall of Gaddafi's government was, for the first time, an opportunity for the Libyan state to determine the economic and social reforms it had previously prevented. The maximum value of I-HDI was recorded for the Islamic Republic of Iran by 0.63 % in 2017. Based on data from Iran's economic outlook, in 2017, the country recorded a solid oil-based recovery, with an annual growth rate of 13.4 %, compared to a contraction of 1.3% in 2015. The most considerable growth contribution came from the industrial

sector (about 25%); oil and gas production increased by 62%, mainly due to the lifting of international sanctions (Ustabas & Gulsoy, 2020).

As for the variable of female participation in politics, the lowest participation was found in Kuwait by only 1.54% in 2006-2008. Women in Kuwait were only given the right to vote and run for parliamentary and city elections in 2006. The female candidates cannot win seats in the eleventh and twelfth assemblies. Meanwhile, the maximum value of female participation in politics in Senegal is 43.33% in 2014. Senegal has received international recognition for its efforts towards women's political participation by adopting the Gender Parity Law (2010). As a result of this law that demands parity in the electoral list, the proportion of seats held by women in the national parliament has increased significantly.

Next, the lowest value for female population growth in Oman is 0.41% in 2008. The fertility rate in Oman has decreased from 8.6 births per woman in 1988 to 3.3 births per woman in 2008. This fact shows a decrease of 5.3 births per woman or a 62% reduction in a short 20-year period. Fertility has decreased mainly due to synchronized delay and spacing of births among the younger cohort of women and the tradition of prolonged postpartum in fecundability (Islam, 2017). Meanwhile, the maximum female population growth value in Kazakhstan is 1.07% in 2006. Kazakhstan ranked high overall for gender and development indicators. Over the year, based on the Gender Development Index (GDI), the percentage of women was 0.795 higher compared to 0.790 for men. Overall, it showed high equality between women and men. Kazakhstan continues to reduce its Gender Inequality Index (GII) from 0.405 in 2000 to 0.202 in 2015, lower than the 0.279 averages for European and Central Asian countries (ADB, 2018).

As for the trade balance, Malaysia recorded the lowest values, which amounted to 12.47% in 2007. Based on the Malaysian Economic Outlook 2007 data, Malaysia's economic growth was strong in 2007, driven by strong consumption and increased investment activity. However, compared to other OIC countries, Malaysia was the lowest despite the trade balance's good performance (Bank Negara Malaysia, 2007). Meanwhile, the maximum value of the trade balance was recorded for Libya by 235.54% in 2014. This condition happened because the Libyan economy experienced strong growth despite the severe drought in 2007. Extensive investment and high consumption resulted in a 6% growth in real terms in 2007, the highest since 2002 (Commission Staff Working Document, 2008).

Finally, the minimum female labor force participation rate was recorded for Jordan by 13.27% in 2006. Labor market inclusion for Jordanian women is among the lowest in the world. The national unemployment estimate for Jordanian women reached 26.9% in 2018. Based on the World Bank report in 2018, this is the 5th highest female unemployment rate among 188 countries globally. Not only that, but the female labor force participation rate in Jordan (15.0%) is also the 4th lowest in the world.

On the other hand, the maximum female labor force participation rate was Albania at 77.45% in 2008. This condition is because many Albanian women are involved in the business, so that women entrepreneurs spend most of their time working, more

than 10 hours a day. Acquiring knowledge and education, showing perseverance, and confidence in the business world are considered the main reasons for success in their business activities (Ramadani, 2015).

Stationarity test results

The study performs the stationarity test to ensure the model estimation's data suitability before ARDL estimation. For this purpose, the standard unit root statistical tests of LLC and individual unit root of ADF-Fisher and PP-Fisher are used.

Table 2 illustrates that the results of stationarity tests using LLC, ADF-Fisher, and PP-Fisher both for models without trends and with trend contain unit root at the I-HDI level. I-HDI becomes stationarity at the first difference, I (1). Meanwhile, all dependent variables have no unit root, or the data is stationary at level I(0). Thus, this confirms the suitability of using the ARDL method to determine the effect of female participation in politics, female population growth, trade balance, and female participation in the labor force on economic development between OIC-15. The ARDL model requires the dependent variable to be stationary at first different, I(1), while other independent variables can be stationary at different levels, I(0) or I(1).

Table 2. Stationarity Test Results

Variables	Without Trend					
	Level			1 st Difference		
	LLC	ADF	PP	LLC	ADF	PP
I-HDI	0.0643 0.5256	12.1990 0.9984	29.1525 0.5096	-3.5561 0.0002***	42.1450 0.0696*	111.432 0.0000***
FPP	-4.0098 0.0000***	38.3312 0.1414	42.3745 0.0665*	-8.3686 0.0000***	75.2747 0.0000***	130.726 0.0000***
FPG	-1.6568 0.0488**	36.8039 0.1829	38.1891 0.1450	-1.7116 0.0435**	50.3609 0.0011**	91.5893 0.0000***
TB	-14.8838 0.0000***	54.0721 0.0045**	39.1200 0.1231	-3.9465 0.0000***	66.4283 0.0001***	159.731 0.0000***
FPLF	-81.4965 0.0000***	38.8752 0.1285	57.4616 0.0018**	-459.24 0.0000***	55.9898 0.0027**	85.3195 0.0000***
	With Trend					
	Level			1 st Difference		
	LLC	ADF	PP	LLC	ADF	PP
I-HDI	0.41272 0.6601	20.9538 0.8893	36.9848 0.1776	-2.1198 0.0170**	16.7302 0.9757	69.1742 0.0001***
FPP	-7.6555 0.0000***	49.5564 0.0013**	57.2990 0.0019**	-6.8157 0.0000***	43.8860 0.0488**	108.659 0.0000***
FPG	-2.0242 0.00215**	22.0476 0.8523	17.9175 0.9599	-4.6834 0.0000***	48.0607 0.00196**	123.701 0.0000***
TB	-9.3066 0.0000***	38.2675 0.1430	36.0791 0.2055	-0.4870 0.3132	38.0301 0.1490	147.382 0.0000***
FPLF	-342.472 0.0000***	45.7295 0.0330**	39.0739 0.1241	- 446.64 0.0000***	60.0991 0.0009***	89.9489 0.0000***

Note: Significance level *** (1%), ** (5%), and * (10%).
Source: Data processed (2021).

Cointegration test results

After ensuring the data stationary in the previous stage, the next step is to test the ARDL panel data's co-integration. This step is done to determine whether the observed data share a long-term relationship or co-integration between variables. In the study, the co-integration is tested using the Pedroni Residual Cointegration test. Table 3 reports the findings of co-integration from the Pedroni Residual Cointegration test.

As illustrated in Table 3 using the Pedroni test, the co-integration results show co-integration among the investigated variables at the 1% level of significance. Since the Pedroni test's probability value is smaller than 1%, and its estimated coefficient is negative, the data is considered cointegrated, or there is a long-term relationship among the variables. In Table 3, the probability values were 0.001 and 0.008. Their slope is negative, except for the v-statistics panel, the rho-statistics panel, the ADF-statistics panel, the rho-statistics group, and the ADF-statistics group. These results conclude that there is co-integration among the variables of female participation in politics, female population growth, trade balance, women's labor force participation, and Islamic economic development (I-HDI).

Table 3. Cointegration Test on Pedroni Test

	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	-4003.16	1.000	-1.563	0.941
Panel rho-Statistic	1.265	0.897	1.415	0.921
Panel PP-Statistic	-2.442***	0.007	-3.761	0.001
Panel ADF-Statistic	0.805*	0.789	-1.287	0.099
Between Dimension				
	Statistic	Prob.		
Group rho-Statistic	2.771	0.997		
Group PP-Statistic	-3.172***	0.008		
Group ADF-Statistic	-3.432	0.366		

Note: Significance level *** (1%) and * (10%).
Source: Data processed (2021).

The Determinant of Islamic Economic Development

After the stationarity and co-integration tests conduct, the next is to estimate the ARDL panel model. The finding of the ARDL estimation is showing in Table 4. As observed from the table, in the short term, the variable female participation in politics (FPP) is found to not affect economic development from an Islamic perspective (I-HDI). In the short term, female involvement in politics has not been influential due to society's patriarchal cultural practices. However, it does not mean that their presence in politics has no contribution to overall economic development in the long run.

As illustrated in Table 4, in the long term, female participation in politics (FPP)

has a significant positive effect on Islamic economic development (I-HDI), indicating the importance of female participation in economic development. This finding aligns with research conducted by Xu (2015), where women's involvement in politics influenced economic growth. One way to improve female participation in politics is by setting a quota of 30% of seats in the national parliament to be occupied by women. The OIC Women and Development Report (2018) predict that female participation in politics will increase in OIC countries in 2040.

From the beginning, Islam also emphasized the importance of acquiring knowledge and education for both men and women. Thus, Muslim countries must take initiatives to increase female participation in education and politics. Women who take part in politics can solve existing women's social-related problems. Educated women can also create a brilliant generation. This result aligns with Bullough et al. (2012), who analyzed women's political leadership participation worldwide using institutional analysis that had contributed to economic development. In line with the study carried out by Faizul et al. (2020), they showed that the educated female politician had been the most potent instrument for the twenty-first century in the twenty-first-century progress and prosperity of a nation. However, to increase the participation of women's political leadership, we need to evaluate matters related to customs and trade regulations, corruption, gender disparities in political empowerment, public spending on education, state economic sustainability, access to power and the internet, political freedom, and cultural aspects, including performance orientation, collectivism, and power distance. Further research carried out by Khorsheed (2019) stated that women make up half of the global population, and consequently, women are half of the creators, talent creators, and potential innovators. The study found a significant positive effect of women Members of Parliaments (MPs) on economic growth, showing women's crucial roles in politics to stimulate economic growth.

Table 4. ARDL Panel Data Estimation Results in Short and Long Term

Variable	Coefficient	Std. Error	t-Statistic	Prob*
Short Run Equation				
ECT(-1)	-0.5712	0.1482	-3.8553	0.0002
D(FPP)	0.0097	0.0085	1.1498	0.2535
D(FPG)	-2.3838	1.2265	-1.9436	0.0553*
D(TB)	0.0004	0.0005	0.7233	0.4715
D(FPLF)	0.2690	0.2364	1.1382	0.2583
Long Run Equation				
FPP	0.0046	0.0007	6.5476	0.0000***
FPG	3.4464	0.7891	4.3678	0.0000***
TB	0.0002	0.0003	0.7513	0.4546
FPLF	0.0294	0.0020	14.8499	0.0000***

Note: Significance level *** (1%), ** (5%) and * (10%).
Source: Data processed (2021).

Regarding female population growth (FPG), the study found it to have a significant adverse effect on Islamic economic development (I-HDI) in the short run. This result shows that, in the short run, an increase in the female population had caused a decrease in Islamic economic development. This condition occurs because women's empowerment has not achieved economic development goals in the short run, although almost half of the population in OIC countries is women. This condition is simply due to the high level of gender disparities in OIC countries. Meanwhile, in the long term, the female population growth has a significant positive effect on economic development from an Islamic perspective (I-HDI). In the long run, an increase in the female population has led to increased Islamic economic development. A long-term policy that focuses on improving the quality of education for women, the level of good health for women, and equal opportunities for making decisions in public has empowered women's contribution to economic development (COMCEC, 2017).

Next, as illustrated in Table 4, the study found an insignificant effect of Trade Balance (TB) on economic development from an Islamic perspective (I-HDI) both in the short- and long run. The following phenomenon explains the insignificance of the trade balance to OIC's economic development. Based on the 2017 OIC Economic Outlook Report, the process of industrial development in OIC countries has been slow to develop over the last few decades. The OIC countries' share in total world manufacturing value added increased from 4.9% in 1990 to only 7.7% in 2016. There was also strong growth in the trade deficit in manufactured products, reflecting the insufficient manufacturing production capacity in OIC countries. Based on this report, OIC countries need to refocus their attention on economic diversification or expansion in the manufacturing sector to narrow the economic development gap and increase economic diversification. A well-diversified economy requires a solid and sophisticated manufacturing industry to improve and maintain its competitiveness in the global economy. In this regard, it is vital to understand the problems behind previous industrialization efforts' successes and failures in designing industrial policies. It is also essential to create synergies between member countries' trade and investment policies, with particular attention paid to measures that stimulate product value chains in industrial development (OIC, 2017).

Regarding female participation in the labor force (FPLF), the study also found no significant effect of the variable on economic development from an Islamic perspective (I-HDI) in the short run. Most women who work in the labor market accept low-quality jobs, causing their participation in the labor force to have no significant impact on economic development in the short run. It is also closely related to gender inequalities in the labor market. Women are more likely to be underestimated in making a policy, coupled with women's nature considered weak and their marginalized position within society. The OIC Women and Development Report (2018) showed that most women in OIC countries work primarily in the service sector (45%) and agriculture (41%).

Meanwhile, to increase economic development in developed countries, women tend to be more employed in the service sector (88%) and industry (15%) (OIC, 2018). However, in the long term, female participation in the labor force has a significant

economic development effect from an Islamic perspective (I-HDI). This condition means that an increase in female participation in the labor force had led to a rise in Islamic economic development among 15 OIC countries in the long run by an estimated coefficient of 0.0294. Women are an essential factor in increasing economic development.

The involvement of women in the economic sector is needed to achieve prosperity in society. OIC country governments' strategies are to create a long-term-based program called the OIC-2025 Program of Action (OIC, 2018). In this program, governments in OIC countries recognize the importance of the labor market to build a better quality of life, promote productive employment, and create adequate social protection for the OIC community. These could be done by increasing labor competitiveness, creating a harmonious and progressive workplace, and promoting decent work for everyone (OIC, 2017). In essence, women's participation in the workforce will ultimately improve their economic situation and contribute to economic efficiency by enhancing the country's potential (Mujahid & Zafar, 2012). Our finding aligns with Fatima & Sultana (2009), who documented that female labor force participation has a positive and robust relationship to economic growth.

However, it is essential to note that Islamic economics has a much comprehensive mission than its conventional counterpart. Islamic economic development is not simply building the people's economy, but it is, more importantly, promoting a mental attitude, which also means developing a whole human being. It is not only developing the physical side but also empowering transcendental spiritual needs. In Islam, economic development refers to alleviating poverty and providing ease, comfort, and decency in life. It is the process of reducing poverty and creating peace, comfort, and moral order in life. In this sense, economic development from an Islam perspective covers multidimensional aspects, both quantitative and qualitative. Its goal is not solely material welfare in the world but also the interest of the Hereafter. Both of them are integral and mutually interdependent. Islam sees economic development as the growth of human maturity, where material progress must support spiritual maturity. According to Almizan (2016), several important goals must be prioritized: growth accompanied by full-employment, economic stability, distributive justice, and care for nature. Regarding population control, it is inseparable from the Shari'ah norms, highlighted in the Maqahasid Shari'ah.

Furthermore, Islam sees Allah created both men and women to the same degree. There is no indication that the first woman (Eve) whom Allah created was a creature with a lower dignity than the first man (Adam). Allah Almighty said in the Holy Qur'an:

"O people, fear your Lord who created you of the same type and from him, Allah has created a mate and in both Allah breeds a multitude of men and women" (An-Nisa, Verse 1).

This verse affirmed that the materials for man's creation are not different from women, and they created the same type. Islam does not recognize discrimination between men and women. Islam places women as equal partners to men. Even if there are differences, it results from the main functions and duties assigned by religion to each

gender so that the differences do not result in one feeling that he has an advantage over the other. Both are complementary and help each other carry out their functions in their lives (Hadi, 2017).

Islam provides opportunities for women to participate in political activities, as highlighted in many verses in the Qur'an that command *amar al-ma'ruf wa nahi al-munkar*. This condition applies to all kinds of activities, including politics and state affairs, where women are also responsible. Thus, women in Islam also have the right to be involved in politics, such as becoming members of representative institutions and leading formal institutions, organizations, parties, and the president. Of course, generally, women's political participation is subject to human rights in Islam. These human rights are owned without distinguishing the basis of nation, race, religion, gender (Warjiyati, 2016) and contradicting women's Islamic nature. In Islam, women can actively participate in various activities or work in multiple fields inside or outside their homes independently. They can work with other people or government or private institutions, as long as it is performed respectfully and politely. At the same time, they have to observe their religious duties and avoid the negative impacts of the work on themselves and the environment. In short, women have the right to work as long as needed or that position requires them. Most importantly, they should not forget their nature and Islamic injunctions while at work.

Finally, our estimated ARDL model's overall results illustrated in Table 4 are free from model misspecification. The estimated adjusted R² of 0.6099 is significant at the 1% level, showing the ability of investigated determinants to predict variations in Islamic human development by 60.99%. This finding indicates that the estimated model used is quite good at explaining the economic development determinants of 15 OIC countries from an Islamic perspective. The Islamic economic development (I-HDI) is explained mainly by the political factor (i.e., female participation in politics), demographic factor (i.e., female population growth), and economic factors (i.e., trade balance and female participation in the labor force).

Conclusion

This study empirically measured and analyzed the role of women's participation in politics, female population growth, trade balance, and women's labor force participation in promoting Islamic economic development across 15 OIC countries during the 2006-2017 periods using the panel ARDL model. Combining political, demographical, and economic factors as the determinants of OIC countries' Islamic economic development is the main novelty of this study. The study found that, in the short term, only female population growth significantly and negatively affected Islamic economic development, while other variables did not. Meanwhile, except for the trade balance variable, all variables are documented to influence the economic development of 15 OIC countries from an Islamic perspective in the long term.

These findings show that the orientation of economic development policy designed by the OIC governments should orient to short- and long-run economic development. In

this case, the OIC countries should strengthen the coordination and synergy to influence the OIC countries. The OIC governments must also continue to strive to provide space for female politicians by imposing a quota of 30% of women's seats in parliament. With female participation in politics, they are no longer marginalized.

Governments of OIC countries need to refocus their attention on economic diversification or expansion in the manufacturing sector to narrow the economic development gap and increase economic diversification to respond to global economic developments and compete in the world economic arena. Furthermore, the OIC governments must also prioritize gender equality in all activities, increasing women's education, health, and politics. Future studies should incorporate more variables, such as women's education, in measuring economic development from an Islamic perspective. Covering more OIC countries into the analysis would also enrich the empirical findings on this topic.

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Restructuring and Bank Performance in Dual Banking System

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Abstract

This paper assesses the impact of changing competition landscape and Islamic bank penetration on bank risk, profitability and capitalization. This study utilizes an unbalanced panel dataset consisting of 37 commercial banks over the period 1997 to 2015. The paper uses a panel VAR methodology to discern the interactions between bank competition and Islamic banking presence on one hand and bank performance on the other hand. We find evidence supportive of both competition—stability and competition—fragility views for conventional banks. The results suggest that bank competition improves conventional bank risk and, at the same time, lower profitability and capital holdings. As for Islamic banks, competition seems to robustly influence only bank profitability. Finally, we note that increasing Islamic bank penetration improves the risk profile of conventional banks and, as expected, reduces their market power. These results bear important implications on the design of competition policies in a dual banking system as well as on the development of the Islamic banking sector.

Keywords:

bank competition, Islamic bank penetration, bank performance.

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Introduction

Bank consolidation and restructuring are common responses of many countries experiencing financial or banking crises. While Malaysia is no exception, the restructuring exercise that Malaysia undertook in the aftermath of the 1997/1998 Asian financial crisis has projected its conventional and Islamic banking segments into two different trajectories¹. In responses to surmounting non-performing loans of especially small financial intermediaries, Malaysia consolidated its conventional domestic banking sector to form few large conventional banks. At the same time, driven by the objective of becoming the international hub of Islamic finance, the government has facilitated greater penetration of the Islamic banking sector through establishment of new Islamic banks and Islamic bank subsidiaries of conventional banks. As a result of the former, the number of conventional banking institutions dropped substantially from 78 banks (35 commercial banks, 31 finance companies, and 12 merchant/investment banks) in 1998 to 38 banks in 2017 (27 commercial banks and 11 investment banks)². Meanwhile, the latter has resulted in an increase not only in the number of Islamic banks from 1 prior to the crisis to 16 in 2017 but also in the Islamic banking market share from less than 5% to more than 25% over the same period.

The restructuring that Malaysia has undergone since the Asian financial crisis thus highlights two key features: the changing competition landscape and the systemic importance of Islamic banking. The questions are: How have changes in banking competition affected bank risk and performance? Does Islamic bank penetration affect the risk and performance of conventional banks? Despite extensive studies on the performance and risk implications of banking market structure and competition, the answer to the first question remains theoretically and empirically inconclusive. The second question has only attracted scholarly attention very recently and, hence, not much is known on the impacts of the Islamic banking presence on conventional banks. Given the policy relevance of the questions and limited understanding of the subjects for the dual banking system, this paper aims at addressing the above two questions.

In the paper, we make three contributions. First, we contribute to a large literature on the implications of bank competition. The conflicting findings from existing studies hint, among others, potentially different implications of banking market competition across countries. Moreover, given the predominant focus of the literature on developed and large economies, existing evidence may not be directly applicable to other countries. Recent studies have further emphasized that different banking types or systems may react differently to market competition (Clark et al., 2018a; Fiordelisi & Mare, 2014; Jeon & Lim, 2013). In the context of the dual banking system, Kabir & Worthington (2017) is perhaps the first study that looks at the impact of competition on risk of Islamic and conventional banks. By drawing the sample banks from 16 dual-banking jurisdictions,

¹ The banking system with both interest-based (conventional) banks and interest-free (Islamic) banks in operations is commonly termed as the dual banking system.

² Takatoshi and Yuko (2007) provides a detailed description of the restructuring and consolidation exercises undertaken by Malaysia in the aftermath of the Asian crisis. See also Ahmad (2007).

their findings hold only on average and hence may not be applicable to a specific dual-banking country.

As many studies have suggested, the competition – bank performance relation may differ across countries depending on their institutional environments (Davis & Karim, 2019). Bank competition and its implications on particularly bank profitability, capital holdings and risk have received substantial theoretical attention and empirical scrutiny. According to the Structure-Conduct-Performance (SCP) hypothesis, banks with high market power or in a less competitive market tend to be more profitable (Tan, 2016). By implication of their ability to secure abnormal profits or monopoly rents, these banks would have high franchise value. Accordingly, to protect their franchise value, they tend to be more prudent by building up capital and avoiding risk (Keeley, 1990). Further, supervision of few large banks, which is a normal feature of a less competitive market, is easier and these banks would also have better ability to diversify risk (Allen & Gale, 2000). A competitive banking market, however, may not only erode the franchise value leading to high-risk strategies but also discourage investment in information for better screening and monitoring and in lending relationship since customers can switch banks more readily (Allen & Gale, 2000, 2004). On these bases, competition would lower profitability and capital holdings and increase risk undertaking, which is coined as the competition – fragility view.

A contrasting view, which is normally attributed to Boyd & De Nicolo (2005), is the competition – stability view. It is based on the risk-taking incentives of both borrowers and banks in the presence of asymmetric information. It is argued that high lending rates in a non-competitive market intensify adverse selection and moral hazard problems resulting in only riskier borrowers to seek and secure loans and incentivising borrowers to take risk. By contrast, the lower cost of funding in a more competitive market would minimize these problems and consequently make banks less risky. As banks tend to be large in an uncompetitive market, they tend to be “too big to fail” and accordingly be less prudent by holding less capital and undertaking greater risk (Mishkin, 1999). Adding to these, Demsetz (1973) argue that it is not the market power that shapes bank profitability. Instead, the value of banks derives from their efficiency. In short, these arguments postulate lower capital holdings and higher risk of banks with greater market power. Meanwhile, profitability is the result of efficiency and not the market power.

Empirically, these diverse views have their respective supports from studies based on individual countries and panels of countries. An early but oft-cited study by Beck et al. (2006) based on data from 69 countries from 1980 to 1997 suggests less likely occurrence of banking crises in more concentrated banking systems. This competition – fragility view is further substantiated by Yeyati & Micco (2007) for 8 Latin American countries, Turk-Ariss (2010a) for 60 developing countries, Fungacova & Weill (2013) for the Russian banking sector, and Kasman & Kasman (2015) for the Turkish banking sector. In a more recent study, using a panel sample of European listed banks from 2004 to 2013, Leroy & Lucotte (2017) document supportive evidence for the competition – fragility view when bank-individual risk measures (i.e. Z-score and distance to default) are used.

By contrast, echoing the early results by Anginer et al. (2014), they also document bank systemic risk reduction in a more competitive environment. This competition – stability hypothesis receives further empirical supports from Schaeck & Cihak (2014) for Europe, Fu et al. (2014) for 14 Asia Pacific countries, Md Noman et al. (2018) for Southeast Asian countries, and Clark et al. (2018b) for the Commonwealth of Independent States (CIS).

Berger et al. (2009) reconcile the competition – fragility and competition – stability views by noting based on a sample of 8235 banks in 23 developed economies that banks with greater market power tend to have higher credit risk but, at the same time, they hold higher capital ratios. Soedarmono et al. (2013) observe similar results for Asia that banks in a less competitive market are better capitalized. These results may reflect the fact that, facing competition or market power, banks undertake risk taking strategies and determine capital holdings simultaneously. Still, how capital holdings are linked to market power or competition remains at best contentious. In a study of 1337 banks in 70 countries, Fonseca & Gonzales (2010) find capital buffers to be positively related to bank market power. Contradicting this finding, Schaeck & Cihak (2012) document evidence that capital ratios increase with competition in 10 European countries. The most recent study by Valencia & Bolanos (2018) further suggests different competition – capital relations for developed and developing economies. Namely, competition incentivises banks in developed economies to increase capital buffers. By contrast, banks in developing economies lower capital buffers when facing increasing competition.

As regards bank profitability, the literature seems to generally validate the SCP hypothesis, i.e. profitability is directly related to market concentration and bank market power. For instance, using a panel sample of banks from 61 countries, Hsieh & Lee (2010) document a positive relation between profitability and market power although it is likely weakened with activity restrictions, efficiency of judiciary systems, investors' protection and levels of financial and economic developments. Further, although the effects of competition on bank risk in the long run are uncertain, Davis & Karim (2019) find evidence that competition suppresses profitability as well as lowers capital. Lee & Hsieh (2012) also provide support for the SCP hypothesis for the banking sector in China. This, however, contradicts a recent study on China by Tan (2016) indicating no robust relations between competition and profitability.

The literature on the issue further admits large cross-country variations in bank competition – stability nexus (Beck et al., 2013), their non-linear relations (Martinez-Miera & Repullo, 2010; Jimenez et al., 2013) and potential differential relations across bank types or systems (Liu & Wilson, 2013; Jeon & Lim, 2013; Fiordelisi & Mare, 2014; Kabir & Worthington, 2017; Clark et al., 2018a).

Few studies have extended the analysis to the cases of European cooperative banks. Given their significant presence and economic contributions, the analysis bears important policy implications especially regarding competition policies whether they should be subject to similar regulations as commercial banks. Assessing the issue using a sample of 2529 cooperative banks from 5 European countries (Austria, France, Germany, Italy, and

Spain), Fiordelisi & Mare (2014) document evidence consistent with the competition – stability view. The most recent study by Clark et al. (2018a), which is based on 1193 cooperative banks from Austria, Germany, Italy and Spain, however points to the contrary. That is, there is an inverted U-shaped relation between market power and stability, which supports the competition – fragility view up until a certain threshold level of market power/competition. The differential competition – stability relations across bank types are further uncovered by Liu & Wilson (2013) and Jeon & Lim (2013) for respectively the Japanese and Korean banking sectors.

The performance of a nascent but fast-growing Islamic banking sector under competition has received virtually no attention. This is surprising given the fact that it has assumed significant shares in several dual banking countries and hence the importance of re-looking into competition policies in a dual-banking system. To the best of our knowledge, Kabir & Worthington (2017) is perhaps the first study that undertakes a look at the competition – stability relation for the dual banking system. They draw bank-level samples from 16 dual banking countries from 2000 to 2012. Adopting panel vector autoregressions (PVAR) and panel quantile regressions, they conclude that (i) competition – fragility hypothesis describes both conventional and Islamic banks in these countries, (ii) the relation between market power and stability is stronger for conventional banks, and (iii) banks that are at the median level of stability tend to benefit most in term of risk reduction from market power.

Along this line of research, this paper focuses on a specific dual banking country, i.e. Malaysia. Given documented large cross – country variations in competition – stability relations, we believe that it would add further insights on the issue. In addition to our focus on Malaysia, we differ from Kabir & Worthington (2017) by considering various metrics of bank performance, namely bank profitability, capital holdings and risk. Further, we also assess the implications of Islamic banking presence on performance of conventional banks, as discussed next.

Along this line of research and reasoning, we focus on Malaysia's dual banking system. We believe that answering the above questions would from the perspective of the dual banking system further add to our understanding on the competition – bank performance relation. Needless to state, the answers not only are important for Malaysia to ensure financial system soundness and strength but also serve as lessons to other countries having both Islamic and conventional banking systems.

Second, the paper assesses the implications of bank competition for various facets of bank performance and, at the same time, allows potential feedback effects among them. Existing studies on the issue, including Kabir & Worthington (2017), are mostly on one aspect of bank performance, e.g. either on bank risk or stability, profitability, costs of fund, lending, or capital holdings, and evaluate uni-directional effects of competition on these variables. In the present analysis, we consider three bank performance metrics, namely, profitability, capital holdings, and risk. Facing competition, banks take decisions regarding risk-taking strategies, profit maximization and capital holdings simultaneously

and these decisions in turn may shape their market power (Clark et al, 2018a). That is, banks may take more risk to maximize profits and, at the same time, build up capital to cushion against potential losses. Conversely, profitable banks and better capitalized banks are likely to be in a better position to increase market shares and consequently enhance their market power. By allowing their feedback effects, our analysis would provide a more comprehensive look at the implications of changing banking competition and structure.

Third, the present paper forms a part of a growing list of studies on Islamic banking. The fast-growing Islamic banking sector and its alleged resilience during the global financial crisis has led to proliferation of studies on comparative performance and stability of Islamic banks vis-à-vis conventional banks leading some to recommend the Islamic banking system as a solution to the recurring financial instability. The studies on other contributive roles of Islamic banking remain scanty. In a recent study, Abedifar et al. (2016) document higher efficiency of conventional banks in the presence of large Islamic banks. Further, Meslier et al. (2017) suggest that conventional banks tend to set higher deposit rates when Islamic banking presence is strong. We contribute further by looking at the implications of Islamic banking presence on conventional banking market power, risk, profitability, and capital holdings.

As a preview, we find differences in the competition – performance relations between conventional banks and Islamic banks. For conventional banks, our results indicate that bank competition has a risk-mitigating effect, in line with the view that competition promotes bank stability. At the same time, it tends to lower bank profitability and capital holdings. As for Islamic banks, the results indicate positive impacts of market power on bank profitability while it does not seem to bear significant and robust implications on bank risk and capital holdings. We also find the benefits of Islamic banking presence in subduing conventional banks' market power as well as enhancing the risk profile of conventional banks.

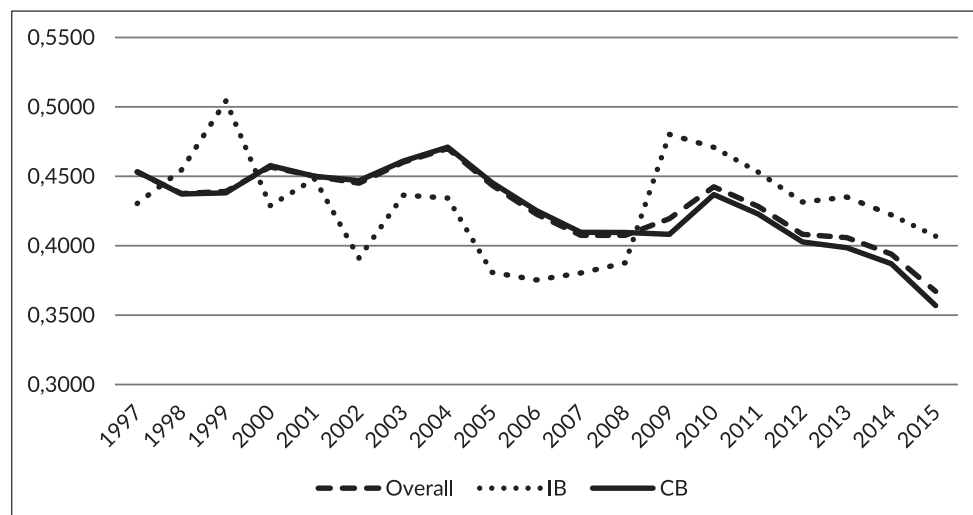
Methods

We employ an unbalanced panel dataset consisting of 37 commercial banks over the period 1997 to 2015. The sample includes all 16 Islamic banks and 21 of 27 conventional banks currently in operations. The 6 conventional banks excluded from the sample are recently incorporated foreign banks whose data are too scanty to be included in the sample. Data for the construction of competition measure and for the three bank performance variables (i.e. bank risk, profitability, and capital) are drawn from the Bankscope. To measure Islamic banking penetration, we source relevant data from Monthly Statistical Bulletin published by Bank Negara Malaysia (i.e. Malaysia's Central Bank).

Our empirical analysis comprises bank competition, bank performance (profitability, capital, and risk), and Islamic banking penetration. Table 1 presents summary statistics of the variables under study together with their pairwise correlations. We use the Lerner index to measure the degree of bank competition, in line with many recent studies (Beck et al., 2013; Anginer et al., 2014; Kabir & Worthington, 2017).

Figure 1 depicts the evolution of bank competition since the Asian financial crisis, which is computed using the asset-weighted average of individual banks' Lerner index. From the figure, three observations are notable. First, the consolidation exercise implemented after the 1997/1998 Asian financial crisis did increase the overall market power and the market power of conventional banks. However, with increasing penetration of Islamic banking especially after 2005, the overall banking sector and conventional banking sector have become more competitive. Second, it seems that the Islamic banking sector possesses higher market power in times of crisis, i.e. during 1997/1998 Asian financial crisis and 2008-2009 global financial crisis and after. Third, the market power of Islamic banking tends to behave more erratically, losing its market power during the conventional banking consolidation period and gaining market power during the crises. While its market power is higher than that of conventional banking sector in recent years, it has also become more competitive. With these changes in the competition landscape, it would be interesting to see how they shape banking performance and risk, the main focus of the present study.

Figure 1. Bank Competition, 1997 - 2015



Source: Data Processed (2021)

As mentioned, we consider three bank-level performance indicators - profitability, capital holdings and bank risk. They are represented respectively by the return on average assets (*ROAA*), equity-to-asset ratio (*EQA*), and non-performing loans as a percentage of total loans (*NPL*). The *ROAA* captures the ability of a bank to generate profit from the utilization of its assets and it is considered the most common and direct measure of bank profitability (Athenasoglou et al., 2008; Garcia-Herrero et al., 2009; Tan, 2016). In the case of capital holdings, we use total equity relative to total assets and not to risk-weighted assets since the former is more closely related to bank stress (Acharya et al., 2014). Hogan (2015) further notes that the capital ratio is a better predictor of risk as compared to risk-based capital ratio. The *NPL* is an ex-post measure of credit risk.

We prefer NPL over another equally commonly used measure of bank risk or stability, namely the Z score, for several reasons. First, NPL is the primary driver of bank risk (Jimenez et al., 2013) and is a macro-prudential indicator of banking crises (Chang et al., 2008). Second, it is more closely related to the theoretical underpinnings of the issue at hand since it reflects both banks' risk taking behaviour and the behaviour of the borrowers (Jimenez et al., 2013). Finally, given that we consider ROAA and EQA in the framework, the use of Z score may induce spurious correlations since it is computed based on ROAA and EQA.

Table 1. Summary Statistics and Correlations

(a) All Banks

Variables	Summary Statistics		Correlations			
	Mean	Std Dev	<i>npl</i>	<i>roaa</i>	<i>Eqa</i>	<i>lerner</i>
<i>npl</i>	5.794	7.412	1.000			
<i>roaa</i>	0.979	1.102	-0.260	1.000		
<i>eqa</i>	10.468	6.046	0.070	0.179	1.000	
<i>lerner</i>	0.404	0.109	0.091	0.405	0.153	1.000

(b) Islamic Banks

Variables	Summary Statistics		Correlations			
	Mean	Std Dev	<i>npl</i>	<i>roaa</i>	<i>eqa</i>	<i>lerner</i>
<i>npl</i>	4.301	5.148	1.000			
<i>roaa</i>	0.561	1.080	-0.516	1.000		
<i>eqa</i>	8.424	3.883	0.109	-0.032	1.000	
<i>lerner</i>	0.383	0.124	0.095	0.230	-0.010	1.000

(c) Conventional Banks

Variables	Summary Statistics		Correlations				
	Mean	Std Dev	<i>npl</i>	<i>roaa</i>	<i>eqa</i>	<i>lerner</i>	<i>dibs</i>
<i>npl</i>	6.376	8.058	1.000				
<i>roaa</i>	1.142	1.068	-0.247	1.000			
<i>eqa</i>	11.266	6.536	0.032	0.173	1.000		
<i>lerner</i>	0.412	0.102	0.085	0.459	0.181	1.000	
<i>dibs</i>	1.417	0.557	-0.007	-0.006	0.037	-0.129	1.000

Descriptive statistics presented in Table 1 suggest that Islamic banks have better asset quality as reflected by lower credit risk. However, they are less profitable and hold less capital as compared to conventional banks. The pairwise correlation coefficients tend to be in line with the competition – stability view and the SCP hypothesis as reflected

by the positive correlations between competition and credit risk and between competition and profitability for both Islamic and conventional banks. Further, we may note that market power is positively correlated with capital for only conventional banks. We may also observe tighter correlations between risk and profitability and risk and capital for Islamic banks as compared to conventional banks. These correlations seem to provide indication supporting both competition – stability and competition – fragility views. While credit risk is related directly to market power, higher profitability and capital holdings in a less competitive market distance them from being insolvent.

As a measure of Islamic banking penetration, we employ the change in Islamic banking financing as a percentage of total banking financing. Abedifar et al. (2016) use the asset share of Islamic banks in their assessment of the roles of Islamic banks in funding mobilization, economic growth, inequality and poverty. Likewise, Lebdaoui & Wild (2016) use the asset share of Islamic banks in their analysis of financial development. Gheeraert (2014) and Imam & Kpodar (2014) employ three alternative measures of Islamic banking, the sizes of Islamic banking assets, financing and deposits relative to GDP. In our case, we use the change in Islamic banking financing as a percentage of total financing or credit to capture Islamic banking penetration for the following reasons. The measure better captures the importance of intermediation activities and is often linked to financial development. It is also more relevant to the issue of risk and return given the fact that financing is the main and traditional source of bank revenue and that it has direct implications on risk-taking and prudential strategies. Moreover, the credit market tends to be more relevant than the deposit market when it comes to the issue of bank competition (Clark et al, 2018a). Finally, the change in Islamic financing share captures the speed at which Islamic banking has penetrated the credit market, the aspect that we are interested in. In Table 1, we may see that the average change in Islamic financing share is 1.42, suggesting that the growth of Islamic financing is higher than the growth of total financing or of conventional credit. The correlation coefficients tend to suggest lower market power, lower risk and lower profitability of conventional banks with increasing presence of Islamic banking, though the correlations are marginal in the latter two cases.

To assess the impacts of market competition and Islamic banking penetration on bank performance and risk, we opt for a panel vector autoregression (PVAR) framework instead of the normally used dynamic panel modelling. As we argue above, competition (or Islamic bank penetration) would affect bank risk, profitability and prudential behaviour and it may endogenously respond to bank profit maximization and risk or prudential strategies. Moreover, the banking literature also highlights feedback effects among the three indicators of bank performance. For examples, facing lower loan quality, banks may suffer losses. They are also likely to build up capital to cushion against losses. In addition, given that capital is costly, banks may opt for high risk strategies to recover the costs of holding capitals. The risk – return trade-off that banks face also mean that they decide on profit and risk-taking strategies concurrently. On these bases, the PVAR is most appropriate since it treats all variables to be potentially endogenous and, at the same time, allows for unobserved individual heterogeneity (Love & Zicchino, 2006).

Consider the following PVAR model:

$$y_{it} = \mu_i + A(L)y_{it} + \varepsilon_{it} \quad (1)$$

where y_{it} is a $k \times 1$ vector of endogenous variables, μ_i is individual fixed effects, $A(L)$ is the lag operator, and ε_{it} is the standard error term. We set up two systems of endogenous variables to address our two objectives, namely, (i) the relations between market competition and bank performance measures and (ii) the implications of Islamic bank penetration on conventional bank performance. The first PVAR system includes risk, profitability, capitalization and competition and is estimated using the full sample and sub-samples of conventional banks and Islamic banks. The sub-sample analysis is to infer whether there are differences between Islamic and conventional banks. As for the second objective, we add a measure of Islamic bank penetration into the system but restrict our sample only to conventional banks.

In the implementation of the PVAR, we proceed in steps. First, we use the optimal moment and model selection criteria (MMSC) developed by Andrews & Lu (2001) to set the PVAR lag order. In line with Georgoutsos & Moratis (2017), we use the MMSC-Akaike Information Criterion (MAIC) for lag order selection since it works best in small samples. Once the PVAR lag order is set, the GMM-based estimator is used to estimate the model. Following Love & Zicchino (2006), we apply the Helmert transformation to filter out the individual fixed effects. By removing the forward mean, it preserves the orthogonality between the transformed variables and the lagged regressors and hence the lagged regressors can be used as instruments in the GMM estimation. Next, we examine whether the estimated model fulfils the stability condition.

Finally, based on the estimated PVAR, we simulate impulse-response functions as a basis of inferences. The shocks are identified recursively using the orderings (i) competition, capitalization, profitability and risk and (ii) Islamic bank penetration, competition, capitalization, profitability, and risk for the two PVAR systems. These orderings reflect our judgements on the relative endogeneity of the variables, where the less endogenous (or more exogenous) variables are entered first in the orderings. Competition and market power is built over time and, thus, affected by bank performance with lags. We place capital before profitability and risk since bank capital is costly to adjust. We view credit risk to be most endogenous responding immediately to profit-maximization and capital holding strategies by banks. For the second PVAR system, we consider Islamic banking penetration to be least endogenous given the fact that the growth of Islamic banking in Malaysia has been driven mostly by government initiatives and policy directions.

Result and Discussion

Islamic Banking Presence

The rapid growth of Islamic banking in especially Malaysia and the Middle East and its penetration into even non-Muslim world coupled with its relative resilience during the global financial crisis have captivated much interest especially in its financial and economic contributions. Generally, the literature focusing on the financial and economic roles of

Islamic banking can be categorized into two strands. The first strand of the literature, which dominates the empirical Islamic banking research, performs comparative analyses of Islamic and conventional banking performance. The underlying view is that, if Islamic banking is found to be more efficient, more profitable and more stable, then Islamic banking would contribute positively to the well-functioning and stability of the financial system. The second strand of the literature, which begins to gain traction recently, makes direct assessments of the impacts of Islamic banking presence on such outcomes as financial deepening, economic development and even the behaviour of conventional banks. With still limited attention given to direct assessments on Islamic banking contributions to the economy, Ibrahim (2015) views that the research in this direction would be fruitful.

Few studies have evaluated the impacts of Islamic banking on financial and economic outcomes. Islamic banking has the potential to enhance financial inclusion since it has appeals to those who refrain from conventional banking services due to religious reasons (Demirguc-Kunt et al., 2014; Imam & Kpodar, 2016). Thus, the emergence and development of Islamic banking is expected to have positive effects on financial deepening and economic development. Gheeraert (2014) finds that Islamic banking contributes positively to banking sector development and exerts no crowding-out effect on conventional banking system. Lebdaoui & Wild (2016) further firms up the positive link between financial development and Islamic banking presence. Assessing Malaysian experience, Kassim (2016) documents positive effect of Islamic banking development on economic growth. Similar findings are provided by Gheeraert & Weill (2016) and Imam & Kpodar (2016) based on panel samples of many countries. Finally, Sukmana & Kassim (2010) examine the role of Islamic bank in monetary transmission mechanism and document evidence that the bank lending channel is at work even for Islamic Banks.

Both Abedifar et al. (2016) and Meslier et al. (2017) assess the impacts of Islamic banking presence on performance of conventional banks. According to Abedifar et al. (2016), conventional banks operating in predominantly Muslim countries tend to be more efficient especially when there are large Islamic banks. In a similar vein, Meslier et al. (2017) suggest that conventional banks tend to set higher deposit rates in countries with a strong presence of Islamic banks. Taking the leads from these studies, we analyse further whether the presence of Islamic banking affects profitability, capital holdings and risk of conventional banks. The issue is particularly relevant given the fact that a key feature underlying structural changes in Malaysia is the increasing significance of Islamic banking.

Competition and Bank Performance

We estimate the PVAR of order 1 for all banks, conventional banks and Islamic banks, which is selected based on the MAIC from the MSMC developed by Andrews & Lu (2001) as reported in Table 2. The stability of the estimated PVAR models are verified in Figure 2, where the moduli of the eigenvalues lie within the unit circle. Accordingly, we generate and plot the impulse-response functions with 90% confidence intervals generated by 1000 Monte-Carlo iterations. These are presented in Figure 3.

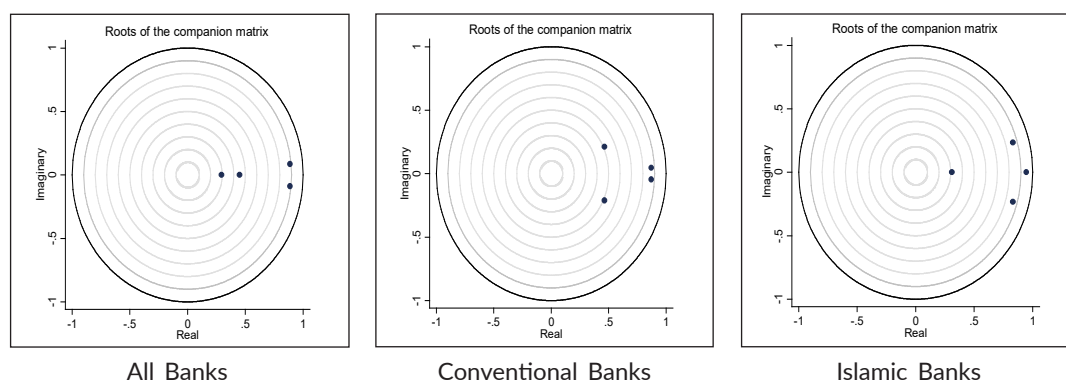
The results in panel (a), which are based on the full sample, clearly indicate the central role of bank competition or bank market power on all considered bank performance indicators. As can be seen in the last row of Figure 3, following one-standard deviation shock in the Lerner index, all bank performance measures (risk, profitability and capitalization) respond positively and significantly. We further note that the positive response of the non-performing loans is quite persistent. These results seem to be in line with both competition – stability and competition – fragility views along the line suggested by Berger et al. (2009) and indicate potential risk-return trade-off as competition landscape changes. That is, facing competition, banks tend to have lower credit risk but they are less profitable and become less capitalized. The concern, thus, is that they would have less ability to cushion against for example liquidity shocks under a competitive environment.

Table 2. Lag-Order Selection Statistics of PVAR – npl roaa eqa lerner

Lag	All Banks		Conventional Banks		Islamic Banks	
	CD	MAIC	CD	MAIC	CD	MAIC
1	0.984	-51.710	0.986	-53.201	0.999	-43.586
2	0.988	-38.798	0.990	-39.632	0.999	-35.412
3	0.986	-19.693	0.982	-25.452	0.998	-21.459

The results also indicate that there are no feedbacks from risk, profitability and capitalization to bank competition (see the last columns Figure 3, panel(a)). Looking at the interactions among bank performance indicators, we observe the significance of profitability in improving credit risk and of bank capital in influencing positively bank profitability. We may also observe that credit risk tends to drain bank capital and more profitable banks are likely to hold less capital.

Figure 2. Stability Condition of PVAR System (npl roaa eqa lerner)



The competition – bank performance nexus for conventional banks, plotted in Figure 3 panel (b), mirrors well the results for all banks. Looking at only Islamic banks, however, we document a weak link between competition and bank performance (Figure 3, panel (c)). While Islamic banking market power tends to exert positive effect on Islamic

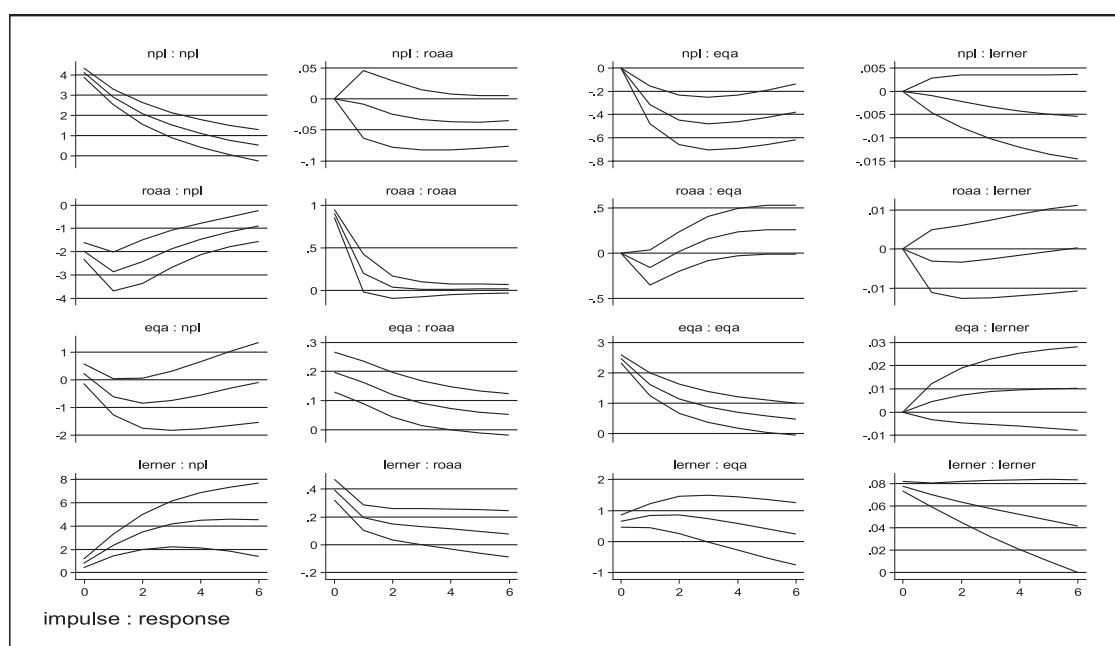
banking profitability, it does not seem to bear significant implications for credit risk and capital holdings. Like the cases of all banks and conventional banks, Islamic banking performance does not shape the market power. Thus, for Islamic banks, the evidence seems to be in line with the SCP hypothesis that market power makes banks to be more profitable. In other words, Islamic banks will be less profitable under competitive conditions. At the same time, they will not be less risky or less prudent by holding lower capital. As for the interactions among bank performance measures, we observe similar findings as in the case of conventional banks except for the impact of capital on bank risk. Namely, better capitalized Islamic banks tend to take more risk while better capitalized conventional banks do not seem to experience changes in credit risk.

We subject the results to several robustness checks by estimating four additional PVAR models for each case – all banks, conventional banks, and Islamic banks. The first model includes the Asian Financial Crisis and Global Financial Crisis dummies as exogenous factors. The other three PVAR models add alternatively bank size, real GDP growth and financial market development. The inclusion of bank size is to control for “too-big-to fail” notion or economies of scale and its implications on bank performance and market power (Kabir & Worthington, 2017).

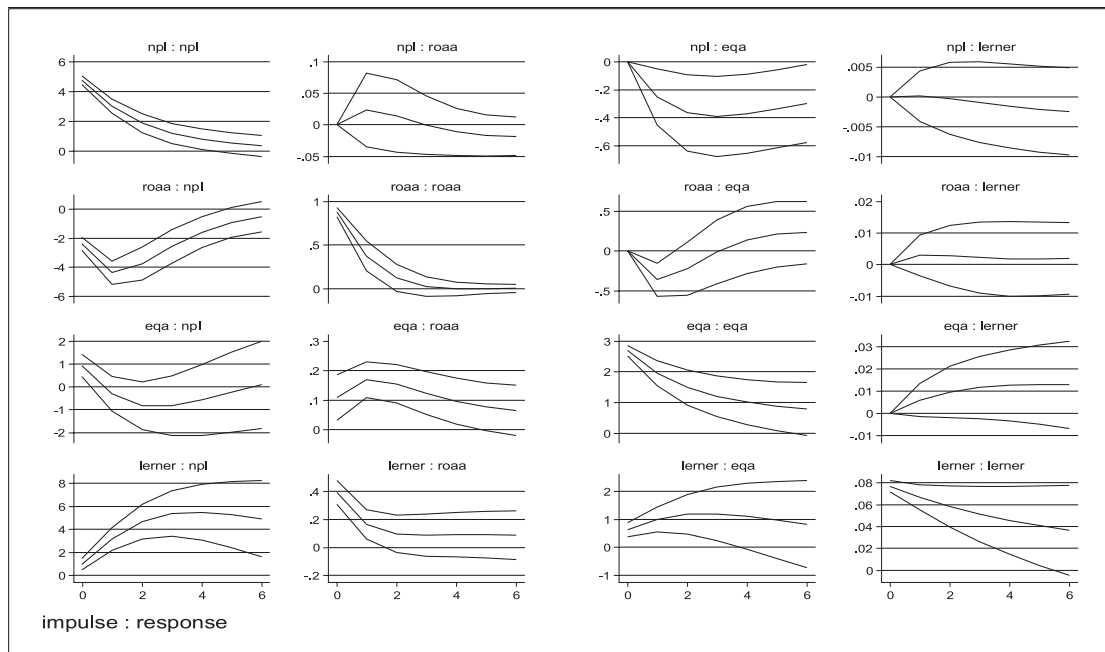
It is represented by the natural logarithm of total assets. Meanwhile, as in Love and Turk Ariss (2014), we add into the system real GDP growth to control for the business cycle and capture macro-financial linkages. Finally, the addition of financial market development, measured by credit to the private sector as a ratio of GDP, is to capture the view that banks will be better in managing risk under a more developed financial market.

Figure 3. Impulse-Response Functions of PVAR System (npl roaa eqa lerner)

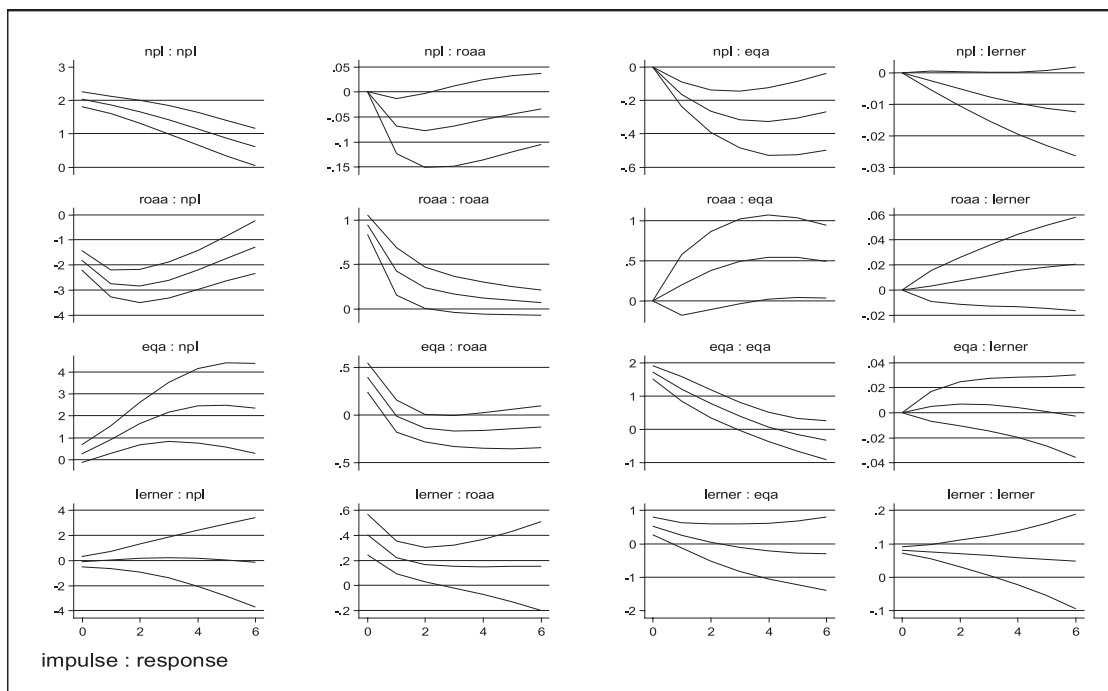
(a) All Banks



(b) Conventional Banks



(c) Islamic Banks



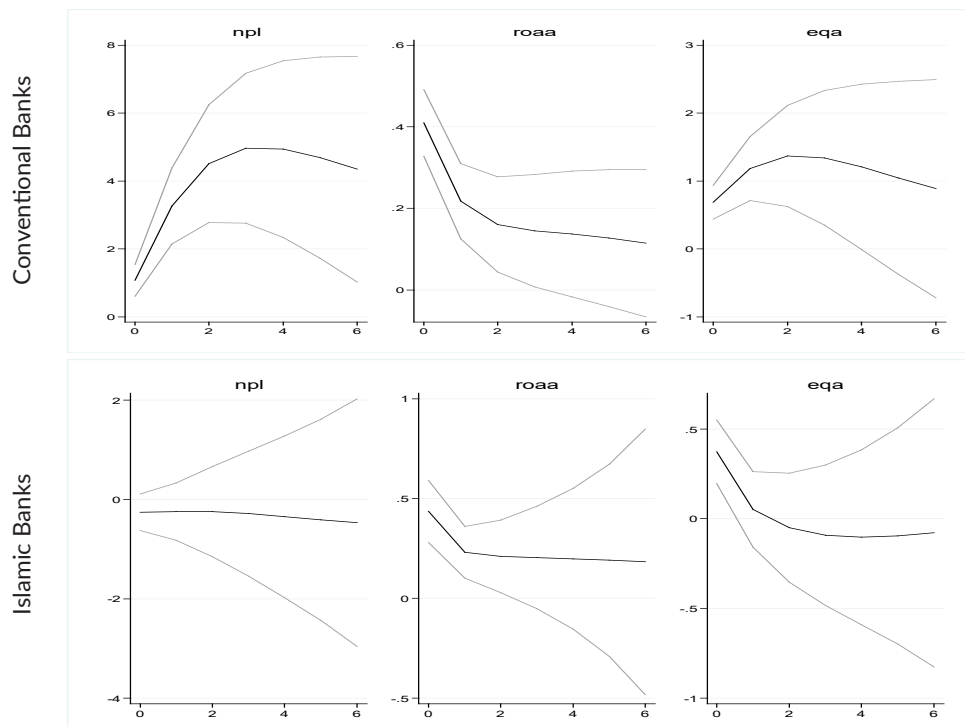
Notes: the shocks are identified using Choleski decomposition with the following ordering: lerner, eqa, roaa, and npl. The 90% confidence intervals are computed using Monte-Carlo with 1000 repetitions.

Given our interest in the impacts of market competition or market power on bank performance and the differences between conventional and Islamic banks, we report only the responses of risk, profitability and capital holdings to impulses in the Lerner index for the two types of banks. These are presented in Figure 4. The results overwhelmingly

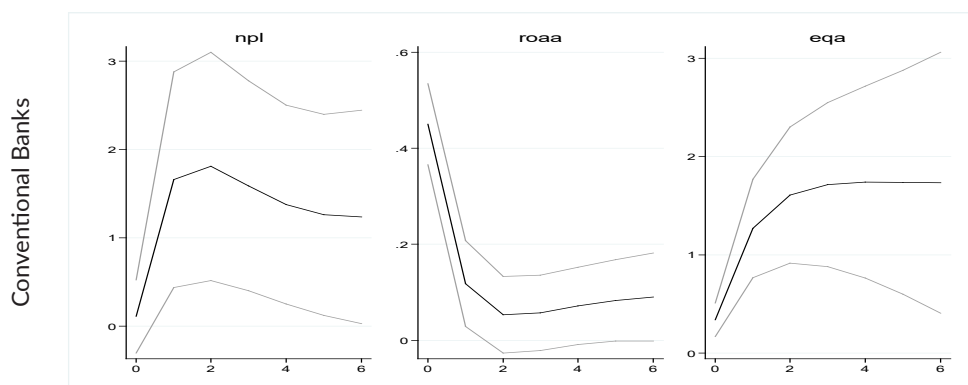
add credence to our conclusion. Namely, the competition – stability and competition – fragility views tend to describe the conventional banks. Meanwhile, in line with the SCP hypothesis, competition seems to impact only profitability for the case Islamic banks. Our results do not totally contradict the finding by Kabir & Worthington (2017) supporting the competition – fragility relation for the dual banking countries. Although we find the reduction in bank risk under a competitive environment, banks tend to experience lower profitability and hold less capitals. Moreover, in line with Kabir & Worthington (2017), the link between competition and Islamic bank performance is weak. Indeed, a closer look at Kabir & Worthington's (2017) impulse-response functions for Islamic banks reveals that there is no significant link between competition and bank risk.

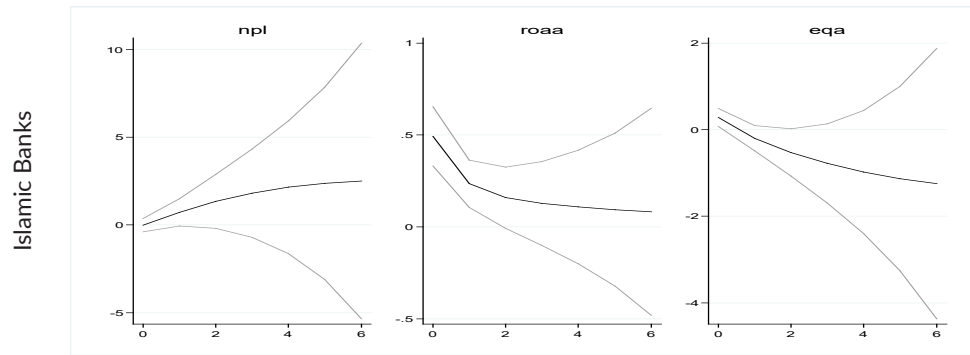
Figure 4. Responses of Bank Performance Indicators to Competition – Robustness

(a) Including AFC and GFC as exogenous factors

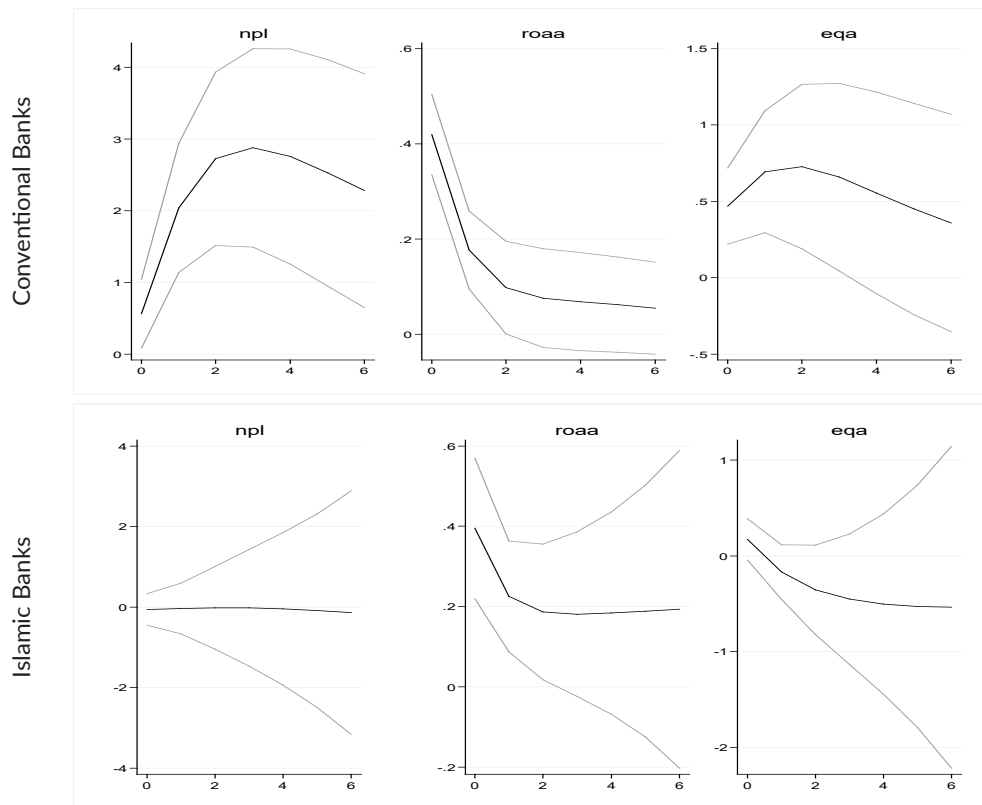


(b) Including Bank Size (Natural Log of Total Asset)

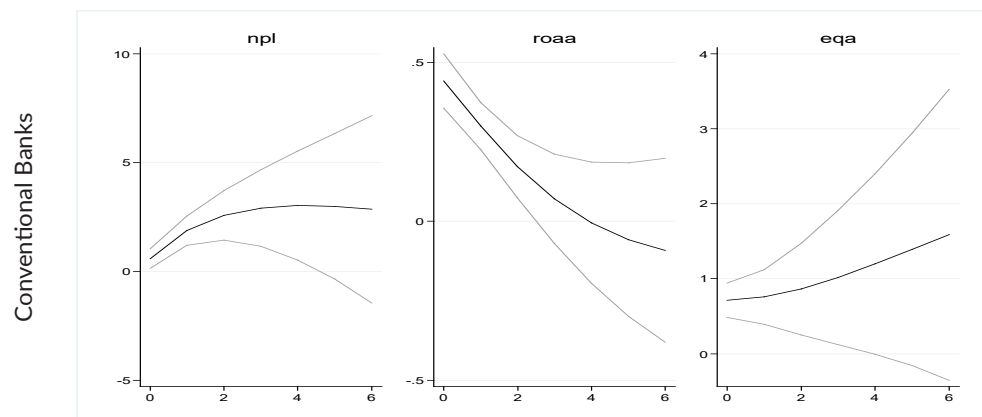


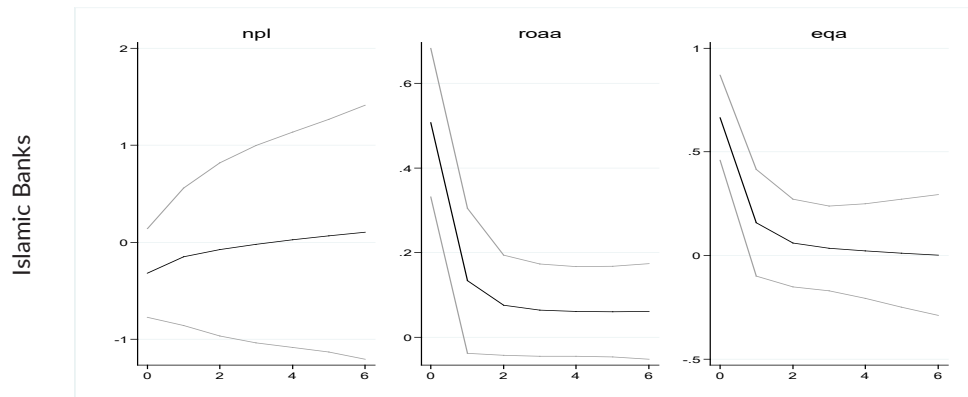


(c) Including GDP Growth



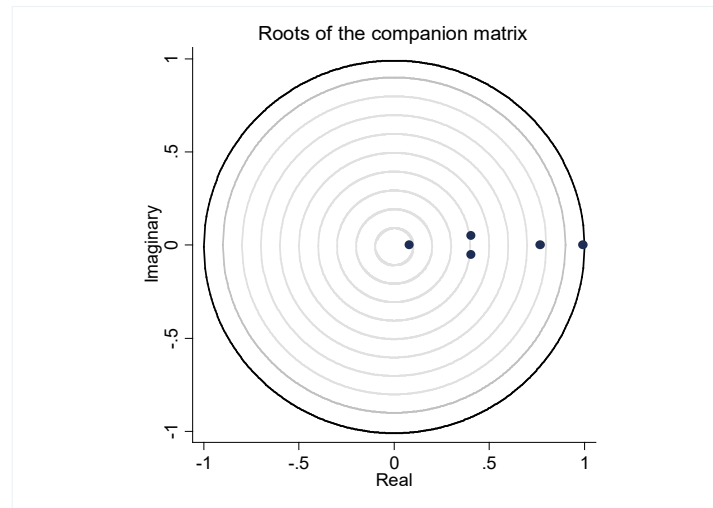
(d) Including Financial Development (Credit to GDP Ratio)





Notes: the shocks are identified using Choleski decomposition with the following ordering: x lerner, eqa, roaa, and npl, where x is the added variable. The 90% confidence intervals are computed using Monte-Carlo with 1000 repetitions.

Figure 5. Stability Condition of PVAR System (npl roaa eqa lerner)



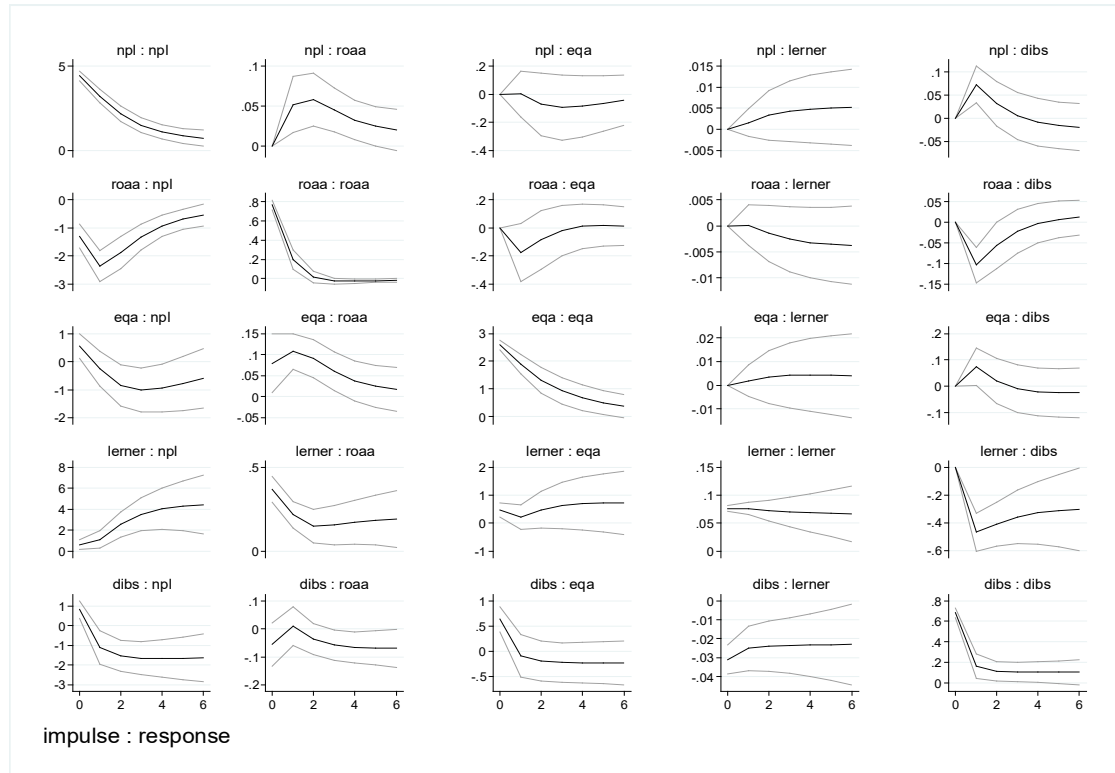
Islamic Bank Penetration and Conventional Banks

We repeat similar steps as above to assess the implications of Islamic bank penetration on the performance of conventional banks. As mentioned, in this case, we restrict the sample to only conventional banks and include the change in Islamic bank financing share to form a five-variable PVAR system consisting of Islamic banking market share (*dibs*), competition (*lerner*), capital (*eqa*), profitability (*roaa*), and risk (*npl*). The estimated PVAR model of order 1 as selected by MAIC criterion fulfils the stability condition, as shown in Figure 5. Accordingly, we simulate the impulse-response functions and present them in Figure 6.

The interactions among the four conventional bank – related variables (risk, profitability, capitalization, and competition) mirror well the earlier results. Particularly, we may observe the significant increases in non-performing loans and profitability following a positive shock in the Lerner index or market power. We also find for a sample of conventional banks the risk-mitigating effect of bank profitability and profit-enhancing effect of bank capital. Thus, the more profitable banks tend to be more conservative and

hence take less risk and better capitalized banks are more profitable. Finally, the results also indicate non-responsiveness of market power/competition to bank risk, profitability and capitalization as documented previously.

Figure 6 Impulse-Response Functions of PVAR system (dibs lerner eqa roaa npl)

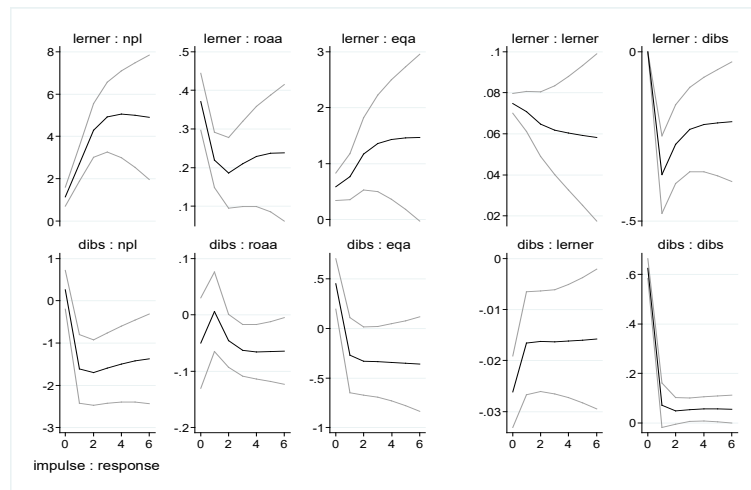


Notes: the shocks are identified using Choleski decomposition with the following ordering: dibs, lerner, eqa, roaa, and npl, where x is the added variable. The 90% confidence intervals are computed using Monte-Carlo with 1000 repetitions.

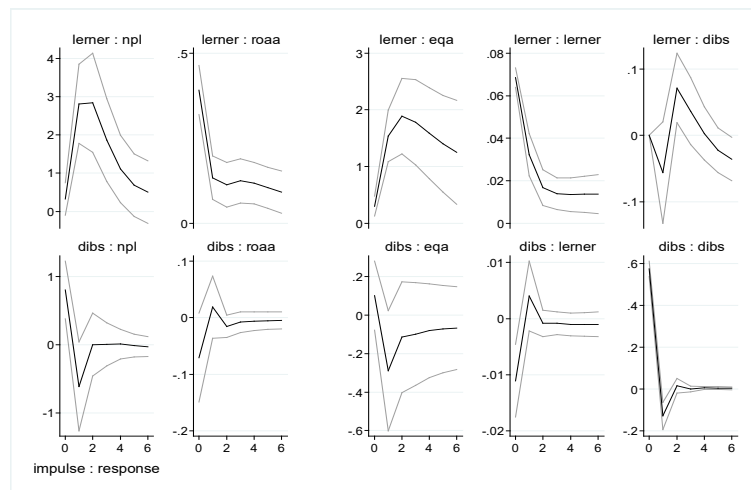
Collaborating evidence in Abedifar et al. (2016), Islamic bank penetration does affect conventional banks. As can be observed in the last row of Figure 6, increasing Islamic bank penetration subdues the market power of conventional banks and, at the same time, improves their credit risk. Following a one standard deviation shock in Islamic bank penetration, the non-performing loans as a ratio of gross loans increase initially but then decline at later horizons. Perhaps, facing competitive pressure from the Islamic banking sector, conventional banks become more prudent in their risk undertakings. The penetration of Islamic banking, however, seems to have an immediate positive impact on bank capital but exert a lagged negative effect on profitability of conventional banks. Abedifar et al. (2016) find that the presence of large Islamic banks make conventional banks to be more efficient. Our finding based on the Malaysian banking industry indicates that conventional banks are able to manage risk and hold more capital, although at the expense of lower profitability, when facing stronger presence of Islamic banking.

Figure 7. Responses of Conventional Bank Performance Indicators to Competition and Islamic Banking Penetration – Robustness

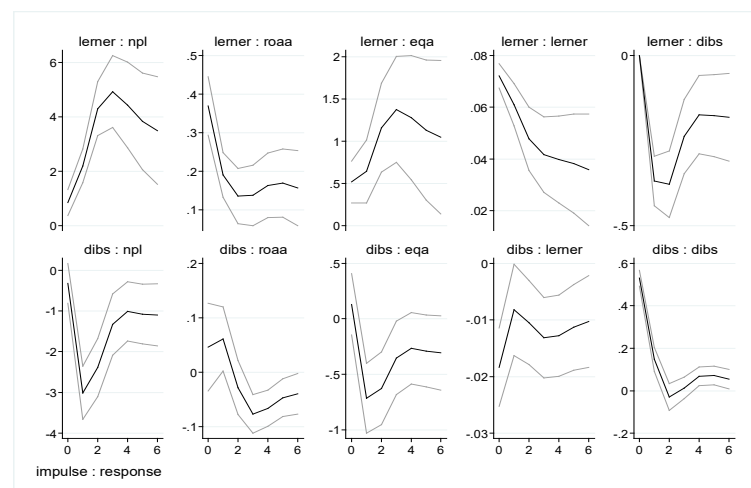
(a) Including AFC and GFC as exogenous factors



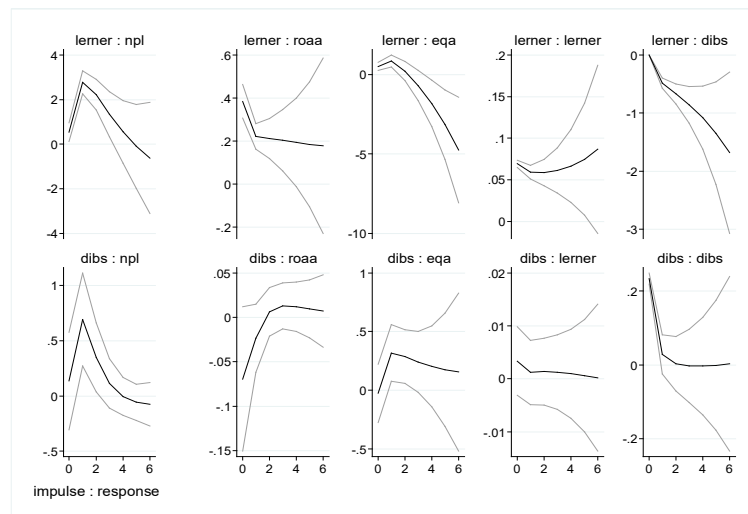
(b) Including Bank Size (Natural Log of Total Asset)



(c) Including GDP Growth



(d) Including Financial Development (Credit to GDP Ratio)



Notes: the shocks are identified using Choleski decomposition with the following ordering: x dibs lerner, eqa, roaa, and npl, where x is the added endogenous variable. The 90% confidence intervals are computed using Monte-Carlo with 1000 repetitions.

We also note the importance of conventional banking conditions in influencing Islamic banking penetration. This is not surprising given that 11 of Islamic banks currently in operations are subsidiaries of conventional banks. From the last column of Figure 6, a positive shock to conventional bank credit risk leads to larger penetration of Islamic banking while profitability and market power of conventional banks tend to suppress expansion of Islamic bank financing share. These are intuitive. The high credit risk of conventional banks may have slowed down their lending activities and paved way for higher market share of Islamic financing. Moreover, their Islamic bank subsidiaries may assume more intermediary role. However, in case that conventional banks are more profitable, then business activities would be better kept within the conventional wing. Finally, the market power of conventional banks can be a deterrent to greater penetration of Islamic banking.

We subject these results to robustness checks by expanding the PVAR model to include the crisis dummies and then alternatively bank size, GDP growth and financial development. The impulse-response functions presented in Figure 7 paint similar pictures on the implications of bank competition on conventional bank risk, profitability and capital holdings. Meanwhile, the above-noted findings on the effects Islamic banking penetration on conventional bank performance are further substantiated in most cases.

Conclusion

The restructuring exercise of Malaysia's banking industry in the aftermath of the Asian financial crisis has been characterized by consolidation of conventional banking sector and penetration of Islamic banking. This paper analyses whether the changing competition landscape has affected bank risk, profitability and capital and whether increasing Islamic bank penetration has affected conventional banks. The results based on

all banks and conventional banks indicate that market competition has a risk-mitigating effect, in line with the competition – stability view. In addition, market competition lowers bank profitability and bank capital. When we confine the sample to only Islamic banks, we find only limited link between competition and Islamic bank performance. Namely, for Islamic banks, competition only impacts bank profitability in line with the SCP paradigm. These results are robust to additions of crisis dummies, bank size, real GDP growth and financial market development into the analysis. Finally, we further find that the penetration of Islamic banking has subdued market power as well as lead to a better risk profile of conventional banks.

These results have important implications or lessons. In the process of banking consolidation, government authorities should encourage bank competition as a way to curb credit risk. Indeed, in a dual banking system, the Islamic banking sector can be a competitive force that would lower the credit risk of a more dominant conventional banks. Still, given lower profitability and capital under a more competitive environment, the authorities should remain cautious of banks' insolvency risk in the face of adverse exogenous shocks. Policy makers should look at both competition policies and capital regulation to promote resilience of the dual-banking system. At the same time, the further development of Islamic banking should be encouraged.

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Incorporating Private Savings Behavior in Product Offerings: A Case Study of Pakistan

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Abstract

In order to enhance understanding about the actual savings behaviour and impulses which drive savings behaviour, it is interesting to study the micro foundations of savings behaviour. Collecting micro data through filled questionnaire from households in urban areas, this study identifies the motives of savings and the instruments and channels where the savings are invested in Pakistan. The results reveal that investment motive, higher income and greater frequency of household members joining labor force for earning incomes enhance the monthly savings rate. The results can be used to offer Islamic investment deposits in an attractive way. If the investment deposits are pitched properly by highlighting the stable ex-post investment returns and low ex-post volatility, then people with an investment motive parking their savings in fixed income mutual funds would be attracted towards Islamic investment deposits. Likewise, incremental long-term savings plans wherein periodic investments increase over a period of time can be offered given that monthly savings rate are found to be positively associated with income. Finally, joint investment accounts can be offered given the finding that monthly savings rate is higher in households with greater number of earning members in family.

Keywords:

savings, Consumption, Savings Motives, Investment Motive.

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Introduction

Among the regional neighbours and comparable developing countries globally, Pakistan has one of the lowest rates of savings. It is well known from the growth literature that lower savings lead to lower level of investment and capital formation (Solow, 1956). As per the classical growth theories, lower levels of capital formation result in lower rates of economic growth. Therefore, in order to enhance rate of investment and capital formation, it is vital to boost savings (Ahmad & Asghar, 2004). Empirical evidence from the regional countries seems to justify this line of reasoning. The rate of economic growth is higher in Southeast Asia since they are able to have higher rates of investment financed by higher rates of private savings. The comparatively lower rate of economic growth in Pakistan seems to coincide with the relatively lower rate of private savings in the country as compared to the South East Asian region.

For effective policymaking, there is need for evidence based policies. This requires a careful understanding of private savings behaviour. A complication arises in analysis of savings in developing countries because of the lack of true representation of economic behaviour in the aggregate data. Macroeconomic data in Pakistan is collected in such a way that aggregate consumption series is measured as a residual. It also does not have any detail of the division of total consumption between durable and non-durable consumption. The frequency of reported statistics on aggregate consumption is also annual which does not allow meaningful and robust analysis. Thus, in order to enhance understanding about the actual savings behaviour and impulses which drive savings behaviour, it is interesting to study the microfoundations of savings behaviour.

Table 1 reveals that bank account penetration in Pakistan is even lower than the average for low income countries. On the other hand, due to relatively more developed financial markets as compared to low income countries, Pakistan's domestic credit by the finance sector as a percent of GDP is slightly better than the average for low income countries. Nonetheless, domestic credit by banks as a percent of GDP is also lower in Pakistan as compared to even the average for low income countries.

Table 1. Comparative Picture of Financial Inclusion in Pakistan

Country Group	Bank Accounts (% of Adult Population)	Domestic Credit by Finance Sector (% GDP)	Domestic Credit by Banks (% GDP)
Pakistan	21.29	58.28	18.89
Low income	34.85	25.91	20.40
Middle income	65.31	148.80	101.60
High income	93.71	188.44	79.20

Source: World Development Indicators, World Bank 2018

Since private savings constitute as much as 90% of total savings due to large fiscal deficits, it is pertinent to analyze the private savings behavior in Pakistan at the micro

level. There is a need to investigate the rates of savings across households to determine the impact of demographic characteristics. Furthermore, it is important to explore the motive and forms of savings and how they are utilized (Azhar, 1995).

Lower savings may be caused due to lower per capita incomes, high inflation, lower returns on savings, lack of profitable options for investing the saved funds and lower proportion of working age population joining the labour force, for instance. In this backdrop, this study attempts to understand the savings behavior at the micro level and to get an understanding of the preferences of the people regarding risk, maturity and motives for savings. The results can help in identifying the actual avenues people use to park their savings. Finally, the study will assist in identifying the motives behind savings and the asset class choices for different savings motives.

In theories of consumption, Absolute Income Hypothesis (AIH) is a pioneer work to explain consumption behavior. AIH suggests that the average propensity to consume (APC) falls as income rises (Keynes, 1936). The natural implication of this conjecture is that rich people would relatively save more of the increase in their incomes. Early cross sectional and long time series studies supported this conjecture (Williams & Zimmerman, 1935; Stigler, 1954). But, post-World War II period presented an empirical challenge to this theory. Despite the rise in incomes, the APC did not fall (Kuznets et al., 1946). To reconcile theory with empirical evidence, Lifecycle Consumption Hypothesis (Modigliani & Brumberg, 1954) and Permanent Income Hypothesis (Friedman, 1957) posit that people desire to have smooth consumption throughout their lifetimes. Both theories provide the theoretical foundation for this phenomenon in a rational choice framework in a dynamic setting.

In empirical studies for Pakistan using micro level data, some studies find an interesting case that rural areas may have high rates of savings as compared to urban areas (Abid & Afridi, 2010). Empirical evidence from rural areas indicate that despite having lower levels of incomes and budget, the propensity to save among rural households is higher than the overall national average (Azhar, 1995). Using Household Income and Expenditure Survey data, Burney & Khan (1992) also conclude that the propensity to save among rural households is higher than that of urban households.

The reasons could be the motive of precautionary and buffer stock savings in the face of higher liquidity constraints in rural areas as compared to urban areas (Azhar, 1995). People migrating from rural areas to urban areas or to abroad for work send remittances back home. These remittances might be regarded as transitory income by the remaining members of the household in the home country. Thus, if permanent income hypothesis is evoked to explain this finding, the remittances are regarded as transitory income by the recipients in the home country and hence mostly saved.

Another possible reason could be higher conspicuous consumption in urban areas. If relative income hypothesis by Duesenberry (1949) is used to describe the results, people tend to consume in a way others do in their network and social circle. Ali (1985) using Household Income and Expenditure Survey data estimates Extended Linear Expenditure

System (ELES). Spending on rent on housing, furniture, education, recreation, and travelling were found to be income-elastic. The consumption of such items is more prevalent in urban areas as compared to rural areas. Iqbal and Jamal (1992) do a further deeper analysis by comparing behaviour in rural and urban households. They find that as per the marginal budget shares, the prominent heads of spending are Food and Rent in rural areas while Food, Rent and Transport dominate in urban areas.

Two other possible reasons for higher propensity to save among rural households include lower food inflation in rural areas and greater volatility in incomes in rural areas. Lower food inflation allows rural households to have a lower spending on essential food intake, especially if they are producing food by themselves. Secondly, volatility in incomes in the face of lesser options to approach financial institution for liquidity constraints compel rural households to have increased precautionary savings as a buffer stock (Deaton, 1990).

Furthermore, Rehman et al. (2011) finds that urban households save less due to high cost of children's educational expenditures to be paid by household head and who is typically the prime saver in the family. This is also confirmed by Burney & Khan (1992) in their empirical study. Nonetheless, Burney & Khan (1992) using Household Income and Expenditure Survey find that with increase in age, savings tend to increase and towards the tail end of life, the change in the rate of savings becomes negative. Even the recent research literature in post-financial development era confirms this finding (Basit et al., 2010). Thus, this empirical evidence is in conformity with the basic proposition of lifecycle hypothesis.

On the other hand, the rate of private savings in Pakistan is lower as compared to other Asian countries. In the context of lifecycle hypothesis, the aggregate private savings will be higher if the ratio of working age population to total population ratio is higher as suggested by Husain (1996). The higher dependency ratio and lower ratio of working age population in overall population mix tends to depress savings (Ahmad & Asghar, 2004). Furthermore, the composition of household also plays a role in determining savings. It is found that large families tend to save less (Abid & Afridi, 2010). Larger families may have greater number of dependents. Thus, spending on a larger family leaves a household with lesser amount of savings. Other studies also confirm the significance of age dependency ratio in reducing savings (Farhan, 2011).

Another interesting finding by Ahmad & Asghar (2004) using micro data reveals that households who own house tend to save less. This evidence is also confirmed by Aziz & Ashfaq (2009) who find that real estate ownership decreases savings. This might be because of two reasons. If house is financed through a financial institution, mortgage installments take away part of income which reduces savings. Furthermore, households who own house have enough safety to liquidate their fixed asset and overcome any spending shortfall or gain spendable resources through liquidation of asset at a higher premium price. Thus, their need for precautionary saving and buffer stock saving would be insignificant.

Other empirical studies conclude that participation of spouse, dependency ratio, household income and size of real estate boost household savings (Rehman et al, 2010). Conversely, marital status, size of family, debts, educational expenditure and value of a house significantly reduce savings level of households. It might be because married household head in a big-size family where there are children undergoing education tend to have lower room for savings. Also, debts and their repayment might leave little surplus for savings. Finally, increase in the value of a house tends to function as increase in lifetime resources for funding higher future consumption and it tends to reduce the need for liquid savings if the future consumption is not to be increased in the short run.

Methods

This study collects primary data from 300 people through a structured questionnaire from urban households. Both descriptive and inferential tools are employed. Contingency tables are used to highlight possible relationships between different factors in the study.

For regression analysis, multiple regression analysis is used. For estimating the coefficients, Newey and West (1987) robust standard errors are used. Finally, Ramsey (1969) RESET test and Tukey link test is used to check model specification.

Results and Discussion

This section presents descriptive and inferential analysis. Table 2 gives profile of respondents by occupation.

Table 2. Occupational Profile of Survey Participants

Form of Occupation	Number of Participants	Proportion in Survey
Academic – Salaried	58	19.60%
Non Academic – Salaried	174	58.80%
Freelancer / Self Employed	43	14.5%
Businessperson	21	7.1%

Table 3 gives descriptive statistics for demographic variables. An interesting finding is that the ratio of earning members in family to total members in family is estimated to be 37%. The survey respondents largely include people belonging to upper middle class or upper class. It shows that low labor force participation is not necessarily a rural phenomenon. Since the average monthly income of survey respondents exceeds Rs 100,000, this lower ratio of earning members in family can also not be attributed to lower income. This evidence is consistent with the evidence accumulated by Banerjee & Duflo (2011). Norms, culture and habits play an important role too in seemingly pure economic decisions.

Table 3. Demographic Characteristics of Survey Participants

Demographic Characteristics	Average	Standard Deviation	Lowest Value	Highest Value
Age	31.63	9.7	18	85
Household Size	5.53	2.35	1	18
Earning Members in Family	2.06	1.02	1	7
Dependent Members	3.46	2.02	0	13

In the dependency statistics, it is found that most households have non-earning family members. As many as 67% of the households state that two or more members in the family do not earn any income. Only in 5% of the households, it is found that there was no non-earning member in the family. Furthermore, less than 5% of the household surveyed had no non-earning family members. This demographic trend is consistent with high prevalence of joint family system in Pakistan.

Using the cross sectional data, the simple linear regression of monthly savings on monthly income yields estimated value of marginal propensity to save of 0.34. Since the average income of the households that were surveyed in this study was higher than Rs 100,000, the higher estimated value of marginal propensity to save is understandable. Theory and empirical evidence also supports the view that households with higher disposable income and wealth tend to save more than the poorer households (Jappelli & Pistaferri, 2014; Keynes, 1936; Lusardi, 1996; Marugasu et al., 2013; Souleles, 1995).

Next, the motives for savings are discussed. Table 4 reports the distribution of responses. It is revealed that almost two-thirds of the survey respondents save due to the precautionary motive. This indicates the existence of liquidity constraints which hinder intertemporal consumption smoothing. Investment motive is less potent reason to save. This might be because of high inflation, lower rates on saving instruments and higher volatility in rates of return.

Table 4. Motives of Savings among Survey Participants

Motive of Savings	Number of Survey Participants
Precautionary Savings	150
Investment Motive	89
Family Requirements	163
Business Requirements	27

It is also interesting to explore the forms in which savings are utilized. The survey participants were asked to rank their preference to invest their savings in 8 different instruments or asset classes. The scoring is done based on the rank assigned by each respondent. If an instrument is given a rank 1 by a respondent, a score of 8 is awarded

to that instrument and if an instrument is given a rank 8, a score of 1 is awarded to that instrument and so on. The instruments in the order of the highest to the lowest ranked are: Equity funds, money market funds, real estate, national savings scheme, gold, bonds, stocks and bank deposits.

Table 5. Preference for Savings with Investment Motive with Mean Score

Rank/Asset Class	1	2	3	4	5	6	7	8	Score
Stocks	37	35	49	49	33	21	17	21	959
Bonds	3	28	33	49	52	41	36	20	1,029
National Saving Scheme	28	22	44	37	42	36	30	23	1,237
Money Market Funds	7	8	19	33	56	65	58	16	1,345
Equity Funds	9	13	11	21	44	49	57	58	1,406
Real Estate	75	53	38	20	13	28	16	19	1,305
Gold	75	67	29	26	9	7	37	12	1,219
Deposits	28	36	39	27	13	15	11	93	932

The lower preference for stocks and bank deposits could be due to high volatility in returns in the case of stock investments and lower returns in the case of bank deposits. The higher preference towards mutual funds could be due to tax advantage as well as delegated investment management provided by fund managers to invest funds meticulously and carefully in a volatile market. In fixed income instruments, national saving schemes are preferred over bonds and both are together preferred over bank deposits. This is consistent with the fact that returns on national saving scheme instruments had been higher and they also carry a tax advantage with withholding tax exemption. Bonds are less liquid in the capital market of Pakistan as well as riskier as compared to national saving scheme instruments which are issued by the government. At least on domestic liabilities, government has zero default risk as it has authority to issue new local currency to fund its deficit requirements, albeit with high risk of rise in inflation. Lastly, bank deposits offer stable, but lower returns which are largely not able to overcome the rate of inflation in the economy of Pakistan. Hence, they are preferred less as a mode of investing the saved funds.

To estimate determinants of monthly savings rate, the following econometric model given in equation (1) is estimated empirically.

$$srate = \beta_0 + im + \beta_2 pm + \beta_3 emf + \beta_4 lnincome + \mu$$

Where:

srate = Monthly savings rate.

im = Investment motive, a dummy variable.

pm = Precautionary motive, a dummy variable.

emf = Total earning members in family.
 $lnincome$ = Log of monthly income.
 $\beta_0, \beta_1, \beta_2, \beta_3$ and β_4 are the parameters of the model.
 μ = Random error term.

Table 6 reports the results using robust standard errors. The coefficients are in line with theory. It is found that if the investment motive is present, it increases the monthly savings rate. Precautionary motive may tend to increase the level of savings for meeting autonomous consumption in future. Since autonomous consumption is constant over time, increase in savings for that motive does not affect the overall savings rate. Thus, expectedly, the slope coefficient for precautionary motive is statistically insignificant. On the other hand, it is discovered that increase in earning members in the family raises the savings rate. This is very much valid for many emerging countries. Increased labor force participation and higher ratio of working age population to total population ratio tends to be associated with higher savings rate.

Table 6. Results of Multiple Regression Analysis

Variables	Dependent Variable: Monthly Savings Rate
Investment Motive	0.116*** (5.098)
Precautionary Motive	0.0131 (0.742)
Earning Members in Family	0.0260** (2.468)
Log of Income	0.0535*** (5.453)
Constant	-0.512*** (-4.770)
R-squared	0.207

Finally, the increase in income tends to increase the savings rate. Liquidity constraints are very much significant and binding in a developing economy like Pakistan where the multidimensional poverty level is as much as 38% in 2016 (Source: United Nations Development Program, 2016) and where less than 20% and 5% people have access to bank accounts and formal credit services from banks respectively. Thus, relaxation in budget constraints through increase in income leads to boost the monthly savings rate. Looking at it from another perspective, higher income leads to decline in relative risk aversion.

Thus, it leads to increase in monthly savings rate. Furthermore, the model diagnostics reveal that the model is overall significant. Ramsey RESET test for model specification and the Tukey link test show that the model is correctly specified.

The results indicate that savings rate is positively associated with investment motive. Therefore, if the deposit products are marketed as forms of investments with clear communication about historical profit rates, then the customers would be willing to switch their current accounts from conventional and Islamic banks to savings accounts. Islamic banks also need to communicate ex-post low volatility in their return on investment deposit schemes. Some people have this apprehension that since Islamic deposits do not guarantee the returns, they might be having high volatility in returns. Nonetheless, with lower non-performing loans to financing ratio in Islamic banking, Islamic banks are able to achieve low ex-post volatility in returns. Thus, in situations where the capital markets face severe bearish pressure as is now the case after the outbreak of COVID-19, Islamic investment deposits offer opportunity to have stable returns with low ex-post volatility. Thus, emphasizing on stable ex-post returns and low ex-post volatility, Islamic banks can mobilize deposits in profit sharing investment accounts (PSIA) from current account holders in conventional and Islamic banks and fixed income mutual fund investors who invest in cash fund, income fund and money market fund.

Secondly, the results indicate that as income increases, savings rate also increases. Since increase in income is found to be associated with higher monthly savings rate, Islamic banks can also offer flexible and dynamic investment products which enable the investors to increase their savings as their income increases. This could be achieved by advising the investor to deposit increasingly higher investment amounts in later years of life in long term savings plans. Incentives can be offered such as giving higher weightage to larger investment deposits as is also done by some Islamic banks today for their large depositors.

Thirdly, the results indicate that as earning members in family increase, it enhances the monthly savings rate. Such results point towards an opportunity to offer joint investment accounts for family members. The investors will benefit by being able to get preferential weightage on higher investment deposits when the savings are clubbed in single account. Furthermore, an incentive can be given that the cumulative investments by family members in single account will help them avail greater amount of financing. For instance, if 50% income of spouse is allowed to be clubbed in normal circumstances to avail financing, the percentage will be relaxed to 75% if they keep a joint investment account with the Islamic banks. It will also help in avoiding smaller and dormant accounts which are costly to administer.

Conclusion

This study attempted to analyze the micro foundations of savings behavior in urban households in Pakistan. Inferential results highlight that investment motive, a greater number of earning members in family and higher income leads to increase in

monthly savings rate. It is found that as compared to precautionary motive, savings rate is positively influenced by the presence of investment motive. The results showing statistically significant relationship between income and savings rate highlight the significance of liquidity constraints in developing economies like Pakistan with lower rates of financial inclusion and higher incidence of poverty. In order to boost the savings rate, the government needs to provide incentive for savings for the investment motive by decreasing the withholding tax rate on financial investments by individuals. Furthermore, it is also vital to provide easy access to formal financial services for the masses. Thus, commercial banks shall be incentivized and urged to provide basic banking accounts, small savings accounts and financing products for consumer durables to ease the liquidity constraints. The results also highlight opportunities for Islamic banks to pitch their investment deposits in an attractive way by emphasizing stable ex-post returns and low ex-post volatility and by offering incremental long-term savings plans and joint investment accounts.

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Opportunities and Challenges of Retail Sovereign Sukuk Issuance: Lessons from Twelve Years' Experience

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Abstract

Retail sukuk is a sharia product offered to Indonesian citizens as a safe and profitable investment instrument. This study identified the strengths, weaknesses, opportunities, and threats that the government may face in offering retail sovereign sukuk. It aimed to provide the government the appropriate strategies based on the historical data of listed retail sukuk and its peripherals during 2009-2020. This paper used a qualitative research approach. The data collection techniques used were literature review and in-depth interview. Internal and external factors were identified. SWOT matrix was made prior to analysis. The results show that the coupon rate offered by retail sovereign sukuk is mostly higher than BI rate. Market expansion is needed. The government shall optimize all distribution partners. Newly innovated products should be developed. Certain criteria should be formulated to determine coupon rate. This research suggests that an independent Special Purpose Vehicle should be reconstructed as a separate entity.

Keywords:

beneficial ownership, ijarah, return, sukuk, underlying asset.

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Introduction

Indonesian government has issued two retail sukuk, namely the SR012 and SR013 series amid Covid-19 pandemic. Referring to www.kemenkeu.go.id, retail sukuk is a sharia investment product offered to Indonesian citizens as a safe, easy, affordable, and profitable investment instrument. Both SR012 and SR013 have a tenor of three years but there are differences in the level of fixed returns. The return of SR012 is fixed at 6.3% per annum, while SR013 offers a fixed rate of return at 6.05% per annum. The purpose of issuing retail sukuk online is to facilitate public access to invest in retail State Sharia Securities (SBSN), provide investment alternatives for the community, support the realization of financial inclusion, and fulfill part of the financing of the State Budget (APBN) 2020. There is an interesting phenomenon we can notice with the launch of this sharia investment product related to the Covid-19 pandemic.

The issuance of retail sukuk basically uses the *ijarah* contract. In short, *ijarah* contract is the transfer of beneficial ownership of underlying asset within a certain time from the government with rental payments to the sukuk holder without being followed by a transfer of legal ownership. It is also known as an assets-to-be-leased scheme. From this *ijarah* transaction, investors have the right to receive rent or yields (*ujrah*). Since its first publication in 2009, the issuance of retail SBSN has reached a nominal value of IDR 220.32 trillion with a total of 390,615 investors. The total accumulated issuance of SBSN since 2008 to date has reached more than IDR 1,500 trillion and the composition of the sovereign sukuk when compared to the total Government Securities (SBN) are almost close to 20%. Based on these data, there are opportunities to increase market share for retail sovereign sukuk in the future.

Sukuk is an important instrument for raising funds for both the public and private sectors. It is also an important and competitive investment tool which is offered to the general public (Tariq & Dar, 2007). The sukuk market has grown dramatically and will continue to generate strong interest from new publications in Muslim and non-Muslim countries (Jobst et al., 2008). There is an opportunity that sukuk is used as a financial instrument for renewable energy infrastructure in Indonesia, particularly the geothermal project in Muara Laboh (Handayani & Surachman, 2017). In fact, sukuk has been utilized to support infrastructure and facilities such as Islamic campus buildings, national parks, roads, bridges, and other various projects. Mitsaliyandito et al. (2017) examined the impact of sukuk market development and its relevance to Indonesia's economic growth. The result confirms that the sovereign sukuk has contributed significantly to Indonesia's economic growth. In aggregate, developments in both the bond and sukuk market in Indonesia have shown a positive trend.

Retail sovereign sukuk prices in the primary market are considered more reliable than conventional products because their value is more stable (Razak et al., 2019). This condition makes sovereign sukuk more preferred compared to corporate sukuk. Both retail sovereign sukuk and corporate sukuk can be sold in the secondary market. In term of price volatility in the secondary market, it was found that there is no

significant difference between sovereign sukuk compared with corporate sukuk. Both have very weak volatility (Boumediene, 2015). This mechanism enables retail sukuk to be chosen as alternative investment, particularly for Muslim investors. Nienhaus & Karatas (2016) argues that Muslim investors remain the ultimate arbiter of the market-clearing price through their decision to buy or sell sukuk. Compared to conventional bonds, sukuk are less risky and more stable and it positively affects investors' decision to buy (Nasir & Farooq, 2017).

The increase in sukuk investment is not only from the aspect of religiosity but also from people's knowledge of the characteristics of sukuk (Duqi & Al-Tamimi, 2019; Warsame & Ireri, 2016). Yaya & Sofiyana (2018) argues that the nature of investors can be divided into two, namely loyalists (holding sharia principles to always avoid usury) and non-loyalists (profit-oriented). Competitive rate and risk-free funding are some of the specific features of sukuk, while economic growth and large population are some of the key success factors (Sukmana, 2019). A Special Purpose Vehicle (SPV) is a legal entity with the purpose of administrating the payments made to sukuk holders and holding the title to the assets on which the sukuk is based (Dommissie & Kazi, 2005). An SPV is regarded as a non-profit making trust. Wilson (2008) argues that an SPV is a prerequisite for the successful issuance of sukuk. *Ijarah* sukuk are typically issued for a period of more than three years, hence the investors will receive a direct guarantee from the issuer of SPV obligations. This provides guarantee that an SPV shall fulfill its commitments by ultimately depending on the rental payments made by the issuer. With an *ijarah* sukuk, the prime function of an SPV throughout its life is the management of the sukuk, in particular the receipt of rent from the client for the leased asset and the payment to sukuk investors (Aseambankers, 2005).

Previous research in identifying factors influencing the level of sukuk demand results in various findings (Rahman et al., 2016; Smaoui & Khawaja, 2017; Sukanto, 2019; Wafa, 2010). Studies on factors affecting the demand for retail sovereign sukuk are very important because of several reasons (Muhammad et al., 2019). First, Indonesia is a prospective sukuk market. Indonesia's population, with the majority of Muslims, is a potential market for investment products that comply with sharia principle. Muslim-majority countries will inspire the development of the sukuk market (Smaoui & Khawaja, 2017). Second, the issuance of State Sharia Bonds (SBSN) is the government's effort to develop the Islamic financial market. SBSN is an investment instrument that complies with sharia principles. Third, identifying the level of sukuk demand can provide an idea of the extent to which this product has attracted the attention of potential investors. Not all Muslim investors only consider the sharia side as there are still many of them who also see the benefits or profits that can be obtained from buying this investment (Warsame & Ireri, 2016; Yaya & Sofiyana, 2018). A high level of demand indicates that product specifications have met the desires of potential investors. Next, retail sukuk is intended for individual investors. Individual investors have special characteristics that are different from institutional investors, including being influenced by psychological factors, lifestyles, flexibility in placement of funds, and consideration of tax provisions

(Wiyanti, 2013). In addition, understanding the factors that drive public demand for sovereign sukuk enables the government to formulate the appropriate strategy in offering this investment product.

However, there are several questions related to the existence of retail sukuk that need special attention. One of them is the issue of beneficial ownership transfer of the underlying assets from the government to investors. Although sukuk holders are not registered as the legal owners in the Land Offices, the documentations and contracts have clearly specified the owners and their liabilities (Ghani, 2018). Furthermore, a question related to certain criteria for determining the amount of yield on rent (*ujroh*) in a percentage should be answered. Therefore, the established criteria that comply with sharia are highly required.

There have not been many studies observing the opportunities as well as the challenges of retail sovereign sukuk, particularly by utilizing such a historical data of listed retail sovereign sukuk and its peripheral during 2009-2020. SWOT analysis is considered as one of the methods that has been widely used to determine an appropriate strategy. Identification of internal and external factors of retail sovereign sukuk will enable the government to select several preferable strategies in dealing with the opportunities and challenges. This study is expected to provide comprehensive alternative strategies that could be considered by the government, specifically the Ministry of Finance, in offering retail sovereign sukuk. This study is also useful to fill the research gap in terms of identifying internal and external factors regarding the issuance of retail sovereign sukuk by formulating strategies using SWOT analysis.

Method

This research used a qualitative research approach, which is the post-positivism approach that is not merely to test a hypothesis but also as a guideline (Miller, 2007). The data collection techniques used was literature review and in-depth interview. Internal and external factors were identified. SWOT matrix was made prior to analysis. SWOT analysis is a systematic identification of various factors to formulate an organization's strategy (Rangkuti, 2001). It is a technique used to determine and define the Strengths, Weaknesses, Opportunities, and Threats (SWOT). In short, it is used to assess an organization's current position before deciding on any new strategy. SWOT analysis is a simple but powerful tool for sizing up an organization's resource capabilities and shortages, its market opportunities, and the external threats to its future (Thompson et al., 2007). It is therefore a significant instrument for circumstances analysis that supports the executives to recognize organizational and environmental factors (Gurel & Tat, 2017).

Relevant official government information from many documents is comprehensively described in the following section. These descriptions are important to identify the performance of retail sovereign sukuk before it is critically analyzed. This particular subsection analyzes the internal factors (strengths and weaknesses) and external factors

(opportunities and threats). Information from official documents of the Ministry of Finance and Central Bureau of Statistics of Indonesia were also processed to come up with a comprehensive argument.

In-depth unstructured interviews were carried out to Ministry of Finance staff by asking types of open questions. The researcher made notes in the form of a transcript and categorized the data. All activities are documented before triangulation of interviews, literature study, and documentation results. The data and information obtained were then processed for a SWOT analysis.

Results and Discussion

In Indonesia, the investment product namely sukuk has been widely offered after the enactment of the Sukuk Act No. 19 of 2008. With respect to the sharia compliance issue, all sovereign sukuk issuance has been allowed by the National Sharia Board Islamic Council (DSN-MUI) which is the body that issues fatwa. So far, six opinions related to the sovereign sukuk have been released, namely Sovereign Sukuk, Issuance Method in Sovereign Sukuk, Sukuk *Ijarah* Sale and Lease Back, Sukuk *Ijarah* Asset to be Leased, *Ijarah* Contract, and *Wakalah* Sukuk.

Table 1. Retail Sovereign Sukuk

Name	Year	Type	Sales (Trillion)	Tenor	Rate (%)
SR-001	2009	<i>ijarah</i> sale and lease back	IDR 5.56	3 years	12
SR-002	2010	<i>ijarah</i> sale and lease back	IDR 8.03	3 years	8.7
SR-003	2011	<i>ijarah</i> sale and lease back	IDR 7.34	3 years	8.15
SR-004	2012	<i>ijarah</i> asset to be leased	IDR 13.6	3.5 years	6.25
SR-005	2013	<i>ijarah</i> asset to be leased	IDR 14.96	3 years	6
SR-006	2014	<i>ijarah</i> asset to be leased	IDR 19.32	3 years	8.75
SR-007	2015	<i>ijarah</i> asset to be leased	IDR 21.96	3 years	8.25
SR-008	2016	<i>ijarah</i> asset to be leased	IDR 31.5	3 years	8.3
SR-009	2017	<i>ijarah</i> asset to be leased	IDR 14.3	3 years	6.9
SR-010	2018	<i>ijarah</i> asset to be leased	IDR 8.4	3 years	5.9
SR-011	2019	<i>ijarah</i> asset to be leased	IDR 21.12	3 years	8.05
SR-012	2020	<i>ijarah</i> asset to be leased	IDR 12.14	3 years	6.3
SR-013	2020	<i>ijarah</i> asset to be leased	IDR 25.67	3 years	6.05

Source: Ministry of Finance, 2020

Since 2009, the nominal amount received by the government has increased from SR-001 through SR-013, except for the series of SR-009, SR-010, and SR-012. Yet, the

size decreased to IDR 14.3 trillion, IDR 8.4 trillion, and IDR 12.14 trillion in SR-009, SR-010, and SR-012, respectively. Tenors for all retail sovereign sukuk are mostly three years, except for SR-004 which has a 3.5-year tenor as seen on Table 1.

Table 2. Features of Retail Sovereign Sukuk

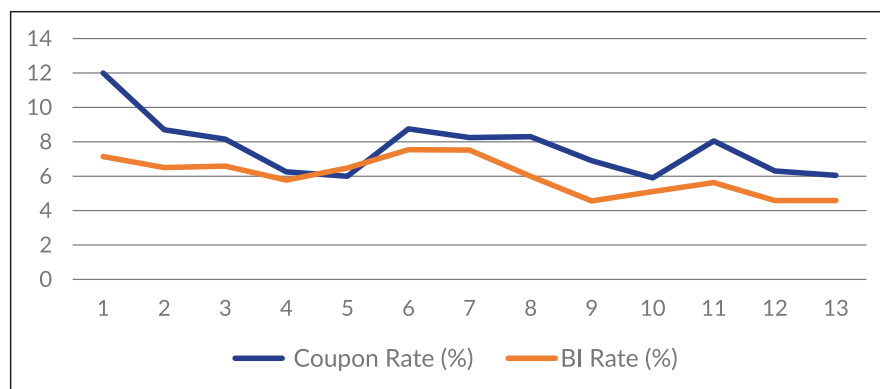
Structure	<i>Ijarah</i> Sale and Lease Back (SR-001 - SR-003) <i>Ijarah</i> Asset to be Leased (SR-004 - SR-013)
Underlying Asset	Project in State Budget (SR-004 - SR-013) and State-owned Assets (SR-001 - SR-003)
Tenor	3 years (except for SR-04, 3.5 Years)
Nominal per unit	IDR 1,000,000
Price per unit	100% (at par)
Coupon rate	Fixed rate, monthly paid
Tradability in secondary market	Tradable

Source: Ministry of Finance (2020)

Table 2 shows the general features of retail sovereign sukuk. Basically, there are two types, namely *Ijarah* Sale and Lease Back, and *Ijarah* Asset to be Leased. The key difference lies in the underlying asset. *Ijarah* Sale and Lease Back uses physical government assets such as government buildings/land that are already operating; *Ijarah* Asset to be Leased is a combination of the former and the construction project that has been started by the government. From SR-001 to SR-003, a fully state-owned asset is used for the underlying asset but, from SR-004 to SR-013, the state-owned asset is combined with a real project.

In Figure 1, it can be recognized that the coupon rate offered by retail sovereign sukuk is mostly higher than Bank Indonesia (BI) rate. However, BI rate is higher than the coupon rate offered by government when issuing retail sovereign sukuk (SR-005) in 2013. BI rate employed in this research is the average of monthly BI rate in the same year with the offered retail sovereign sukuk (2009 to 2020).

Figure 1. Comparison of SR Coupon Rate and BI Rate



Source: Central Bureau of Statistics, 2020

Before determining strategy, two factors, namely internal and external factors, were separated. Internal factors were divided into several parameters, namely physical, human, and organizational resources. As for external factors, it is divided into several conditions such as economic, social, cultural, fiqh, and technological opinions.

a. Internal Factors

The government has recently carried out the socialization of retail sovereign sukuk quite soundly, thereby increasing public knowledge of this investment instrument. For potential investors, there are many various payment methods ranging from ATM, Internet Banking, Mobile Banking, E-commerce to Bank Teller. The use of online platform is said to be one of the factors driving the high number of retail sovereign sukuk SR013 series purchases. Anyone is able to purchase this investment product by using smartphones anytime. Buying and checking portfolio are now in hand. The government promotes it a lot through social media (online) and now is also inviting its distribution partners to market it online. Retail sovereign sukuk of SR013 has reached the highest sales as well as the most investors throughout the issuance of SBN Online since 2018.

The coupon rate offered by retail sovereign sukuk is mostly higher than BI rate, except for retail sovereign sukuk (SR-005) in 2013. From this fact, the offering is quite attractive and competitive. In addition, the tax on retail sukuk of 15% that is lower compared to deposits of 20% is also considered to increase investor interest. Al Aziz et al. (2019) argue that coupon has a significant positive effect on the sovereign sukuk price in the secondary market. Another factor that attracts public interest in retail sovereign sukuk is related to its security. Law guarantees the issuance of Islamic bonds in Indonesia, so the risk of default is minimal. This sharia investment product requires the underlying asset before its issuance. This makes retail investors shift their assets to sukuk from other highly volatile assets such as shares in the stock market. Moreover, it can be purchased starting from IDR 1 million. It is quite cheap compared to other investment products. This product can also be traded on the secondary market. Retail sovereign sukuk is perceived as a safe, affordable, and liquid investment product.

However, the Sharia Financing Directorate under the Ministry of Finance currently only has 60 employees to manage all sharia-financing instruments. The complexity in issuing sukuk is very different compared to the similar instruments, Government Bonds. With the increasing tasks and its responsibility, its number of employees is considered very limited. In 2020, the total amount of retail sovereign sukuk reached around IDR 320 trillion. This limited number of employees would raise various issues, including the effectiveness of information dissemination related to the issuance of retail sovereign sukuk. The monitoring and evaluation of all sharia instruments need special knowledge and skills supported by sophisticated information system. In addition, the culture in such a workplace and modern organization tends to specialize in tasks, particularly employees in charge of formulating and determining the coupon rate when offering retail sovereign sukuk. The circumstances should be well managed.

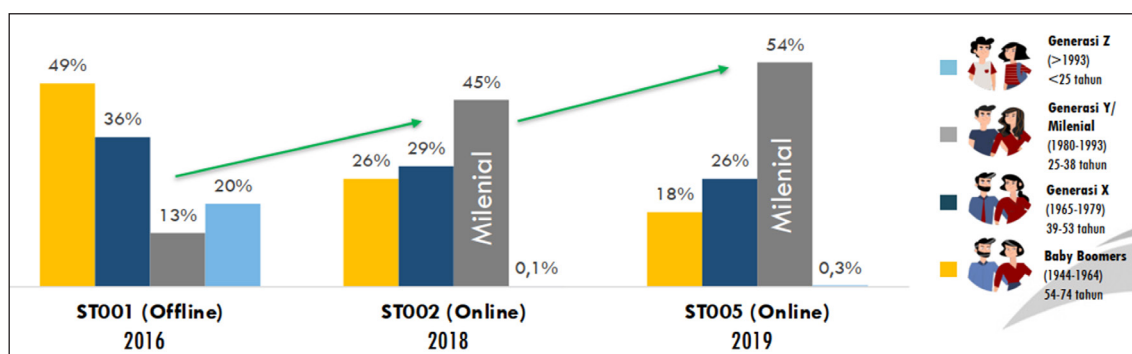
There are some references embraced by the government in formulating the rate of return to sukuk holders. The first reference is Bank Indonesia (BI) rate. The second one is the rate of return offered by Islamic Bank when investor deposits in the form of *mudharabah* deposits. Lastly, the government also refers to the coupon rate offered by a firm that issues corporate sukuk with the same tenor (three years). Rate of return practically follows interest rates and financial market condition. In practice, these references can be very dynamic, depending on the nature of the instrument and the segment of investors to which it is targeted. Other than that, the determination of the coupon rate follows the Director General's Decree regarding SBSN pricing.

b. External Factors

Indonesia's population, with the majority of Muslims, is a potential market for investment products that comply with sharia. In terms of number, millennial investors have been dominating for the last two years. As can be seen from Figure 2, there is a significant increase in the composition of millennial investors since the implementation of online saving sukuk. On the other hand, there is a decrease in the composition of generations X, Y, and Z investing their money in the form of sukuk products. This is a new opportunity that must be well grasped.

One of the innovations introduced by the government is cash waqf linked sukuk (CWLS). The government officially launched retail CWLS of SWR001 series to individuals and institutions last year. Through this retail, the government facilitates cash waqf, both temporary and permanent, so that investors can place their cash waqf in safe and productive investment instruments. Retail CWLS of SWR001 series has a 2-year tenor and offers a fixed rate of return of 5.5% per year. The return will be distributed to social programs or activities that have social and economic impacts on the community. The distribution of rewards will be carried out by a credible nazir who is appointed by the Sharia Financial Institution-Recipient of Cash Waqf (LKS-PWU) and approved by the Indonesian Waqf Board (BWI) as the regulator and supervisor of the nazir.

Figure 2. Composition of Investors in Online Saving Sukuk



Source: Ministry of Finance (2020)

The government recently also offers Saving Sukuk of ST007 series with the environmental theme so that it is called the green sukuk. Green sukuk are state sharia securities whose issuance proceeds are used to finance environmental projects (green projects). This green sukuk is in accordance with the government's commitment in dealing with various global environmental issues, considering that Indonesia is very vulnerable to the impact of natural damage. Sectors within the framework of green sukuk include renewable energy, energy efficiency, and disaster risk reduction due to climate change, sustainable transportation, waste management, sustainable natural resource management, green tourism, green buildings, and sustainable agriculture. In addition, the issuance of Blue Sukuk is one of the government's plan to carry out diversification of financing instruments and support national development programs (Hariyanto, 2020).

For the issuance of SR-013 series, the government has appointed 31 distribution partners who serve retail purchases of state sharia securities (SBSN). There are four categories, namely conventional banks, sharia banks, securities companies, and financial technology firms. These would help the government to serve retail SBSN purchase orders directly through electronic systems or online services. Although the use of conventional bank is critically questioned regarding sharia principle, these distribution partners represent all prospect marketing channels available in the market.

There are some challenges emerged in the development of state sharia securities (SBSN), particularly retail sovereign sukuk. Indonesian government officially announced the first case of Covid-19 pandemic in March 2020. Since then, the pandemic has tremendously changed almost all aspects of human life including the investor habits and behavior towards investment products. Surprisingly, in the midst of the Covid-19 pandemic outbreak, retail sovereign sukuk series of SR012 and SR013 offered by the government got positive interest from the public.

Several questions related to the existence of retail sukuk has appeared. One of them is the issue of transferring beneficial ownership of underlying asset from the government to investors. Some Muslim scholars question this mechanism, particularly in the sense of *fiqh*. Some believe ownership of goods in the hands of sukuk holders is not real, even considered as fictitious transaction. Underlying asset must be true ownership and is able to be fully controlled. Hence, it continues until the end of the sukuk contract. In contrast, beneficial ownership shall be basically perceived as true ownership because sharia has tolerated the transfer of ownership based on contract (Ghani, 2018). Even though investors are not registered as the legal owners, the agreements have clearly specified the owners and their obligations.

Furthermore, a question related to certain criteria for determining the amount of yield on rent (*ujroh*) in a percentage should be clearly responded to. The challenge of *ijarah* sukuk is that the return is usually benchmarked to the London Interbank Offered Rate (LIBOR) or the equivalent local rate (Wilson, 2008). Predetermined-fixed return before the issuance of sukuk raises a critical question. The government has previously

made a contract with a Special Purpose Vehicle (SPV) to pay a rent for particular assets. The amount of money paid to sukuk holders shall be fixed in a certain period due to market value but in fact, the amount paid would vary based on merely the total fund that has been raised from investors. In other words, the government would pay the rent fee in different amount from the market value that exists. This mechanism would be inconsistent with the real conditions. Any party will not be willing to receive rent below market price. Thus, appropriate established criteria are highly required. Lastly, the existence and independency of a Special Purpose Vehicle (SPV) shall be prudently evaluated. Its role is to issue sukuk, to administer and supervise underlying asset as well as to conduct the necessary activities related to the issuance of sukuk. As we know, the Ministry of Finance that acts as the lessee or government appoints the Board of Directors of the SPV. Therefore, its independence is questioned.

Based on the description above, this paper classifies the internal factors, namely strengths and weaknesses as follows.

Strengths:

- S.1 The issuance of retail sovereign sukuk utilizes online platform sale.
- S.2 The coupon rate offered is attractive and quite competitive.
- S.3 Retail sovereign sukuk is perceived as a safe and liquid investment product.
- S.4 The price is affordable (starting from IDR 1 million).

Weaknesses:

- W.1 The number of Sharia Financing Directorate's employees at MOF is very limited.
- W.2 Criteria for determining the rate of return has not been properly formulated.

Opportunities:

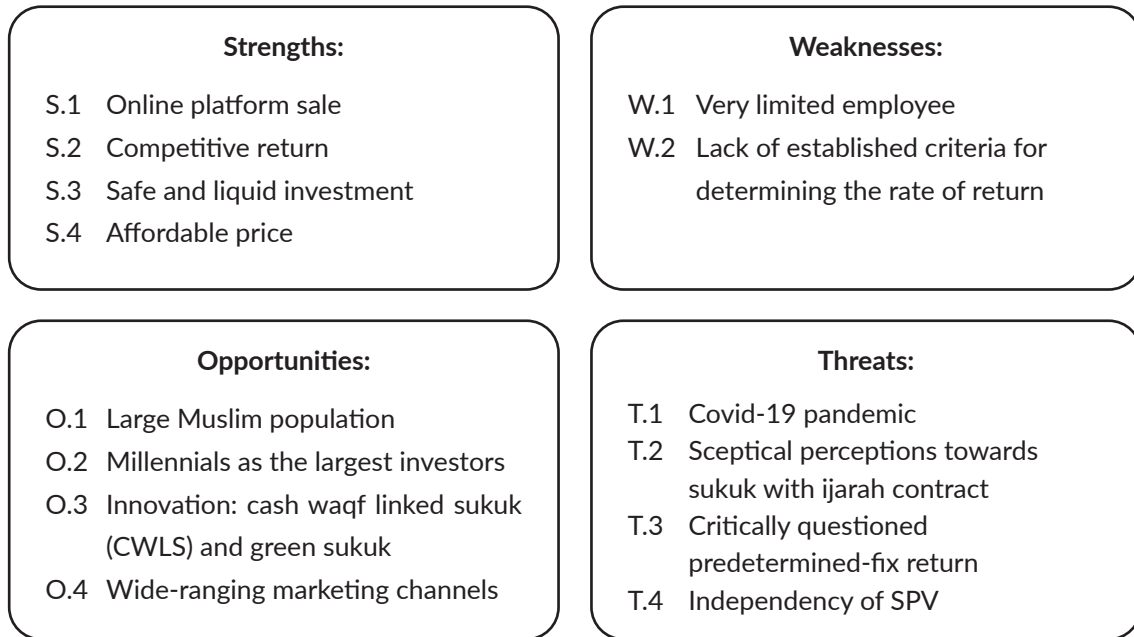
- O.1 The majority of Indonesian population is Muslims.
- O.2 Millennials dominate the largest number of investors.
- O.3 Cash waqf linked sukuk (CWLS) and green sukuk are being promoted.
- O.4 The issuance of sukuk products are supported by many distribution partners (banks, securities companies, fintech)

Threats:

- T.1 There is a pandemic condition due to Covid-19.
- T.2 There are skeptical perceptions by some scholars towards sukuk with *ijarah* contract.
- T.3 Predetermined-fix return before the issuance of sukuk is questioned
- T.4 The independence of an SPV is critically asked.

All these factors are gathered into a chart as in Figure 3.

Figure 3. Internal and External Factors



Source: Data Processed (2020)

The last stage is to find a strategy with the combination of the four elements. These four elements are interrelated so that all these factors in substance may complement each other or change positions (Muchtar, 2019).

Strength – Opportunity (SO) Strategy

The government shall use the strengths to take benefit of the opportunities identified. This is a very favorable situation. The strategy that necessity be applied in this condition is to support an growth oriented policy (Hariyanto, 2020). Based on previous identification, supporting aggressive strategies by using strength to take advantage of opportunities is preferable. Market expansion is needed since the majority of Indonesian population are Muslims. In addition, the price is considered affordable for millennials. For the last two years, millennial investors have been dominating in terms of number. These are the opportunities that the government should apprehend. To realize this strategy, all distribution partners ought to actively support. Mitsaliyandito et al. (2017) argues sukuk market in Indonesia have shown a positive trend.

For treating non-loyalist investors who always seek profit, the level of coupon rate should be maintained at a reasonable point. The government shall use some references as a benchmark before determining the return offered to investors. This is in line with the notion that many Muslim investors consider profits to be obtained from their investment (Warsame & Ileri, 2016; Yaya & Sofiyana, 2018). In addition, an effort to promote trust from Muslim society, not only in investing but also in seeking blessings for national development, is needed. Innovation such as cash waqf linked sukuk or green sukuk

should be continuously developed because individual investors have special characteristics influenced by psychological factors (Wiyanti, 2013).

Strength – Threat (ST) Strategy

Under this strategy, the government should use the strengths to overcome the threats identified. Pandemic conditions due to Covid-19 can be viewed from two perspectives. It can be seen as a challenge for economic reason but, on the other hand, this situation gives new prospects. In this case, retail sovereign sukuk offered by the government surprisingly got positive public interest. To respond the issue related to *fiqh* opinion from some scholars, the National Sharia Board Islamic Council (DSN-MUI) shall invite and discuss with scholars who have different views regarding sukuk with *ijarah* contracts. As we know, *fiqh mu'amalah* is very flexible and a fatwa may change if robust argument in *fiqh* interpretation emerges. *Fiqh mu'amalah* will answer problems for carrying out appropriate business activities with sharia principles used for diverse business transactions in the era of modern (Anjaswati et al., 2016).

Weakness – Opportunity (WO) Strategy

The government intends to overcome the identified weaknesses in order to take advantage of the opportunities. To anticipate the increasing task and its responsibility, the number of employees in Sharia Financing Directorate under the Ministry of Finance is considered to be very limited. Additional employees are considered needed to support the tasks given although the Ministry of Finance has already implemented e-Monev application to monitor and evaluate all key performance indicators regarding sharia investment instrument issued. These activities need special knowledge and skills supported by sophisticated information system.

The criticism of *ijarah* sukuk is that the return is frequently benchmarked to the LIBOR on USD funds or the equivalent local rate (Wilson, 2008). The existing mechanism in determining the return for sukuk holders needs to be critically reviewed. Certain criteria used to formulate the amount of money the government should pay for a rent is highly required to establish. These criteria shall comply with sharia principles.

Weakness – Threat (WT) Strategy

Under this strategy, the government shall minimize the weaknesses to overcome the identified threats. This is a very unfavorable situation since the government faces various the internal threats and weaknesses. The policy that might be applied in this condition is defensive strategy (Hariyanto, 2020). Predetermined-fixed return before the issuance of sukuk is being questioned. All retail sovereign sukuk issued (SR-001 to SR-013) offers fixed-rate return for sukuk holders all the time. This existing mechanism in determining the return for sukuk holders needs to be critically reviewed.

Under an *ijarah* contract, sukuk holders are the capital providers of the asset and are entitled to receive *ujroh* when that asset is leased. The SPV obtains the proceeds

from the investors and in return investor receives a share of its ownership. The SPV purchases the asset from a seller then lease it back. However, the ownership of the asset is not transferred and will always remain with the SPV. The independency issue of an SPV needs to be responded in order to mitigate conflicts of interest. An SPV should be a separate entity for it would act as a trustee in practice. This concept follows Wilson's (2008) notion that an SPV is a prerequisite for the successful issuance of sukuk. Its main function is basically to administer and supervise underlying asset as well as to conduct the necessary activities related to the issuance of sukuk. Based on the description, several strategies for the issuance of retail sovereign sukuk are formulated as in Table 3.

Table 3. SWOT Matrix

IFAS EFAS	Strengths	Weaknesses
Opportunities	1. Expand the market. 2. Optimize all distribution channel. 3. Create newly innovated product.	1. Add number of employees. 2. Implement e-Monev application effectively. 3. Determine criteria for return.
Threats	1. Have a discussion with scholars with different views. 2. Persuade the Muslim community, particularly millennials.	1. Review the existing mechanism in determining the amount of rent paid by the government. 2. Reconstruct an SPV as a separate entity.

Source: Data Processed (2020)

Conclusion

The coupon rate offered by retail sovereign sukuk is mostly higher than BI rate, except for SR-005 series in 2013. The government shall consider some alternative approaches in offering this financial instrument. Under the Strength-Opportunity (SO) strategy, the actions need to be taken are to extend the existing market, optimize all distribution partners, and create newly innovated products. Under the Strength-Threat (ST) strategy, it is hoped that the National Sharia Board Islamic Council (DSN-MUI) invites and discuss with scholars who have different views regarding sukuk with *ijarah* contracts. Under the Weakness-Opportunity (WO) strategy, two actions should be carried out, which are to add a number of employees and to determine certain criteria that comply with sharia principles in formulating the amount of money that the government should pay for a rent. Lastly, the only Weakness-Threat (WT) strategy is to reconstruct an SPV as a separate entity.

This study has a limitation in evaluating the performance of all retail sovereign sukuk in terms of efficiency. This research only used BI rate to compare its coupon rate with the coupon rate offered by government. Future research should use other indicators such as rate of return offered by Islamic banks in the form of *mudharabah* deposits and coupon rate offered by corporate sukuk with the same tenor. This study provides policy

implications for the government to reconstruct an independent SPV as a separate entity. In addition, the National Sharia Board Islamic Council (DSN-MUI) should arrange a mechanism by having a vigorous discussion with scholars who have different views regarding certain fatwas issued.

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Role of Cash Waqf Linked Sukuk in Economic Development and International Trade

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Abstract

The aim of this paper is to examine the role of Cash Waqf Linked Sukuk (CWLS) in economic development and trade in Indonesia. This research is motivated by the fact that there is still limited financing to economic development in Indonesia as well as trade financing. The research based on a qualitative methodology using the data from scientific journals and paper in the field of Cash Waqf, including CWLS. The results cash waqf in several countries has been used for beneficiaries. Especially for CWLS, it consists of 2 types, namely wakaf sukuk and retail waqf sukuk. For waqf sukuk, the proceeds of the waqf have been channelled to finance the construction of the retina center and glaucoma center at the hospital. Meanwhile, retail waqf sukuk are used by each nazir to finance the program. This research shows that CWLS is proven to play a role in economic development, particularly infrastructure. The infrastructure that has been built is in the health sector. CWLS can also be an alternative source of funds with low-cost of fund which in turn enables the Eximbank/ECA to extend trade financing to the cooperative with competitive price. However, there are some action need to be taken, i.e (i) conduct socialization regarding CWLS to improve public awareness and enlarge the wakif base and (ii) issue DSN regulations regarding CWLS.

Keywords:

Cash Waqf Linked Sukuk, Trade Financing.

How to Cite:

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Introduction

International trade is one key issue in economic development. Seidman (2005) states economic development as “a process of creating and utilizing physical, human, financial, and social assets to generate improved and broadly shared economic well-being and quality of life for a community or region”. Greenwood and Holt (2010) distinguish economic development from economic growth on the basis that economic development is a “broadly based and sustainable increase in the overall *standard of living* for individuals within a community”, and measures of growth such as per capita income do not necessarily correlate with improvements in quality of life. Economic development was concerned with the expansion of people's entitlements and their corresponding capabilities, morbidity, nourishment, literacy, education, and other socio-economic indicators (Todaro & Smith, 2011).

To support international trade (export/import), banks provide trade finance both cash loan and non-cash loan. The trade financing can be in the form of Letter of Credit (LC) or non-LC. In the case of LC, banks only rely on fulfilling documents in accordance with the agreement. The bank acts as an LC issuing bank for overseas buyers and on the other hand, the bank becomes an advising bank for domestic exporters. However, now the use of LC as a method of payment is decreasing on the contrary the use of non-LC such as money transfer is increasing. Financing for debtors in the context of international trade includes pre-shipment, production, and post-shipment facilities or starting from issuing LC for imports of raw materials, financing for working capital for production, up to LC for export, and/or negotiating export bills/discount bills. Exports meet their working capital needs. So that the underwriting process, which begins with a 5's C assessment of the debtor, is very important, including ensuring sustainable supply availability and importer credibility as well as the trade cycle pattern because this will affect the determination of the structure and financing agreement to be used.

In order to carry out financing activities, banks/Eximbank/ECA/financial institutions conduct fundraising both in the form of local currency and foreign currency through third party fundraising, loans and issuance of securities. Banks /Eximbank Bank/ECA/financial institutions seek to obtain funds from a variety of sources and obtain competitive interest rates to be channeled in the form of financing. This financing is needed by exporters and their suppliers i.e SMEs to increase their production capacity to meet market demand.

Based on International Trade Center (ITC) data, the Middle East and Turkey are among the non-traditional regions that have the largest total export potential for Indonesia. The total export potential value in this region (without the United Arab Emirates) reaches USD 6.9 billion, of which 58% or around USD 4 billion is still untapped. Saudi Arabia and Turkey are the two main countries with a total potential of USD 2.5 billion and USD 1.9 billion, respectively. In addition, the ratio of untapped potential in the two countries is still very high, around 60% for the market for Saudi Arabia and 53% for the market for Turkey.

The main export commodities that can be increased to the Middle East and Turkey are Vegetable Oil (Palm Oil) and Motor Vehicles. Although currently the Palm Oil commodity has become Indonesia's main export commodity to the Middle East and

Turkey, its potential value is still very large, reaching USD 1.4 billion with 54% of which has not been utilized. Indonesia's exports to the Middle East and Turkey are mostly in the form of the Palm Oil Fraction, so that apart from leveraging palm oil exports as a whole it also increases added value for Indonesian palm oil. Meanwhile, the potential for exports of motor vehicle products reached USD 797.8 million with a percentage of the untapped potential of around 29%. Other diversified products for Indonesia in the Middle East and Turkey range from household appliances, textiles, to fruits and seeds. These products include: Textile Fibers from Tree Bark, Fans, Data Storage Devices, Lentils, Papaya Fruits, Microwaves, Vacuum Cleaners, Flat Roll Products, and Red Beans.

The current account deficit experienced by Indonesia is getting bigger which is a challenge for the government. All efforts to reduce the deficit were made to improve the position of foreign exchange reserves and strengthen the Indonesian Rupiah (IDR), which continued to experience pressure due to the current account deficit. For this reason, exports to the main export destination countries need to be accompanied by diversification of the export destination markets, including to OIC - The Organization of Islamic Cooperation-member countries as a commitment to encourage inter-OIC trade. One of the factors that will support export performance is access to finance for exporters. In line with the significant development of Indonesia's Islamic financial system in the last two decades, the choice of Islamic funding sources could be an alternative option.

Zakat, Infaq, Sadaqat (ZIS), and Waqf can be used for productive activities (in development programs), consumptive (food assistance), social facilities (hospitals and schools), business, and investment (property and shares). ZIS and Waqf have great potential to become modalities for development funding to improve social welfare while simultaneously realizing at least 5 SDGs goals, namely No poverty, No hunger, Good health, Quality education, and Reduced inequality. Likewise, the export sector is a productive sector and has positive social and economic impacts. The influence of waqf on the socio-economic conditions of Muslims shows significant evidence of the contribution of waqf to religious, economic and social activities such as mosque management and school development, for public and individual purposes. Cash waqf is an alternative method towards community development (Sanusi & Shafiai, 2015). The mandate of managing waqf assets is generally held by Nadzir permanently until the assets survive or sustainably to generate economic benefits for the welfare of the community. In the traditional practice of waqf that originated in the Ottoman Empire, cash waqf was generally practiced as a form of investment in which the principal funds were continuously invested in potential investment opportunities. In its role as a waqf fund investment manager, mutual funds on behalf of the waqf institution can allocate a portion of the waqf funds to direct investment, channel funds, and finance Micro, Small and Medium Enterprises (MSME) businesses using a profit sharing system. The greater the investment return, the more funds that can be allocated for poverty alleviation programs (Masyita, 2001; Masyita, 2007).

The Islamic economic system aims to improve the welfare of society and realize maqasid as sharia, and uphold the value of justice, therefore an important basis for distributing zakat and waqf is the guidance of Allah in Surah of the Al Qur'an [59].

The foundation gave birth to a big concept of the role of zakat and waqf in economic development. Zakat and waqf are instruments of economic development. Empowerment and coordinative management between the government and the community make a positive contribution to the economic development of Muslims (Urif et al., 2019).

Waqf can be defined as holding *Maal* (assets) and preventing its consumption with the aim of repeatedly extracting the harvest for purposes that represent truth and /or philanthropy (Kahf, 1998). Waqf also known in English as 'Islamic belief' or 'pious foundation' is defined as an unrelated belief established under Islamic law by living men or women for the provision of designated social services in perpetuity (Kuran, 2001: 842). Waqf literally means holding, confining or prohibiting or prohibiting the movement, transportation or exchange of something (Raissouni, 2001). In line with the rise of sharia financing, of course, sharia-based sources of funds are also needed to support financing, including CWLS. Ismal et al. (2015) conducted a research in the case of Indonesia of which showed that Awqaf Linked Sukuk can support the economic development.

Sukuk (Arabic: صكوك, plural of صك Shak, "legal instrument, charity, check") is the Arabic term used for bonds based on sharia principles. In fatwa number 32/DSN-MUI/IX/2002, the National Sharia Council of the Indonesian Ulama Council defines sukuk as long-term securities based on sharia principles issued by issuers to sharia bond holders which require the issuer to pay income to Islamic bond holders in the form of profit sharing margins or fee, as well as paying back the bond funds at maturity. Sukuk can also be defined as Sharia Securities in the form of certificates or proof of ownership of the same value and represents an integral or undivided part of the investment, consisting of: (a). ownership of certain tangible assets; (b). value of benefits and services for certain project assets or certain investment activities; or (c). ownership of certain project assets or certain investment activities.

Systemically, the waqf sector is part of the Islamic financial system that serves all segments of society. The commercial sector, which consists of Islamic banking, the capital market, and takaful, is here to entertain the middle and upper-income earners by providing financial products and services that are entirely on a commercial basis. Funds mobilized were channeled for various purposes related to production and consumption activities as well as infrastructure development. The government, in turn, can also mobilize funds through tax collection and also the issuance of government Sukuk to finance expenditures (general spending and infrastructure development). The Islamic social sector consisting of zakat and waqf exists to serve low-income people by providing cheap economic programs. These programs can include basic consumption, business incubation programs, health services, educational programs, etc.

From a macroeconomic perspective, the Islamic social sector can be seen as a suitable vehicle to complement the government's efforts to reduce poverty. Waqf assets are useful in many ways as follows: (a) Waqf infrastructure - assets can be used to support the community in supporting the economic activities of a community group that has not reached a critical period in production. Production costs can be brought to the level of economic competitiveness when offered to the market; (b) Low-cost funds - excess yields of waqf

assets can be used in a flexible manner to support the economic development of low-income communities; and (c) Underlying/basic Islamic securities - waqf assets (especially land) can be the object of financing or issuing Islamic securities (particularly Sukuk) for social projects.

The benefits mentioned above are economically beneficial for expanding a country's production base; thereby strengthening national economic stability. The role of the Islamic social sector is providing investment portfolios with higher returns and more contributions to the economy. The presence of zakat and waqf funds opens opportunities to increase the supply of credit to the community without having to increase the potential risk because these facilities are available through specially designed contracts and the cost of funds is zero. The economic system will then have the opportunity to strengthen the financial cushion to secure economic production in normal times as well as financial difficulties (Ismal et al., 2015).

The existence of nadzir is very important in maintaining and managing waqf. According to Law Number 41 of 2004 concerning Waqf, Nadzir is divided into three, namely: individual nadzir, organizational nadzir and legal entity nadzir. Nadzir's efforts in developing waqf assets are productive waqf. In addition, what is no less important is the security of property assets donated with the status of charity from being contested by irresponsible parties. There are several things that must be done by the Examiner, such as: first, immediately providing land ownership certificates (if they have permanent assets, such as land). Second, perpetual assets advocate, which is still disputed. Third, strengthening productive waqf assets. Nadzir has a central role in the management of waqf in general. Therefore, the existence and quality of human resources must really be considered nadzir. Nadzir (both individuals, organizations and legal entities) must consist of people with dignity, honesty, good behavior, experience, mastering the administrative and financial knowledge needed to carry out their duties in accordance with the type of ownership and purpose. In general, waqf management can be directed and built optimally, if the nadzir is trustworthy and professional (Kasdi, 2014; Kasdi, 2018).

While the millions of waqf vary around the world, most of them fall into the five basic welfare categories namely food, housing, health, education and religion. Unfortunately, the vast amount of waqf assets and the institutions are not well managed. The best waqf buildings, with tremendous commercial potential, do not receive basic repairs and maintenance. The inevitable consequence is a lot of damage and damage. The source of the waqf archive is quite rich; However, the problem of waqf development has not been explored from the perspective of stakeholder theory. In order to revitalize waqf institutions, it is necessary to introduce stakeholder principles into the waqf institution. Professional business management techniques will undoubtedly create many positive opportunities for improving the quality of waqf institutions and delegating internal responsibilities. For the development of unused waqf properties, waqf institutions to fulfill their social goals, it is necessary to create a source of funding for the rebuilding of the aqwaf building by creating cash waqf funds and by issuing musharakah sukuk. The results of this initiative will be significant and more beneficiaries will benefit.

As one of the oldest forms of financial instrument, even before the existence of Islamic, waqf played a vital role throughout Islamic civilization. Waqf described as a

powerful instrument to eliminate poverty, to restore social economy, and to create a distributive justice (Ahmad, 2015; Cizakca, 1998). The development of waqf land and properties is an important milestone for many Islamic institutions around the world given the fact that there are a large amount of undeveloped and ill-managed waqf land and properties in the Muslim world. Inevitably, the development of waqf land also involved problems and challenges such as lack of financial resources, undeveloped and unproductive waqf land, loopholes in the legal framework, unregistered waqf land, waqf on leasehold land, and land classified as heritage (Zulkhibri, 2017).

While, common waqf viewed as a traditional style of instrument on the form of endowed fixed asset, the new form of waqf, which is cash waqf is introduced to accommodate the flexibility utilization of waqf. Currently, there is consensus among the majority of Islamic jurist regarding the legitimacy of cash waqf. Many Muslim-majority countries have practiced many forms of waqf such as waqf shares scheme, deposit cash waqf scheme, compulsory cash waqf scheme, corporate waqf scheme, deposit product waqf scheme, and co-operative waqf scheme. Mohsin (2013) argued that cash waqf is acceptable as long as follow the same legal condition of immovable waqf. Even, cash waqf can be a new source of financing in the modern era.

Cash Waqf Investment model supports micro enterprises to improve their access to finance and enhance the skills. Intention and readiness of micro enterprises in accepting the model as a source of financial and human capital development services is impressive (Duasa & Thaker, 2016). Return from cash waqf investment in unit trust also can be used to finance 11 items of federal government expenditures. The overall process can be managed by Yayasan Waqf Malaysia through collaboration with an Islamic unit trust firm (Azrai et al., 2018).

Islamic Waqf Bank (IWB) can apply cash waqf structure, whereby the cash waqf fund must be converted into fixed assets such as land and buildings. The rental income from the fixed assets and investment then can be channeled to the waqf beneficiaries (Aziz, 2017). Beside combine with banking, Waqf-Ventura Capital Syariah (WVCS) is conceptualized based on the content analysis of cash waqf operations, profit and loss sharing modes and venture capital strategies. WVCS a integration between social finance (waqf) and commercial finance (Ventura capital) (Tanjung, 2018).

Based on capital market, the waqf shares scheme is relatively easy to raise funds from the public via traditional collections of money by cash or mobile payment systems which are widely used in Somalia. It is argued that the funds generated could be used to create employment opportunities, and as a result, many poor Somalis will be empowered financially, socially and educationally (Saiti et al., 2019). Lastly, cash waqf can combine with Islamic microfinance such as baitul maal wa tamwil. Sharía Cooperatives registered as cash waqf nazhir and in cooperation with Bandung City Fintech companies are owned by BMT ITQAN only where they are financed by itqanmobile and involve the Fintech platform kitawakaf.com with the help of the House Financing Assembly empowerment program for BMT member SMEs with waqf funds and the waqf management models (Nurjamil, & Nurhayati, 2021).

Meanwhile, other form of Islamic financial instrument, sukuk, had also been recognized in the past as instrument for international trade. In the Middle Ages, sukuk

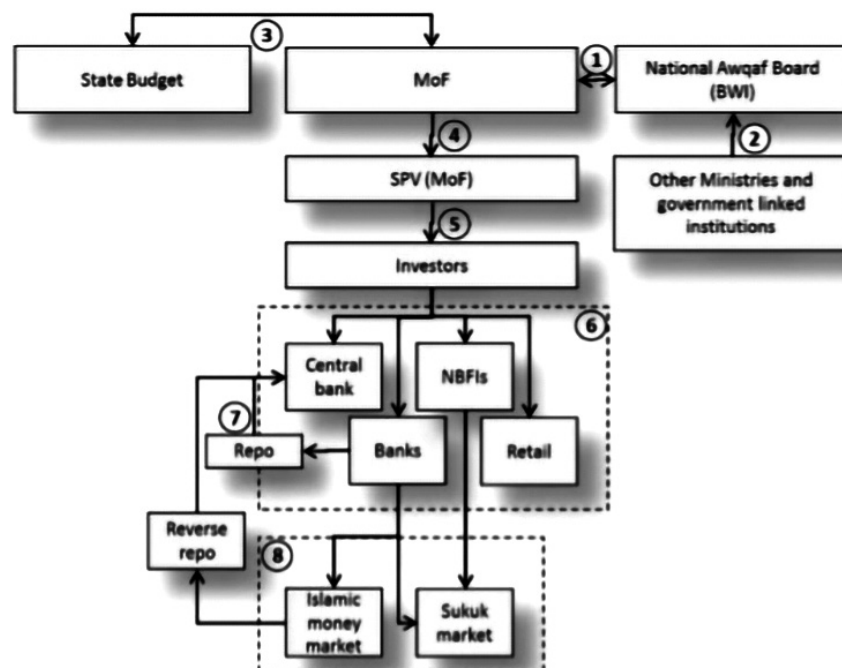
recognized as a recognition letter of obligation of a person who requested deferred his payment to certain party (Musari, 2019). Besides Waqf, Sukuk also became a vital role in a long story of Islamic civilization. In the modern era, sukuk resembles a conventional fixed-payment debt. But there is fundamental difference between sukuk and debt-based conventional payment on an ownership of the asset or an existing of the project.

The integration between cash waqf and sukuk enhance the benefit of the fund. Cash waqf linked sukuk (CWLS) can be alternative financing of different activities both of social and economic motives as long as its perpetuity preserved (look at Figure 1). The CWLS is deemed to have real sector development impact by having fixed tangible asset as an underlying (Ismal et al., 2015).

In order to promote the development of the domestic Islamic economy and financial market, it is necessary to have sharia-based investment instruments to optimize the use of public funds. The government or the Indonesian Waqf Board / financial institution with sovereign states can issue sharia-based securities in order to support fiscal sustainability and expand project financing. For this reason, in order to increase the potential of waqf through business and investment management, it is necessary to diversify and to have more option of the financial instruments, including CWLS.

Several countries have used cash waqf for several functions. Of course, Indonesia can also do benchmarking against these countries. For Indonesia, which has implemented CWLS, it is necessary to know the role of CWLS in development. What is more important is how likely it is that CWLS can finance export trade in Indonesia. From this background, the questions of this study are: (i) What are the role of Cash Waqf in different countries? (ii) what is the role of cash waqf in Indonesia, especially CWLS? And (iii) what is the possible CWLS mechanism to finance trade in Indonesia? To answer those questions, this study was conducted.

Figure 1. Potential Origination of Awqaf Linked Sukuk



In Malaysia, cash waqf became alternative source of funding for micro enterprises. Thaker et al. (2016) proposed modification of Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) model. Micro enterprises consider as a risky investment, therefore strict loan condition have been imposed such as collateral and proper support document. However, most of micro enterprise cannot fulfill the requirements. Thus, the idea ICWME-I is proposed to address financial constraint and enhance the development of economy.

In Indonesia, CWLS has become a study in the recent years as it has big potential in Indonesia. Mukhlisin & Mustafida (2019) stated that CWLS very possible to launch in Indonesia refers to its benefit, opportunity, cost, and risk. Then, the government of Indonesia recently issued CWLS SW001 on 10 March 2020 by private placement by amount of Rp50,9 billion. The issuance of CLSW is a form of the government's commitment to support the development of social investment and the development of productive waqf in Indonesia.

Methods

The research method used is a qualitative method. The data referred to is from documents in the form of scientific journals and paper in the field of Cash Waqf, including CWLS. The analysis is content analysis of cash waqf operations and international trade financing.

Result and Discussion

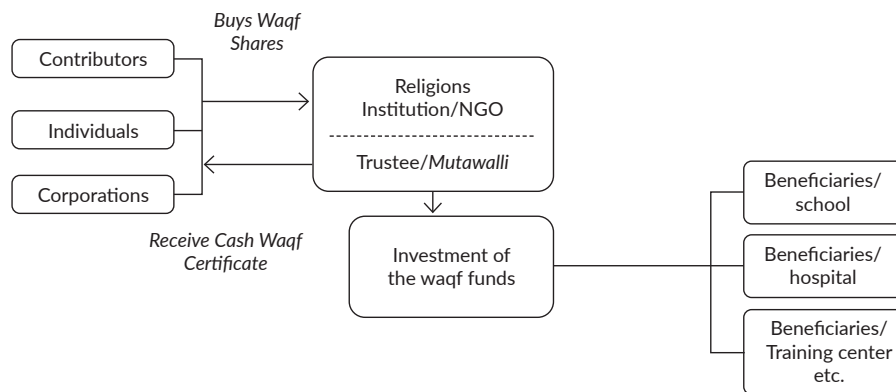
Role of Cash Waqf in the Different Countries

Based on Mohsin (2013) research, we find that some role of cash waqf in the different countries. *First, Waqf shares scheme.* This scheme (Figure 2) is a public waqf which emerged in the last decades in Muslim and Muslim minority countries, such as Malaysia, Indonesia, Kuwait, and the UK. The main objective of this scheme is to generate money or to raise funds from the public to support the welfare of the society. The collection of this kind of funds is meant to finance lawful goods and services needed in the different societies. In early 2000, the Indonesia Waqf Board launched a cash waqf scheme known as Tabung Wakaf Indonesia/Indonesian Waqf Shares. The main objective of Indonesian Waqf Shares is to raise funds in order to finance many services that can benefit Muslim community at large. This scheme succeeded in financing poverty alleviation programs, providing free medical services to the poor and needy, arranging different educational programs and providing entrepreneur development programs (Timur, 2001).

Kuwait has succeeded in playing a great role, not only internally but also globally. Ten cash waqf schemes has been established namely (i) water wells scheme succeeded in constructing dams, digging surface wells and supplying the poor and needy with water coolers in India, Jordan, Somalia, Africa, Bangladesh, Nigeria and Somalia, (ii) educational scheme succeeded in financing educational and social charitable services such as sponsoring orphans, providing medical care, financing the teaching of Arabic and Islamic subjects and paying the salaries of teachers in Chad, Gambit, Philippine, Albania

and Kosovo, (iii) mosques scheme succeeded in building and maintaining many mosques in many countries, such as Egypt, Kazakhstan, China and Togo, (iv) health care scheme succeeded in providing medical equipment and building hospitals in Egypt, building dental clinic in Palestine, building hospital in Philippine, and IICO hospital for cancer patients care in Kuwait, (v) training centers scheme succeeded in funding many centers, such as computer training centers in Africa, training institute in Indonesia, Nigeria, and Uganda, (vi) farms and productive projects succeeded in funding different farms and agriculture projects in Philippine, Bangladesh, India and Uganda, (vii) orphans scheme succeeded in sponsoring orphans, building and maintaining orphanages and providing orphans with proper education in Uganda, (viii) seasonal projects succeeded in financing the cost of preparing meals for breaking the fast/iftar during the month of Ramadhan, and distributing the meat during the month of sacrifices in Malawi, Nigeria, Cambodia, Kurdistan and Somalia, (ix) social projects scheme sponsored the cost of wedding in Sudan, besides sponsoring productive projects for needy families in Sudan and Palestine, and (x) relief scheme succeeded in providing relief efforts in Kosovo and Palestine.

Figure 2. Waqf Shares Scheme



Second, Deposit cash waqf scheme. This scheme is also a public waqf which has been practised in Singapore, Bahrain and South Africa. The main purpose for this investment are to: finance the burials of poor Muslims, give aid to Muslim orphans, give aid to the Alsagoff School, and to finance other charity projects (Cizakca, 2000). *Third, Compulsory cash waqf scheme.* The compulsory cash waqf scheme (Figure 3) is also a public waqf which has been practised in Singapore. *Fourth, Corporate waqf scheme* This scheme (Figure 4) is also a public waqf which has been practised in Malaysia, Turkey, India, Pakistan and Bangladesh. The founder in this scheme is not only individual but private corporations and public corporation. *Fifth, Deposit waqf product scheme.* Similar to the deposit waqf scheme mentioned above, this deposit waqf product scheme is a public waqf which has been practised by two banks in Bangladesh, the Social Investment Bank Limited (SIBL) and the Islamic Bank Bangladesh Limited (IBBL) (Mannan, 1998). *Sixth, Co-operative waqf scheme.* This scheme (Figure 5) is a public waqf which has been practised in Uzbekistan (Sievers, 2002). This scheme has been established in 1992 to provide the basic needs for each district.

Figure 3. Compulsory Cash Waqf Scheme

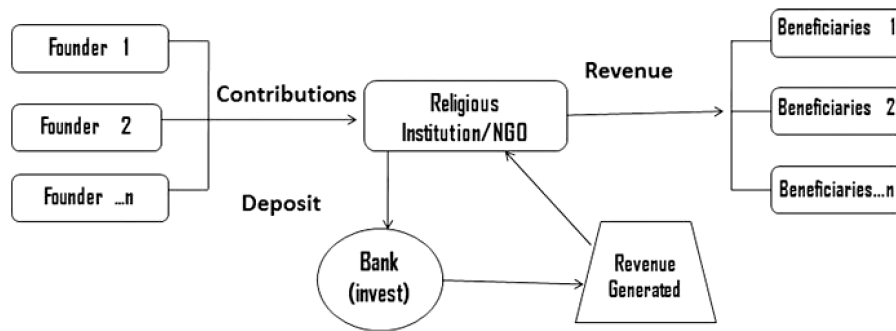


Figure 4. Corporate Waqf Scheme

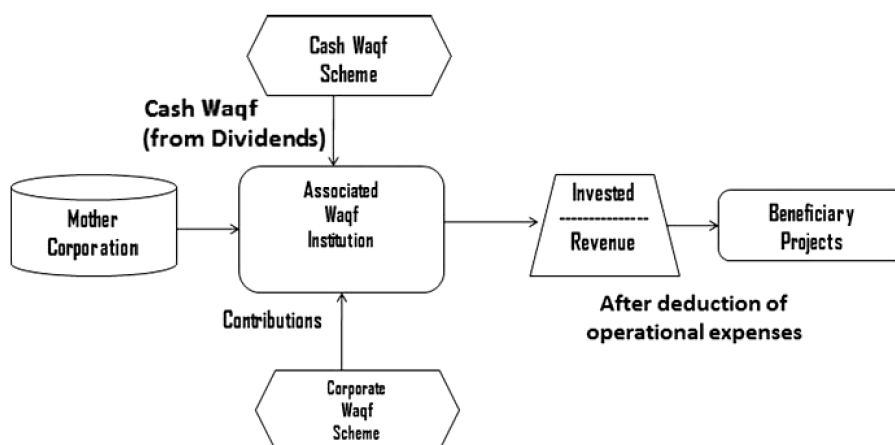
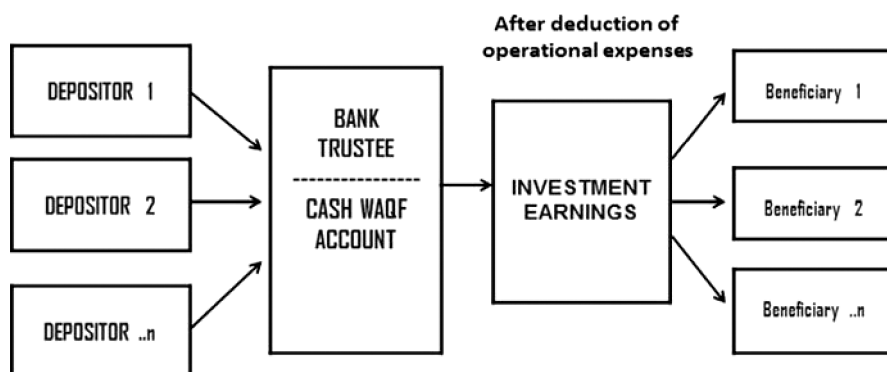


Figure 5. Co-operative Waqf Scheme



Role of Cash Waqf in Economic Development in Indonesia

The role of Cash Waqf in economic development in Indonesia is very important, especially Cash waqf linked sukuk (CWLS). There are 2 types of CWLS that have been launched, namely CWLS private placement and CWLS private retail. The target investors for this CWLS private placement are institutions. The Nazir is the Indonesian Waqf Board. The tenor is 5 years with a minimum order of 50 billion rupiahs. The maximum limit

does not exist. The features of this CWLS product are nontradable. The product that has been issued is the first series of Sukuk Waqf, SW 001. The investment proceeds in the form of a discount used nazir for social infrastructure projects, while the coupons are for social programs / activities. For private retail CWLS, the target investors are individuals and institutions. The Nazirs were appointed based on the approval of the Indonesian Waqf Board. The tenor is 2 years with a minimum order of one million rupiahs. The maximum limit does not exist. The features of this CWLS product are nontradable. The product that has been issued is the first series of Retail Sukuk Waqf, SWR 001. The results of the investment are in the form of coupons, used as nazir for social programs/activities.

The stakeholders involved in the CWLS consist of at least the Indonesian Waqf Board, the Ministry of Finance, Bank Indonesia, Nazir Productive Waqf and Islamic Financial Institutions Receiving Cash Waqf Recipients. The Indonesian Waqf Board as the regulator, leader and Nazhir who manages the Cash Waqf Linked Sukuk. Ministry of Finance as a sukuk issuer and fund manager in the real sector. Bank Indonesia as an accelerator in encouraging the implementation of Cash Waqf Linked Sukuk and Custodian Bank. Nazhir Waqf Productive as a BWI partner who raises waqf funds. Sharia Bank (Bank Syariah Indonesia and Bank Muamalat) as LKS-PWU and BWI Operational Bank.

The issuance of Sukuk Waqf (Cash Waqf Linked Sukuk - CWLS) Series SW001 on March 10, 2020 is carried out by means of a private placement. The terms and conditions of the Sukuk Waqf series SW001 issued can be seen in Table 1. The results of SW001 have been used for the construction of a retina center and glaucoma center at the Ahmad Wardi Eye Hospital in Serang.

Table 1. Terms and Conditions Sukuk Wakaf Serial SW001

No.	Description	SW001
1.	Nominal Value	Rp 50.849.000.000,00
2.	Form and Type of Sukuk	non-tradable
3.	Type of contract	Wakalah
4.	Yield	6,15%
5.	Coupon	Fixed 5,00% (per year)
6.	Date of issuance	10 th March 2020
7.	Due date	10 th March 2025
8.	First Coupon Payment	10 th April 2020
9.	Next Coupon payment date	The 10 th of every month

Source: djppr.kemenkeu.go.id

As for the Retail Sukuk Waqf Series SWR001, the conditions after the marketing closes on November 20, 2020 can be seen in Table 2. The results of this SWR001 will be used by the nazirs to make their program successful, such as scholarships for underprivileged students, subsidies for poor patients for medical treatment, etc.

Some of the advantages of CWLS are: first, it is safe, because CWLS is guaranteed by the State. The funds will be returned 100% for temporary cash waqf, when the sukuk matures. Second, productive, because it provides returns that can be allocated to beneficiaries, in addition to providing cash waqf facilities. Third, blessings, because the results are used for public and social interests. The proceeds from the sukuk-wakaf investment are used to create new waqf assets and finance various social activities. Waqf candidates with a certain amount of waqf money can apply for social projects / activities to be implemented / financed. Competitive investment results. Fourth, long life, has an unbroken benefit because waqf property is eternal and will continue to be used forever.

Table 2. Terms and Conditions Sukuk Wakaf Ritel Serial SWR001

No.	Description	SWR001
1.	Nominal Value	Rp 14.912.000.000,00
2.	Form and Type of Sukuk	non-tradable
3.	Type of contract	Wakalah
4.	Coupon	Fixed 5,50% (per year)
5.	Marketed Date	9 th October 2020
6.	Market closing date	20 th November 2020
7.	Underlying assets	State Property and the 2020 State Budget Project

Source: djppr.kemenkeu.go.id

CWLS has great potential as an instrument for financing development and social welfare. Waqf funds collected through CWLS can be used to finance development, and the proceeds are distributed to beneficiaries. Massive and structured socialization of cash waqf (in this case CWLS) needs to be done massively and structurally, so that in the end it will not only deepen the Islamic financial market, but also provide financial inclusion for the benefit of Muslims.

CWLS Framework for Trade Financing in Indonesia

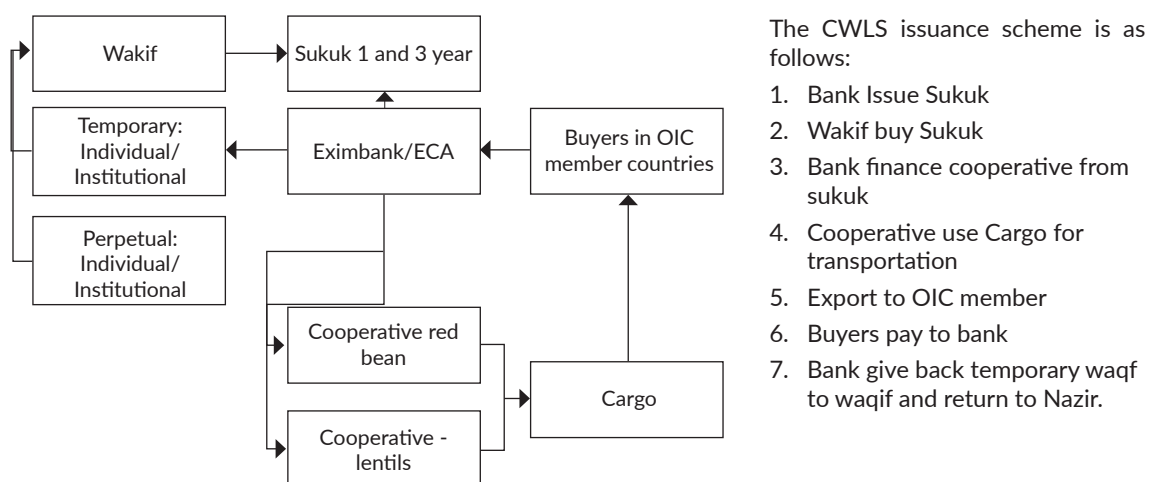
Efforts to increase trade between Indonesia and OIC member countries must be supported by an understanding of the commodities needed in each export destination country and vice versa, the commodities needed by Indonesia from other OIC member countries. In this case, for Indonesia, it is necessary to start by building a halal value chain ecosystem that also has an intersection with SDGs in encouraging an increase in Indonesian exports. In the red bean and lentils commodities, the end-to-end process starts from (i) SME who are carrying out serial activities to fulfill the contract or purchase orders (P/O) starting from pre-harvest, post-harvest activities, delivery of goods to destination countries, (ii) the related ministry among others ministry of cooperatives and SMEs, ministry of trade, ministry of finance as well as ministry of foreign affair to provide market information, coaching program, and incentives, (iii) the financial institutions – bank/Eximbank/ECA - support such activities through providing sharia-based financing funded from Cash Waqf

Linked Sukuk in the form of (i) pre-shipment financing such LC to support the purchase of merchandise/raw-material from suppliers countries or money transfer service, working capital financing, (ii) post-shipment such as discounting export bills or cheque to receive funds for use as working capital before the bills or cheque due date.

Issuing CWLS as a source of funds for financing international trade with OIC member countries can be carried out by financial institutions that established under the law with the aim of encouraging national export performance. This is necessary considering that this financial institution has a sovereign status which provides certainty that it cannot be liquidated except by a law, will not experience dilution because it is 100% owned by the government, and focusing on activities related to international trade.

Figure 6 describes that there are 3 aspects in the scheme mentioned above, namely players, products, and markets. Cooperatives are economic activities that involve the participation of groups of people who produce red beans and lentils. In this case, it plays a role in fostering and improving the quality of red beans and lentils products to be exported. Red beans and lentils are plants that are widely distributed in Indonesia. Training and development of how to plant, fertilize, and harvest and process, and packaging apply the principles of sustainability, hygienists and/or encourages the role of women in economic activities. The market for red beans and lentils products is directed to OIC member countries. This is also an effort to increase intra-trade among member countries. The cargo used to send the two commodities is air transportation, which allows it to reach export destination countries in a shorter time so that the exported red beans and lentils are fresher.

Figure 6. CWLS framework for Trade Financing



Eximbank/ECA and wakif are enablers in this CWLS scheme. Eximbank / ECA, as a financial institution with sovereign status, issues Sukuk to finance the working capital needs of cooperatives scattered in several regions to produce red bean and lentils to be consumed by residents in OIC countries. The said working capital finance in the form of musyarakah or mudarabah will enable the cooperatives to produce and sell its product with

competitive price as they are also enjoying very low margin compare to that of ordinary sharia finance. Wakif consist of individuals, institution and/or Islamic financial institutions both banks and non-banks that will place their funds. The placement of waqf funds in the Sukuk to be issued by Eximbank / ECA. The Sukuk that is specifically issued under the program of promoting export seeds to OIC member country can take the form of (i) placement of an endowment fund, namely principal and upon which is obtained; (ii) temporary placement of funds, upon maturity the principal is returned to the wakif.

Considering that the underlying transaction of this Sukuk is a working capital requirement of a red beans and lentils product cooperative, the Sukuk tenor can be issued in 2 tranches, namely tranches A with 1-year tenor and tranches B with 3 years' tenor with relatively low coupon compare to that of ordinary Sukuk. With the growing need for working capital to increase the capacity of cooperative businesses and the expansion of the area being financed, the Sukuk will be issued regularly and constitute a roll-up fund and become a source of funds for the development of religious, health, and other charity activities. To attract more wakif to participate in the Sukuk issuance, it is necessary to have several underwriters who are bookrunner as joint lead underwriter (JLU). Having several JLU in place will provide variety of wakif base both number and distribution. It is also necessary to arrange a public expose to communicate with the potential wakif on the this Sukuk program. Some area need to be emphasized such as the objectives of Sukuk program, size, tenor, coupon, and credit risk of the issuer (Eximbank/ECA) which AAA.

As the fund in place, the financing is ready to be disbursed to the eligible cooperative in the area of red bean and lentils. In time, with the development of red beans and lentils production and exports, these clusters can be developed into red beans and lentils tourism clusters so as to have a wider impact on regional development and equal distribution of regional income. At the maturity date of the Sukuk, the temporary waqf funds will be returned to the wakif which may be reinvested when Eximbank / ECA issues the Sukuk to finance cooperatives for other commodities needed in OIC member countries.

Conclusion

The results cash waqf in several countries has been used for beneficiaries. Some of them are financing poverty alleviation programs, providing free medical services to the poor and needy, arranging different educational programs and providing entrepreneur development programs. Some of waqf results has been used to finance the burials of poor Muslims, give aid to Muslim orphans, give aid to the schools, and to finance other charity projects.

CWLS, it consists of 2 types, namely wakaf sukuk and retail waqf sukuk. For waqf sukuk, the proceeds of the waqf have been channeled to finance the construction of the retina center and glaucoma center at the hospital. Meanwhile, retail waqf sukuk are used by each nazir to finance the program. This research shows that CWLS is proven to play a role in economic development, particularly infrastructure. The infrastructure that has been built is in the health sector. CWLS can be an alternative source of funds for

financing commodity exports to OIC member countries. The CWLS end-to-end scheme with underlying trade finance is carried out by prioritizing natural resource optimization that takes into account environmental sustainability, siding with SMEs, economic equality in the regions and competitiveness in the market. As the recommendation, to promote the CWLS there are some action need to be taken. The most important is to conduct socialization regarding CWLS to improve public awareness and enlarge the wakif base.

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Impact of Coronavirus and Macroeconomic Indicators on Sharia Obligation with Simultaneous Model

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Abstract

This study examines the macroeconomic variables exchange rate and BI rate in collaboration with the Coronavirus Disease case against Sukuk. In addition, this study also examines the exchange rate influenced by the BI rate variable and the case of Coronavirus Disease. The data analysis method in this study uses a simultaneous equation model Two-Stage Least Square. This study found that the exchange rate affects the demand for Sukuk while the BI rate does not affect it. But what is surprising is that when the Coronavirus Disease 2019 case occurred, it did not affect the demand for Sukuk. This study also found that the exchange rate is influenced by the BI rate and the case of Coronavirus Disease. The contribution of this research is that when the government cannot intervene in the exchange rate, which can affect the demand for Sukuk, it can be done by intervening in the BI rate.

Keywords:

Sukuk, Exchange rate, BI rate, Coronavirus Disease.

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Introduction

Sukuk is currently a sharia financial instrument capable of moving the wheels of the country's economy and represents the second-largest Islamic financial industry after Islamic banking. The growth of Sukuk is increasingly significant, which is strengthened by the presence of eight non-Islamic member countries of the OIC who are interested in issuing Sukuk on the global market (Smaoui & Ghouma, 2020). Moreover, Sukuk can contribute 90% of alternative funding (Al-Sayed, 2013) for corporations and the state. Sukuk has become an attractive instrument for Muslim and non-Muslim investors. Muslim and non-Muslim investors interested in investing in Sukuk securities, of course, consider these factors.

The essential factor in maintaining the investment climate is the stability of macroeconomic variables, including investment in Sukuk. Several researchers have researched the factors that influence the development of the Sukuk market, as done by Smaoui & Khawaja (2017) and Smaoui et al. (2017). Khalifah et al. (2017) found that the exchange rate has an effect on sukuk. However, Yung (2021) found that interest rates also caused exchange rate fluctuations. Liu & Lee (2020) explain the effect of interest rate adjustment on exchange rate volatility in China/the US. Furthermore, changes in the exchange rate of China/US have a slightly more substantial effect on interest rates in the US than on interest rates in China. Fluctuations in interest rates can also create economic uncertainty that has an impact on investor confidence. Investors will not hold the sukuk securities they hold in the future. Mu (2013) explained that the sukuk will be influenced by interest rates such as bonds. In bond securities, Bhattacharyay (2013) found that the volatility of interest rest will reduce investors' purchasing power of sukuk. However, it is also different from the findings Ependi & Thamrin (2020) which found that the interest rate has no effect on the development of the sukuk market.

This study tries to provide new insight into the correlation between the exchange rate and the BI rate on Sukuk when there is a PSBB in Indonesia. Coronavirus Disease is designated as a national non-natural disaster caused by a deadly disease outbreak. Pandemics are one of the primary sources of risk in financial markets. Sharif et al. (2020) found that pandemics impact geopolitics and the economy, giving rise to policy uncertainty. Researchers found that the Covid-19 pandemic had multiple financial effects (Akhtaruzzaman et al., 2021; Corbet et al., 2020; Rahmadia & Febriyani, 2020; Selasi, 2010; Sharif et al., 2020), including Sukuk. Even though the Islamic financial market is safer than conventional during the global financial crisis (Aloui et al., 2018), gold and cryptocurrency have become safe investments at the beginning of the Covid-19 pandemic (Corbet et al., 2020). This means that the development of the Sukuk market can decrease by covid because investors prefer gold and cryptocurrency. Rahmadia & Febriyani (2020), in their research, found that movements in the exchange rate and oil prices that occur continuously require the government to take an interest rate adjustment policy immediately. Covid-19 first entered Indonesia on March 2, 2020, and forced the government to impose Large-Scale Social Restrictions (PSBB). Every time there is an increase in positive cases of Covid-19 in Indonesia, the exchange rate against the US Dollar will weaken.

The inconsistency of research findings on macroeconomic variables proxied by the exchange rate and BI rate on Sukuk is very important to investigate. The novelty of this study builds insight into the simultaneous model between macroeconomic variables and the 2019 Coronavirus Disease on Sukuk. For this reason, this study aims to examine the macroeconomic variables of the exchange rate and BI rate in collaboration with the 2019 Coronavirus Disease case against Sukuk. In addition, this study also tested the exchange rate influenced by the BI rate variable and the 2019 Coronavirus Disease case and tested the BI rate influenced by the 2019 Coronavirus Disease case.

Methods

Data in this study are secondary data. The data used includes data on Sukuk, exchange rates, interest rates, Covid cases sourced from Bank Indonesia, Covid Center, trading economics, Indonesian Stock Price Appraisers. Variables used in this study are (1) Sukuk are fixed income instruments issued based on sharia principles by OJK regulations concerning Sharia Securities. The Sukuk data used in this research is proxied by using the Indonesian Sukuk Index Composite (ISIXC) data with a unit price, (2) Exchange rate is the price of one unit of foreign currency in domestic currency. In other words, the price of a currency is exchanged for another currency. The exchange rate that is often used is the rupiah exchange rate against the dollar. The exchange rate data used in this study is the purchase rate in rupiah units, (3) Interest rate is the interest rate expressed in percent for a specific time (monthly or annually). Interest rates in the study use Indo, which reflects interest rates that occur on the money market, which is calculated periodically, is available and can be used by market players as references such as setting loan interest rates, pricing financial instruments, and measuring financial instrument performance. The Indo unit is percent, (4) Covid-19 cases are the number of positive people or those caused by the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).

This study uses a simultaneous equation model. The simultaneous equation model consists of more than one dependent variable and more than one related equation (Gujarati, 2004). In short, a variable has two roles at once, namely as an independent variable and as an independent variable called an endogenous variable and an exogenous variable as an independent variable in the simultaneous equation model. The simultaneous equation model in this study uses the Two-Stage Least Square method approach. The Two-Stage Least Square (2SLS) method is one of the regression methods included in the structural equation analysis group. The 2SLS method is used when there is a correlation between the independent variables and the error. The structural equation form of the simultaneous equation model is as follows (Gujarati, 2004).

$$\text{Sukuk} = \beta_0 + \beta_1 \text{Exchange} + \beta_2 \text{Indo} + \beta_3 \text{Covid} + \text{et} \quad (1)$$

$$\text{Exchange} = \beta_0 + \beta_1 \text{Indo} + \beta_2 \text{Covid} + \text{et} \quad (2)$$

$$\text{Indo} = \beta_0 + \beta_1 \text{Covid} + \text{et} \quad (3)$$

Note:

Sukuk : Indonesian Sukuk Index Composite (ISIXC)

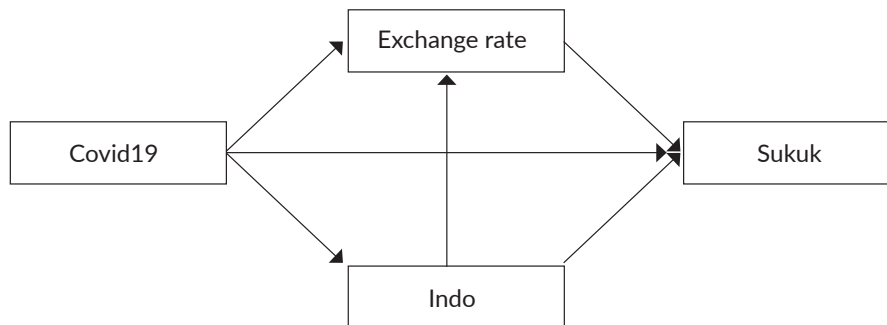
Exchange : Exchange rate value

Indo : Interest rate

Covid : Number of covid case

These three equations can be seen in the relationship between variables shows in Figure 1.

Figure 1. The Research Framework



Result and Discussion

Descriptive statistical analysis is a statistic that describes or provides an overview of the object under study through sample or population data as it is and makes general conclusions. The results of descriptive statistical analysis are shown in Table 1.

Table 1. Descriptive Statistical Analysis Results

	ISIXC	Exchange Rate	Indo	KASUS_C
Mean	253.1537	15151.94	4.375191	9494.985
Median	251.9612	15007.59	4.319620	5923.000
Maximum	260.7769	16657.30	4.612990	34316.00
Minimum	246.1308	13886.22	4.295870	2.000000
Std. Dev.	3.986024	790.9365	0.110061	10213.24

Source: Data processed (2021)

This study uses a Two-Stage Least Square approach. This model is used to determine the effect of the independent variable on the dependent variable. The estimation results of each equation are as follows. Estimation Results of the Common Effect Model Approach. In Table 2, the simultaneous equation model with Two-Stage Least Square is as follows:

$$\text{Sukuk} = -0.11471 - 0.0044\text{Exchange} - 2.36129\text{Indo} + 0.00014\text{Covid} - 0.164365 \text{ MA}(1) \quad (1)$$

$$\text{Exchange rate} = 40.20055 - 1438.147\text{Indo} - 0.096539\text{Covid} \quad (2)$$

$$\text{Indo} = 0.006472 - 2.04\text{E-}05\text{Covid} \quad (3)$$

The t-test is used to determine whether changes in each independent variable can explain changes in the dependent variable. This method is carried out on the regression

equation obtained from the relationship of each independent variable individually (partially) to the dependent variable by comparing the coefficient values in the significant column according to each of the independent variables. The t-test results are as in Table 3.

Table 2. Estimation Results of the Common Effect Model Approach

Variable	Sukuk	Exchange Rate	Indo
C	-0.11471	40.20055	0.006472
D(Exchange Rate)	-0.0044**	-1438.147*	-2.04E-05*
D(INDO)	-2.36129	-0.096539*	
D(KASUS_C)	0.00014		
MA(1)	-0.164365		
R-squared	0.183576	0.208451	0.086665
Adjusted R-squared	0.126283	0.182498	0.071933

Note: *significant at 0,01; ** significant 0,05; ***significant at 0,1

Based on Table 3, the effect of each variable can be explained as follows. First, There is an effect of the exchange rate on the Sukuk. The more the exchange rate increases, the Sukuk value decreases, and vice versa. Second, there is no effect of interest rates on Sukuk. The more the interest rate increases; the Sukuk value does not increase or decrease. Third, there is no effect of the covid case on Sukuk. The more the covid case value increases; it does not cause an increase or decrease in the value of the Sukuk. Fourth, there is an effect of interest rates on the exchange rate. The higher the interest rate, the lower the exchange rate, and vice versa. Fifth, there is an effect of the covid case on the exchange rate. The more the Covid case value increases, the exchange rate decreases, and vice versa. Sixth, there is an effect of the covid case on interest rates. The more the Covid case value increases, the lower the interest rate will be, and vice versa.

Table 3. t-test result

Dependent	Independent	Coefficient	Std. Error	t-Statistic	Probability
Sukuk	Exchange Rate	-0.004441	0.001692	-2.624690	0.0111
Sukuk	INDONIA	-2.361290	4.376451	-0.539545	0.5916
Sukuk	KASUS_C	0.000140	0.000265	0.530144	0.5981
Exchange Rate	INDONIA	-1438.147	439.0513	-3.275579	0.0017
Exchange Rate	KASUS_C	-0.096539	0.030438	-3.171624	0.0024
Indo	KASUS_C	-2.04E-05	8.41E-06	-2.425502	0.0182

The results showed that the exchange rate harmed the value of the Sukuk. An increase exchange rate impacts change the value of the Sukuk in the market so that the existence of the exchange rate needs to be maintained stably. Empirically the results of this study are in line with research conducted by (Ardiansyah & Lubis, 2017), which found that exchange rates negatively affect the growth of corporate Sukuk in Indonesia. This alignment makes it clear that the strengthening of the exchange rate during the Covid-19 pandemic

will directly have a good impact on the value of the Sukuk. This condition occurs because Sukuk provides more promising returns for investors in placing their business portfolios. Aside from that, it's impossible to ignore Sukuk's track record, which has been steadily improving year after year. Because however, in terms of business, it cannot be separated from fundamental economic analysis, which means that the exchange rate provides a good signal for investors to invest or shift their business portfolio to Sukuk. These results are also in line with research conducted by Smaoui and Khawaja (2017), Smaoui et al. (2017), and Khalifah (2017) find that there is an effect of the exchange rate on Sukuk. Simply put, the strengthening of the rupiah during the Covid-19 pandemic will encourage the public/investors to choose the right investment place, and value adds value, in this case, Sukuk.

Exchange rates that affect Sukuk, in other conditions, the results of the study show that interest rates influence the exchange rate. This means that the ups and downs of interest rates during the Covid-19 pandemic can affect the exchange rate fluctuation. Empirically, the results of this study are in line with research conducted by Arifin (2003), which shows that interest rates are very effective in strengthening exchange rates. Likewise, with the research of Yung (2021) and Liu and Lee (2020) found that there is an effect of interest rates on the exchange rate. This condition clarifies a need for a measured policy in maintaining the exchange rate during the Covid-19 pandemic because determining the correct interest rate will encourage the strengthening of the exchange rate. In contrast, an inaccurate interest rate will lead to the wrong direction for the economy. This determination is by Rahmadia and Febriyani (2020) opinion that the continuous exchange rate movements require the government to adopt an interest rate adjustment policy immediately. Furthermore, there needs to be a policy related to measurable interest rates in simple terms because a measured interest rate will also have a measurable impact on strengthening the exchange rate.

The results of this study are not in line with research conducted by Akçağlayan (2008), which found that an increase in interest rates causes depreciation in the domestic currency. Thus, it is necessary to be vigilant in determining interest rates, especially during a relatively very sensitive pandemic in all conditions. Another condition that causes interest rates to strengthen the exchange rate is that a higher interest rate will increase the interest of a person or society to put their money in sacrifice or domestically. Therefore, it will be pretty effective in anticipating the flight of money abroad.

The development of the Covid-19 case in this result shows a negative influence on the exchange rate. This means that every increase in cases of Covid19 will impact the strengthening of the exchange rate. This condition cannot be separated due to global conditions because at the beginning of Covid, Indonesia only found cases of Covid on March 2, 2019, or three months after the first case was found, while other countries have found many cases. This means that the existence of the Covid19 case has an impact on the exchange rate. However, it is necessary to be aware of the impact because market conditions are relatively much affected by fundamental economic issues, which can fluctuate at any time.

This result is empirically not in line with Haryanto (2020) research, which states that the Covid-19 case impacts exchange-rate depreciation. This condition certainly cannot be separated because there is no economic certainty during the pandemic, impacting the

flow of incoming funds. However, the opposite can happen; the flow of funds tends to come out because of this uncertainty. Given these circumstances, there must be policies that can reduce investor fear in making investments. This will have a positive impact on the economy. But, on the other hand, if the anticipation of economic uncertainty is not carried out properly, it will impact the loss of interest of investors to invest their capital. So, the policies taken to control Covid-19 do not have a proper impact on the domestic exchange rate. The covid case on interest rates has a negative effect. This means that an increase in the case of Covid-19 will have an impact on lowering interest rates. This condition cannot be separated because the Covid-19 case provides economic uncertainty, which in the end also has an impact on policy uncertainty. This is consistent with Sharif et al. (2020), who found that pandemics have geopolitical and economic impacts. Normatively it can be interpreted that an increase in covid cases will have an impact on interest rate changes, so there is a need for efforts to suppress the covid cases to decrease.

These results can also explain that COVID-19 has forced banks to carry out strategic policies, including interest rate policies. This condition cannot be separated from the context of maintaining banking in good funding and fundraising conditions. Thus, there needs to be a response or policy specifically related to banking so that the Covid-19 does not have an outsized impact on banking. In addition, the decline in interest rates is also difficult for customers to respond to because customers themselves experience the same condition, namely fear of economic uncertainty caused by COVID-19.

Conclusion

Based on results and discussion, it can be concluded that what directly influences Sukuk is the exchange rate, while interest rates and the case of covid-19 do not affect Sukuk. However, interest rates and the case of covid-19 have an indirect effect on Sukuk through the exchange rate. On the other hand, interest rates are also affected by an increase in covid cases.

This research implies that the government can strengthen the policy mix to increase investors' interest in Sukuk to ensure economic stability and encourage economic recovery during the COVID-19 pandemic. The policy can be in the form of government intervention and Bank Indonesia against the BI rate to attract investors to participate in the purchase of Sukuk.

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The Impact of Islamic Bank Financing, Government Spending, and Investment on Economic Growth in Indonesia

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Abstract

This study aims to analyze the effect of Islamic bank financing, government spending, and investment on economic growth in Indonesia from 2003 to 2019. A quantitative descriptive method using the Vector Error Correction Model (VECM) analysis was applied. The results showed that in the short term, the variables of Islamic bank financing, government spending, and investment did not have a significant effect on economic growth. This shows that these variables require enough time to affect the economic growth. However in the long term, the results showed that Islamic bank financing and investment respectively have a significant, negative effect on economic growth, while government spending has a positive and significant effect on economic growth in Indonesia.

Keywords:

Islamic banking, government spending, investment, VECM.

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Introduction

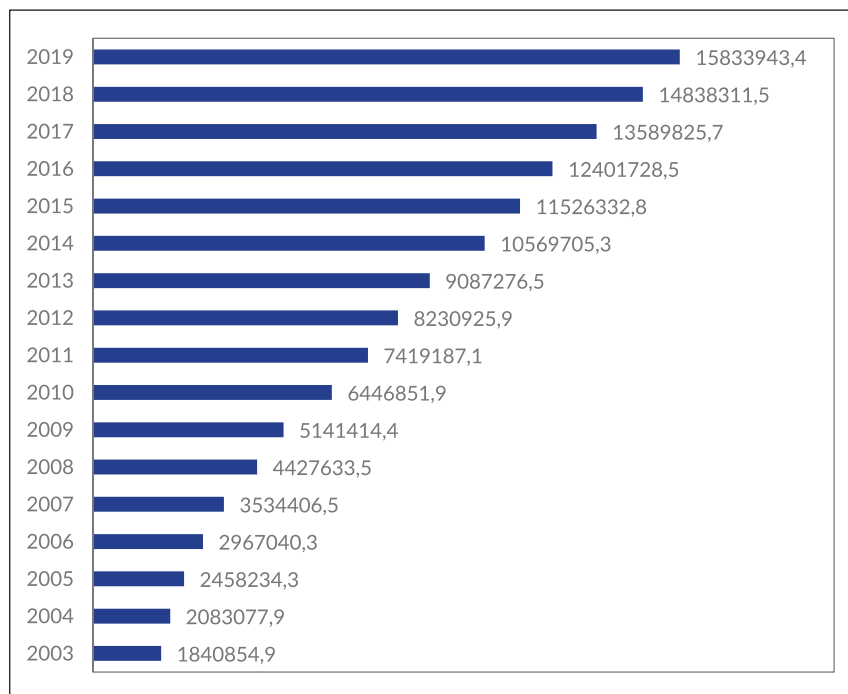
When the global economy experienced a slowdown in 2019, Indonesia still showed positive economic growth at 5%. This proved that Indonesia possesses the strength to survive in uncertain conditions. One of these comes from the financial sector, which plays an essential role in improving people's welfare. The growth of the financial sector has a positive correlation to the economic performance of a country. The financial sector is the main source of growth in the real sector of the economy. Islamic banking as part of the national banking system plays an important role in the economy. It promotes economic growth in a country, especially Indonesia, which has the largest Muslim majority population in the world (Jamili, 2017). The financial sector, through banking, enhances economic growth by promoting investment and increasing capital productivity. Furthermore, the provision of credit to entrepreneurs is expected to increase economic productivity (Gani & Bahari, 2020).

According to Nofinawati (2016), the prospects for Islamic banking in Indonesia are experiencing brighter growth. This explains the increase in public confidence in the use of Islamic banking products. This increasing level of public trust is affected by several factors, namely public awareness on the prohibition of usury, and the better performance of Islamic banks. Therefore, this form of banking competes with conventional banks in terms of varying products offered (Nofinawati, 2016). Hasyim (2016) stated that third-party funds and financing provided by Islamic banks have a positive effect on economic growth. However, according to Afandi and Amin (2019), the existence of Islamic banking in Indonesia has not significantly influenced the welfare of the Indonesian people. Gani & Bahari (2020), observed that the Islamic banking sector in Malaysia had a good performance in carrying out its main function, specifically as financial intermediation. The Islamic banking sector has made a significant contribution to the development of the financial system as a whole, which enhances economic growth (Gani & Bahari, 2020).

Apart from Islamic bank financing, other factors affecting economic growth in Indonesia include government spending and investment. Keynes observed that the government as an actor is capable of stimulating the economy through public work. Expansionary government policies increase effective demand when resources are utilized without harming consumption or investment (Sulistiawati, 2012). Consumption, government spending, exports, and investment constitute sources of economic growth. Therefore, to maintain economic stability, state consistency is required to increase the amount of consumption, government spending, exports, and investment (Muazi & Arianti, 2013). For disaggregated government spending, Amusa & Oyinlola's (2019) observed that both routine and development spending have a significant, short-term positive impact on growth. However, in the long term, the significant positive impact is experienced only in recurring spending. This proves that the effectiveness of government spending in the economy is dependent on resources and the effectiveness of public spending, which has to be assessed not only on its amount but also on the composition type (Amusa & Oyinlola, 2019).

Spending has a negative effect on economic growth, which means that an increase in government spending will cause a state deficit. Furthermore, the use of state funds for economic activities is still not optimal. This is due to the misuse of funds caused by the lack of government supervision (Terminanto & Rama, 2017). In Keynes's theory, investment is one of the main indicators of increasing economic growth. Investment activities increase the capital stock, causing an increase in productivity as well as production capacity and quality. This produces an increased investment ability, thereby stimulating economic growth (Sulistiawati, 2012). Capital formation and population growth are factors that play a significant effect on a country's economic growth (Jufrida et al., 2016). A high level of investment is very important for economic growth, especially in developing countries. Indonesia as a developing country requires capital to carry out economic development efforts. The enchantment of natural resources in Indonesia helps to attract several investors (Nguyen & Trinh, 2018). According to Sulistiawati (2012), economic growth also depends on the amount of investment value that is considered capable of driving the economy. The results of this research are expected to provide guidance for policymakers in the Islamic banking sector in Indonesia, government spending, and investment. Therefore, these policies are expected to have a positive impact on economic growth. Economic growth is the most important factor in a country's development. The progress of any country or region is directly proportional to the economic growth attained.

Figure 1. Gross Domestic Product Based on Prevailing Prices for the 2003 - 2019 (Billions of Rupiah)



Source: Statistics Central Agency (www.bps.go.id)

From 2003 to 2019, the value of Indonesia's GDP at the prevailing price (adh) showed a significant increase. From the data in Figure 1, during the last seventeen years,

the gross domestic product increased every year. This data shows that Indonesia's economy experiences positive growth annually. The economic growth certainly cannot be separated from the government role. This role is evident in the various policies enacted by the government in the context of economic development. Fiscal policy is one of the regulations implemented in order to maintain economic stability. Furthermore, government spending is one of the fiscal policies that regulate the economy by determining the amount of revenue and spending every year. Apart from government spending, in Keynes's theory, investment is one of the main indicators that increase economic growth. One of the government's efforts to support economic development is through policy-making that supports investment which is mutually beneficial for the government, the private sector, and the community. Investment activities continue to increase capital stock, which then increase productivity, production capacity as well as quality. Therefore, investment activity enhances economic growth (Sulistiawati, 2012).

As a developing country with the potential to become developed, Indonesia requires capital to carry out economic development efforts. The enchantment of natural resources is one way to attract investors. However, this is difficult if not followed by other various factors that can hinder investors from investing in Indonesia, such as regulations, investment management, and others. Aside government spending and investment, the banking system through finance policies provided to the economic sector also supports economic growth. Through these finance policies, the banking system has provided the same characteristics as government spending, especially in its ability to increase demand, thereby encouraging an increase in national income or output (Terminanto & Rama, 2017). Islamic Banking in Indonesia is experiencing increased growth (Nofinawati, 2016). Islamic banking is a new type of industry with a significantly high attractiveness. This is observed from the large participation of new players, both in the form of Islamic Commercial Bank, Islamic Business Unit, and Islamic Rural Bank.

There are similarities in the microeconomic perspective, specifically the variables of government spending and Islamic bank financing characteristics to increase demand. Furthermore, Islamic bank financing is also a form of investment channeled by Islamic banks to the economic sector which increases the supply aspect. The three independent variables were Islamic bank financing, government spending, and investment. These are the factors considered capable of affecting economic growth in Indonesia. Therefore, this study aims to analyze the effect of Islamic bank financing, government spending, and investment on economic growth in Indonesia. Economic growth is the most important factor in a country's development. The successful development of a country or region is based on the economic growth level that has been achieved. Furthermore, the conventional measures are usually calculated from the percentage increase in Gross Domestic Product (GDP) for the national, and Gross Regional Domestic Product (GRDP) for provinces and regencies/cities (Zahari, 2017).

Economic growth is the growth of production and results continuously in the right way with the capability to improve all communities. The fundamental difference between the views of conventional economics and Islamic sciences on economic growth lies in the

ultimate goal of economic growth. In the conventional economic view, economic growth is only oriented towards high growth from the existence of economic activities without an even distribution of the results obtained. Meanwhile in the Islamic view, economic growth is a means to improve community welfare regardless of race, religion and nation (Abidin, 2012). There is a positive effect of financial development on economic growth. Consequently, several experts proposed four different hypotheses on the relationship between finance and economic growth. The first hypothesis is that finance causes growth (McKinnon, 1973). The second was proposed by Robinson (1952) known as following demand. This means that economic growth positively affects financial activity in the economy, which influences an increase in financial development. The third hypothesis was proposed by Patrick (1966) known as two-way. This means that finance and growth cause each other. In underdeveloped countries, finance affects growth, while in the developed, growth affects financial activity. Lucas (1988) developed the fourth hypothesis that there is no relationship between finance and growth, known as neutrality.

The development of Keynes's theory is related to investment role in the process of economic growth, especially in the dual nature of the investment (Sulistawati, 2012). Firstly, investment can create income as a result of its investment demand. Secondly, investment can increase the production capacity of the economy as a result of its supply, investment plays an important role in improving the economic life of a nation. This follows the assumption that the capital formation will increase production capacity, national income and create new jobs, thereby expanding job opportunities. Sulistawati (2012) stated that technological innovation is one of the factors that increase investment demand. Samuelson stated that the rise and fall of national income are due to changes in investment which depend on technological changes, lowering interest rates, population growth, and other dynamic factors.

Methods

A quantitative, descriptive method was applied in this study. The data used is secondary data obtained from the Central Statistics Agency, the Investment Coordinating Board (BKPM), the Financial Services Authority (OJK), and the Ministry of Finance (Ministry of Finance), in form of times series data from 2003 to 2019. This study consisted of exogenous and endogenous variables. In this study, the data was in form of time series describing economic fluctuations and presenting a fiscal and banking policy. These policies did not have an immediate impact on developments in the real sector, which usually require a certain grace period (lag). These three problems were solved using the Vector Autoregressive (VAR) and the Vector Error Correction Model (VECM).

VAR/VECM includes some of the methods used in time series data. This model is used to determine the short-term and long-term relationships between independent and dependent variables. VECM is an econometric model used to determine the length of short-term and long-term variable relationships (Palupi & Basuki, 2019). This VECM model is used when the variables are stationary at the difference stage and contain cointegration.

Results and Discussion

Based on Table 1, the stationarity test level showed that besides GDP, all variables were not stationary. This was observed after the first difference process, therefore it was re-tested in the second difference. In the second, all variables were observed to be stationary. The optimal lag length test is used to eliminate the autocorrelation problem in the VAR system. The use of optimal lag prevents problems related to autocorrelation from reappearing. From the results of the lag test, the recommended lag in this study is the 5th lag. From Table 2, the recommended lag in this study is the 5th. Therefore, in cointegration testing and in estimating the VECM model, lag 5 was used.

Table 1. Unit Root Test

Variables	Level	Mc Kinnon Critical Value 5%	ADF Value	Description
Y(PDB)	Level	-2.909206	-3.262663	Stationary
Y(PDB)	Diff 1	-2.909206	0.988360	Not Stationary
Y(PDB)	Diff 2	-2.909206	-7.521300	Stationary
X1 (Financing)	Level	-2.906210	-1.914787	Not Stationary
X1 (Financing)	Diff 1	-2.906210	-4.131258	Stationary
X1 (Financing)	Diff 2	-2.906923	-9.246117	Stationary
X2(Government Spending)	Level	-2.909206	-2.248760	Not Stationary
X2(Government Spending)	Diff 1	-2.909206	-2.413552	Not Stationary
X2 (Government Spending)	Diff 2	-2.909206	-7.596983	Stationary
X3 (Investment)	Level	-2.912631	-0.599048	Not Stationary
X3 (Investment)	Diff 1	-2.912631	-2.701663	Not Stationary
X3 (Investment)	Diff 2	-2.912631	-5.379518	Stationary

Table 2. Lag Test of Optimal Model

Lag (Quarter)	AIC	SC
0	-27.42957	-27.29115
1	-29.79003	-29.09794*
2	-29.36120	-28.11544
3	-28.91089	-27.11145
4	-29.15228	-26.79918
5	-31.44393*	-28.53715
6	-31.25428	-27.79383

The cointegration test was used to determine the long-term relationship between these variables. From the Table 3 and Table 4, results showed that there are 3 cointegrating equations. This is because the value of trace statistics and Max-Eigen Statistics was greater than the critical value of five percent. Furthermore, all variables can be stated to be co-integrated. The model used was the Vector Error Correction Model (VECM) as there were co-integrated equations.

In the short term, the fourth lag GDP variable had a significant effect on GDP. Therefore, the GDP is affected by the previous lag, specifically the fourth lag of GDP itself. Islamic bank financing, government spending, and investment variables do not have a significant effect on economic growth in Indonesia. The independent variables in this study require enough time to affect GDP in Indonesia. Meanwhile, in the long term, Islamic bank financing, government spending, and investment have a significant effect on economic growth in Indonesia.

Table 3. Cointegration Test Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. Of CE(s)	Trace Statistic	Critical Value 5%
None *	74.45228	40.17493
At most 1 *	45.33119	24.27596
At most 2 *	20.12407	12.32090
At most 3 *	1.912877	4.129906

The study results indicate that in the long-term Islamic bank financing has a significant, negative effect on economic growth. In the long term, changes in Islamic bank financing will always be followed by GDP changes in a reverse direction. When there is a 1% increase in GDP, there will be a decrease in Islamic bank financing. This study supports Asnuri (2013) which stated that Islamic bank financing has a significant, negative effect on economic growth. This is because the market share of Islamic bank financing is still relatively small compared to loans provided by conventional banks. Furthermore, *murabahah* products still dominate in Islamic banks compared to cooperation products such as *musharakah* and *mudharabah*.

Table 4. Cointegration Test Unrestricted Cointegration Rank Test (Max Eigenvalue)

Hypothesized No. Of CE(s)	Max-Eigen Statistic	Critical Value 5%
None *	29.12109	24.15921
At most 1 *	25.20713	17.79730
At most 2 *	18.21119	11.22480
At most 3 *	1.912877	4.129906

The increase in financing for *murabahah* products causes people to be more consumptive. Meanwhile, *musharakah* and *mudarabah* products show more of an increase in community business activities, thereby helping to increase people's income (Baehaqy & Cahyono, 2019). This result is in contrast with Rafsanjani & Sukmana (2014) in Baehaqy & Cahyono (2019) that stated that Islamic bank financing has a positive and significant effect on economic growth. Hasyim (2016) stated that the more financing channeled for production activities in real sectors in the society, the more the economic growth.

Table 5. VECM Estimation Results

Variable	Coefficient	T Count	T Table	Description
Short-term				
Y_GDP (4)	-0.304865	-2.40634	1,99773	Significant
X1_Financing (4)	-0.068631	-1.53779	1,99773	Insignificant
X2_Government Spending (4)	-0.220243	-4.36289	1,99773	Insignificant
X3_Investment	0.006992	0.56700	1,99773	Insignificant
Long-term				
X1_Financing	-1.111488	-5.95058	1,99773	Significant
X2_Government Spending	1.446906	3.72558	1,99773	Significant
X3_Investment	-0.215974	-2.42278	1,99773	Significant

The results of the VECM estimation test showed that government spending positively influences the economic growth in Indonesia. These results are in line with Jamili (2017) which stated that government spending has a significant positive effect on Indonesia's economic growth. Furthermore, the investment variable had a significant and negative effect on economic growth in Indonesia. This agrees with Shafwah et al. (2019) which stated that this condition is caused by an unfavorable investment climate. Such climate occurs due to low public services and weak legal certainty. Furthermore, low public services are due to the lengthy time required for licensing and bureaucracy as well as the existence of illegal fees.

The IRF (Impulse Response Function) test results showed a negative trend response on Islamic bank financing. This signifies that in the short and long term, shocks or decreases in Islamic bank financing will cause further negative trends. Therefore, Islamic banking needs to be more careful in managing its financing funds. Government spending showed a positive trend response to economic growth. This signifies that in the short and long term, shocks or increases in government spending will cause further positive trends. Therefore, government spending budgeted for economic development has a positive contribution to economic growth in Indonesia.

Table 6. IRF Test Results

Response of D(Y_PDB):				
Period	PDB	Financing	Government Spending	Investment
1	0.001593	0.000000	0.000000	0.000000
2	0.001250	7.83E-05	-7.80E-05	0.000101
3	0.001303	6.96E-05	-0.000102	4.16E-05
4	0.001333	5.17E-05	-0.000141	5.45E-05
5	0.000587	-0.000824	-0.000814	0.000236
6	0.000764	-0.000702	-0.000714	0.000235
7	0.000704	-0.000730	-0.000739	0.000245
8	0.000702	-0.000809	-0.000736	0.000272
9	0.000933	0.000213	-0.000263	-0.000343
10	0.000831	4.99E-05	-0.000340	-0.000282

Investment showed a negative trend response to economic growth. This signifies that in the short and long term, shocks or decreases in investment will cause further negative trends. This condition occurs due to investment that grows unevenly and mainly in urban areas. Therefore, legal certainty or provisions are required in each region or province to develop the investment sector. The Variance Decomposition (VD) test results in Table 7 shows that in the first period, the Gross Domestic Product itself influenced the Gross Domestic Product. However, as the period progressed, other variables began to influence it, although the effect was not as large as the Gross Domestic Product itself. Government spending had the second-largest effect after the Gross Domestic Product (GDP) variable.

Table 7. Decomposition of Variances

Period	D (Y_PDB)	D (X1-Financing)	D (X2_Government Spending)	D (X4_Investment)
1	100.0000	0.000000	0.000000	0.000000
2	99.45547	0.148887	0.147441	0.248205
3	99.32541	0.188118	0.281474	0.204998
4	99.14979	0.178731	0.475963	0.195517
5	84.41491	7.389427	7.442908	0.752758
6	77.13517	10.76120	10.96099	1.142635
7	71.08206	13.58500	13.86250	1.470441
8	65.80987	16.46654	15.92140	1.802193
9	66.74059	15.58983	15.23757	2.432014
10	67.33560	14.76147	15.11864	2.784289

Conclusion

Temporarily, Islamic bank financing does not significantly influence economic growth in Indonesia. However, in the long term, it has a negative effect on economic growth. The government spending does not show an immediate significant effect on economic growth in Indonesia. However, in the long term, it has a positive impact on economic growth. Investment does not show an immediate significant effect on economic growth in Indonesia. However, in the long term, it has a negative effect on economic growth. This is due to the global economic crisis, an unfavorable investment climate due to low public services, uneven distribution of investment in Indonesia, and weak legal certainty. Low public services occur due to the lengthy time required for licensing and bureaucracy as well as the existence of illegal fees.

The active role of Islamic banks in increasing the proportion of Islamic bank financing distribution in the real sector is highly significant for economic growth. In the aspect of government spending, it is necessary to prioritize the Indonesian government on productive development spending that strengthens economic structure and growth. Furthermore, in the investment sector, there is a need for targeted investment direction to increase broad employment opportunities for the community. This helps to reduce unemployment while increasing consumption and investment capabilities. Therefore, economic growth in Indonesia will experience positive growth in the future.

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Trade Agreement and Economic Growth: Evidence in D-8 Countries

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Abstract

The D-8 organization was established to accelerate the economies of eight developing countries that joined the OIC, but the data showed a decline in the share of the D-8 countries towards the total GDP of developing countries. Thus, this study examines whether there are differences in economic growth between D-8 and non-D-8 countries. The tests were carried out on eight D-8 member countries and eight non-D8 countries. Using panel regression with a fixed-effect model, the study results indicate differences in economic growth between D-8 and non-D-8 member countries. These results indicate that joining D-8 made a significant contribution to its member countries. In addition, all control variables such as political stability, population, export, and human development index show a positive impact on economic growth.

Keywords:

trade agreement, economic growth, D-8 countries, OIC countries.

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Introduction

In 1997, eight developing member countries of the OIC (namely Malaysia, Iran, Indonesia, Turkey, Egypt, Pakistan, Bangladesh, and Nigeria) joined forces to form the D-8 organization to strengthen the economy and trade between members facing the global economy. Research conducted by SESRIC (2016) shows that the economy of D-8 countries is worse than non-D-8 countries. This condition raises a question in this study whether joining the D-8 organization will improve the economic performance of its member countries, where one of the performance measures is economic growth.

Economic globalization will have a significant impact on macroeconomic stability (de Mendonça & Nascimento, 2020). Economic relations between developing countries and developed countries are pretty complex. This relationship usually goes through two channels. The first route is through the transfer of resources in loans from developed to developing countries. Then the second route is through trade between countries (Maoz et al., 2011). The number of free trade agreements has increased quite dramatically in the early 1990s, both in bilateral agreements and in the form of organizations (Hur & Park, 2012). The free trade agreement will stimulate the economy by increasing trade volume. However, this agreement will have a negative impact on non-member countries (Jin et al., 2006). Regional trade agreements will promote growth for non-WTO member countries but have a weak influence on WTO member countries (Liu, 2015). Regional trade will be able to predict positive economic growth (Okora et al., 2020). Trade openness will positively impact economic growth in Pakistan (Hey et al., 2016; Zafar, 2020).

Trade organizations will positively affect the economies of their member countries (Lawton et al., 2017). Trade liberalization policies will positively impact economic growth both in the short and long term (Manwa & Wijeweera, 2016; Baier et al., 2018). Developing countries will face higher fixed trade costs compared to developed countries. This condition shows how important it is for the government to prepare a solid economic structure in the face of trade liberalization. Economic integration, especially between developing countries and developed countries, will create a broad market (Ostadi & Shoaie, 2015). One of the things agreed upon in economic integration is a trade agreement. Principally, a trade agreement aims to increase the intensity of trade between its member countries.

Othman et al. (2013) show that not all member countries benefit from the agreed trade agreement. In addition, the impact of trade agreements on economic sectors varies from country to country. The growth in the value of trade transactions with non-member countries is higher than that of fellow member countries (Almasi, 2012). Ostadi & Shoaie (2015) show that the variables (such as total GDP of parties involved in trade, the difference in per capita income, and geographical distance) impact the trade potential of the G8 and D8 countries. But, the variable of similarity in economic size does not have an impact on their trade potential. Those countries with lesser economic power could gather together as a framework of economic zones and create a larger union. The union needs a leader from advanced countries to become successful.

Several previous studies have shown that exports contribute to economic growth in a country. The economy will benefit from the increase in export (Kivaluz & Topcu, 2012; Shafiullah et al., 2017). Export growth in a country will trigger higher economic growth (Chen & Dong, 2012; Marwan et al., 2013; Szkorupova, 2014; Yee Ee, 2016). Bahmani-Oskooee & Oyolola (2007), Nushiwat (2008), and Dritsaki & Stiakakis (2014) found a two-way causality relationship between exports and economic growth in a country. Dritsaki (2013) found a unidirectional causality relationship between exports and economic growth in Greece. Nwosa et al. (2019) shows that export diversification has a positive influence on economic growth in Nigeria.

However, there are several other studies that have found different results. Sujianto et al. (2020) shows that economic growth negatively responded to net export savings. Kartikasari (2017) found that exports had no effect on economic growth. One of the things that cause this condition is the small volume of exports. Tang & Abosedra (2019) mentions several reasons that cause exports to accelerate economic growth. First, increasing the volume of exports will create job opportunities. Increasing job opportunities will have an impact on improving economic performance. Second, an increase in the country's foreign exchange reserves as an implication for export growth. The increasing foreign exchange reserves will strengthen the domestic currency. Third, competition between exporting countries will increase efficiency in the economy. Fourth, the availability of pathways for renewing new technologies as a result of increased exports. New technologies will increase productivity and in turn have an impact on economic growth (Nugroho et al., 2019b).

SESRIC (2016) concludes that the D-8 countries need to intensify the effort and policy to improve the competitiveness through reforms and policy-action in different domains of socio-economic life from regulatory framework to basic infrastructure. These reform and policy actions will improve the competitiveness and boost the productivity growth. So, it will increase the standards of living. Asturias et al. (2016) suggest that the developing countries should adopt policy reforms. The government should design a multi-level approach to understanding financial reform (Bakir & Woo, 2016).

Research related to the impact of the D-8 organization on the economies of its member countries is still limited. So that research can make a significant contribution to show whether the D-8 organization can have a significant influence on its member countries. This study aims to examine whether joining the D-8 organization has an impact on the economic growth of its member countries.

Methods

To answer the research objective, namely whether the D-8 organization has an influence on the economic growth of its member countries, eight D-8 member countries and eight OIC member countries that are not members of the D-8 will be used. The countries that are the objects of this research shows in Table 1.

To answer the research objective related to the impact of the D8 organization on the

economic growth of its member countries, a panel regression with dummy variables will be used. Adding eight OIC countries that are not members of D8 does the dummy variable. It aims to determine whether there are differences in economic growth between D8 member countries and non-D8 member countries. The mathematical equation proposed to answer the purpose of this study is:

$$\text{Growth}_{it} = \alpha + \beta_1 \text{D_members}_{it} + \beta_2 \text{Pol_Stab}_{it} + \beta_3 \text{Ln_population}_{it} + \beta_4 \text{Ln Export}_{it} + \beta_5 \text{HDI}_{it} + \varepsilon_{it}$$

Where:

Growth_{it} = economic growth of D-8 members;

D_members = dummy variables for members countries, which:

0 : non-D8 member countries

1 : D8 member countries

PolStab_{it} = political stability index from each countries;

Ln_Pop_{it} = population from each countries;

Ln_Exp_{it} = amount of export from each countries;

HDI_{it} = human development index from each countries;

Table 1. Object of Research

No.	D-8 Countries	Non-D8 Countries
1	Bangladesh	Algeria
2	Egypt	Brunei Darussalam
3	Indonesia	Iraq
4	Iran	Kazakhstan
5	Malaysia	Kuwait
6	Nigeria	Morocco
7	Pakistan	Saudi Arabia
8	Turkey	Tunisia

The technique of analysis to estimate the parameter of this research is by using a panel data regression. Several models can use, such as First, the pooled regression model. This model is one type of model that has constant coefficients, referring to both intercepts and slopes. For this model researchers can pool all of the data and run an ordinary least squares regression model. The second model is fixed effect model. The fixed effect model is the differences across cross-sectional units that can be captured in differences in the constant term and the intercept term of the regression model varies across the cross sectional units. In this model, α_j is the intercept term that represents the fixed country effect. The third model is random effect model. In the random effect model, the individual effects are randomly distributed across the cross-sectional

units and in order to capture the individual effects, the regression model is specified with an intercept term representing an overall constant term. On this research is using panel regression with fixed effect model, because we assume that the intercept is not constant (Hiestand, 2005).

There are several steps in this research, such as: first, run the estimation using the fixed-effect model. Second, do the Chow-test to choose between pooled ordinary least square or fixed-effect models. Third, do the Hausman-test to select between fixed effect model and random effect model.

Result and Discussion

The first step in this section is to find the best model between the ordinary least square model and the fixed effects model. Testing to find the best model is done using the Chow test. Table 2 shows a significant Chow test results, the results show that the null hypothesis is rejected, so the model chosen is the fixed effect model. The result implies that the fixed effect model is better used than the ordinary least square model. This shows that each individual in the research model has a different intercept for each subject (cross-section), but the slope of each subject does not change over time.

Table 2. Chow-Test Result

Effects Test	Statistic	d.f.	Prob.
Period F	2.708890	(14,220)	0.0011
Period Chi-square	38.169413	14	0.0005

The second test is to choose the best model between the fixed effect model and the random effect model. The random effect model is due to variations in the value and direction of the relationship between subjects and is assumed to be random, specified in the form of a residual. The random effect model estimates panel data where the residual variable is thought to have a relationship between time and between subjects. Tests are carried out using the Hausman test. The results in Table 3 show that the null hypothesis is rejected, so a more stable model to use is the fixed effect model.

Table 3. Hausman Test Result

Correlated Random Effects - Hausman Test			
Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	35.904856	5	0.0000

Table 8 shows the empirical results of the overall model, both ordinary least square, fixed effect, and random effect. The empirical results show that the entire model

shows a significant constant value. This result shows that if all variables are considered zero, then a country will still have economic growth as the coefficient stated in the empirical results.

The results of the research are in Table 4 indicates that the dummy members variable shows a significant result. This shows that there is a difference in economic growth between D-8 and non-D8 member countries. A positive sign indicates that joining the D-8 organization makes a positive difference for its members. Iqbal (2013) states that developing eight organization aspires to become a dynamic economic group for promoting sustainable development. Trade organizations will be able to have a positive impact on their member countries (Lawton et al., 2017). D-8 member countries must be able to play a role in world trade, especially to fight the hegemony of the world trade organization. Although, Fung et al. (2010) shows that the developing country will have fewer 'unfair' concession of market openings, and will be better off with the WTO and with rules of non-discrimination.

Trade agreement should reduce trade barriers between countries. Febriningtyas et al. (2018) state that rules of origin that indirectly serve as trade barriers, thus raising the potential for increased production costs. Widyastutik et al. (2017) shows that the elimination import tariff will improve the welfare. Mareta (2018) conclude that reducing tariff barriers will promotes total trade volume. Government should give an incentive to encourage investment in export industries through different channels (Agarwal & Mutra, 2010).

Table 4. The Empirical Result

Variable	Model 1: PLS	Model 2: FEM*	Model 3: REM*
C	3.680704*** (0.518975)	3.840533*** (0.501595)	3.680704*** (0.494320)
D_Members	0.180852*** (0.049531)	0.182480*** (0.047194)	0.180852*** (0.047178)
Pol_Stab	0.010417*** (0.002219)	0.005863*** (0.002275)	0.010417*** (0.002114)
Ln_Population	0.319406*** (0.026864)	0.2970245*** (0.026700)	0.319406*** (0.025588)
Ln_Export	0.642073*** (0.028653)	0.664807*** (0.029436)	0.642073*** (0.027291)
HDI	1.849610*** (0.339711)	0.976528*** (0.369409)	1.849610*** (0.323572)
R-squared	0.936547	0.945877	0.936547
Adj R-squared	0.935191	0.941202	0.935191
F-stat	690.7496	202.3573	690.7496

Note: ***(1%), **(5%), *(10%)

The second factor that affects economic growth is political stability. The three models show significant results on the political stability variable. A positive sign indicates that the more stable the political condition of a country is, the higher its economic growth will be. A conducive political situation, one of which is the result of a good democratic climate which will have a significant impact on the economy in a country (Abu et al., 2015; Radu, 2015a). Chen & Feng (1996) show that several conditions such as the instability of the regime of power, political and group polarization, and repression by the government will have a negative impact on economic growth in a country.

Political stability plays an important role in economic conditions in a country. Alesina et al. (1996), by defining political instability as the propensity of government collapse, they show that in countries with a high propensity of government collapse, the growth is lower than otherwise. The instability of the political system will have a negative impact on economic growth (Tabassam et al., 2016; Kaplan & Akçoraoglu, 2017). Political instability will increase the uncertainty of the situation and economic conditions in the future (Gurgul & Lach, 2013; Murad & Alshyab, 2019). Murad & Alshyab (2019) show that political instability will affect the capability and credibility of a government. Uddin et al. (2017) show that political instability is higher in the OIC countries and affects economic growth, especially for the lower and middle-income OIC countries due to the absence of strong economic and political institutions. Mahjabeen et al. (2020) shows that the institutional quality will spur economic growth in D-8 countries.

The view of macroeconomic policies will be shortened due to political instability. This will cause frequent changes in economic policy and create uncertainty and volatility. So the instability condition will give an impact on macroeconomic performance decline (Aisen & Veiga, 2013; Jaouadi et al., 2014). Bad government policies will cause stagnation in the economy (Robinson, 1998). Berggren et al. (2015) conducted research on the quality and instability of institutions and policies affecting economic growth in 35 European countries. Stability will result in a more predictable economy. Meanwhile, the instability reflected in the reforms will offer a long-term positive effect. Aksoy (2018) found that structural reforms would have an impact on a country's economy in both the short and long term.

Radu (2015b) shows two reasons why political instability has a negative impact on economic growth. First, political instability will disrupt economic activity and labor relations, so that this has an impact on decreasing productivity. Second, this instability will have an impact on reducing the level of investment, both domestic and foreign investment. Osterloh (2012) states that political conditions in a democratic country will have a good impact on the performance of the national economy. There are four dimensions in political instability such as politically motivated violence, mass civil protest, instability within the political regime, and instability of the political regime (Jong-A-Pin, 2009).

Polachek & Sevastianova (2012) added that the high intensity of conflict in a country will have a direct impact on the economy. The same thing is shown by Aisen & Veiga (2013), where their study shows that political instability will reduce economic growth through decreased productivity and physical and capital accumulation. Institution is one of the main factor for political stability. Nugroho et al. (2019a) and Elbargathi & Al-Assaf (2019) shows that the low-quality institutions will impact negatively on economy. Nushiwat (2008) also state that the role of goverment policy on economy. Nedić et al. (2020) shows that the institutional reforms can give an impact on economic growth.

The empirical results are in Table 4 also shows that the population has a positive impact on economic growth in a country. This shows that the amount of human resources will be a positive driving factor in the economy. Jafari et al. (2011) also show the same result that population of exporter country will affect the export volume in D-8 countries. Headey & Hodge (2009) show that there is an influence between population growth and economic growth, although the effect is weak. Garza-Rodriguez et al. (2016) find that population has a positive effect on per capita GDP, and per capita GDP will affect positively to population. Peterson (2017) shows the opposite result, where in his research find that low population growth in high-income countries is likely to create social and economic problems while high population growth in low-income countries may slow their development. International migration could help to adjust these imbalances but is opposed by many. Besides that, the population will also have an impact on export growth (Wardani et al., 2018).

Table 8 shows that export has a positive impact on growth. This result is consistent with Dritsaki (2013) that shows a unidirectional Granger causality that runs from exports to economic growth. Marwan et al. (2013) also support the export led-growth in the case of Sudan. The export-led growth hypothesis also proves in Sub-Saharan African countries (Yee Ee, 2016), China (Ortiz et al., 2015), Pakistan (Zafar, 2020), ASEAN countries (Sermcheep, 2019), and Asia's four little dragons (Tang et al., 2015). Bahramian & Saliminezhad (2020) find evidence of positive causation from economic growth to export at low and high quantile ranges of export growth. Ostadi & Shoaee (2015) also show that the variables (such as total GDP of parties involved in trade, the difference in per capita income, and geographical distance) have an impact on the trade potential of the G8 and D8 countries. However, the variable of similarity in economic size does not have an impact on their trade potential. Those countries that have lesser economic power could gather together as a framework of economic zones and create a larger union. The union needs a leader from advanced countries to become successful. This result is oposite with Nushiwat (2008) states that the early experiences of the economic growth of the industrialized countries were not export-led growth. This result also oposite with Edo et al (2020) that also found the insignificant impact of export on economic growth in the short-run. Al Arif et al. (2021) also found that export doesn't have an impact on economic growth in D-8 countries.

The last factor affecting economic growth in this study is the quality of human resources as measured by the human development index. The results in Table 8 shows that the quality of human resources has a positive effect on economic growth in a country. This result is consistent with Chirwa & Odiambo (2016) that also shows the direct relationship between human capital development and economic growth. Nugroho et al. (2019b) show that human capital accumulation will be able to increase economic growth in developing countries. This shows that the education budget must be increased because it can increase economic growth (Anvari et al., 2020). In addition, the level of research productivity must be increased in support of sustainable economic growth (Zaman et al., 2018).

Conclusion

This study aims to examine analyze does joining the D-8 countries give an impact on the economic growth for its members. The result shows that there is a difference in growth between D-8 countries and non D-8 countries. This result implies that joining D-8 organization gives a good impact for the growth of its' members. In addition, all control variables such as political stability, population, export, and human development index show a positive influence on economic growth.

The results of this study provide several policy implications. First, D-8 member countries need to strengthen and increase trade between members. Second, governments in D-8 member countries need to create political stability to ensure certainty in economic conditions. Third, each D-8 member country needs to increase the competitive advantage of its superior export products.

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Determinants of Behavioral Intentions to Use Sharia Financial Technology

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Abstract

The growth of sharia fintech is not proportional to the majority of the Muslim population. There are only a few studies that discuss the behavioral intentions of consumers who use sharia fintech. This study aims to identify the factors influencing Muslim's behavioral intentions in using sharia fintech. This study conducted 400 respondents in four types of sharia fintech (digital payment, lending, crowdfunding, and risk and management). This study uses a structural Equation Modeling - Partial Least Square (SEM-PLS) approach. Variable Planned behavior (PB), Acceptance Model (AM), Use of Technology (UT), Digital Literacy (DL), and Sharia Financial Literacy (SFL) have significant positive effects on Behavior Intention (BI). This study provides recommendations to improve the distribution of internet access infrastructure and the right curriculum in increasing digital literacy, Islamic finance literacy, and also more accessible fintech services.

Keywords:

acceptance model, behavior intention, digital literacy, sharia fintech, sharia financial literacy.

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Introduction

The digital economy in Indonesia has great potential to develop rapidly. The Oxford Economics Report (2016) stated that it is projected to contribute an additional 640 million USD to Indonesia's Gross Domestic Product (GDP) for every one percent increase in internet penetration. Google & TEMASEK (2018) explained that one of the critical factors in the development of the digital economy is a large number of internet users in Indonesia. In 2020, Indonesia experienced a significant increase in internet penetration over the past decade. In 2019-2020 internet penetration as measured by the percentage of internet users from the total population increased by 14.90%, or 62.60% of the total population. It was contrasting to the year 2018-2019, which only increased by 7.90% or 47.69% of the total population of Indonesia.

Fintech has changed the way consumers and investors conduct financial transactions (Huei et al., 2018). Based on the KPMG report (2020), global investment in fintech companies reached USD 4,256,202 million in 2018. It is projected that in 2022 global transactions will reach USD 7,971,957 million with a predicted growth of 17%. Jung (2016) explained that the fintech industry segment refers to the payment business, loan facilities, crowdfunding, financial advisors, and insurance. Based on the AFTECH report (2020), in 2020, the fintech industry players increased to 362 members from the previous year in 2019, which was only 275 members. Bank Indonesia (2020) reported that in 2020 there were 353 million electronic money instruments with total transactions reaching IDR 16.1 trillion. The development of sharia fintech lending is still far behind compared to conventional fintech lending. In 2020, the percentage of sharia fintech lending was only 7.2% of the total fintech lending in Indonesia. Fintech crowdfunding in ZISWAF's management in Indonesia has excellent potential with 87.21% of the Muslim population. The fintech mix will make it easier for the Muslim community to fulfill its religious obligations.

The demand for digital and cashless transactions worldwide affects the attitudes of fintech users and their adoption, which has undergone drastic changes (Alalwan et al., 2017; Leong et al., 2013). Researchers have extensively explored various aspects of fintech payment services which are considered as a universal payment solution for consumers as well as merchants, and influence behavioral intentions as well as technology use (Alalwan et al., 2017; Ramos de Luna et al., 2019; Slade et al., 2015). Consumers prefer technology that provides fast, convenient, and valuable services on a single platform. Fintech services demonstrate advanced multipurpose techniques that include such features (Abhishek & Hemchand, 2016; Schierz et al., 2010; Shin, 2009; Thakur & Srivastava, 2014).

Low awareness of technology, privacy norms, resistance, innovation, infrastructure support, benefits, and uses are the main obstacles to shifting to digital things. Therefore, people only focus on the few advantages they will receive if they use fintech (Oliveira et al., 2016). The sophistication of technology can enhance cost efficiency and support modernization and innovation (Mukhtar & Ahmad, 2010). Personal data security issues become another concern for consumers when making payments through fintech (Hossain

et al., 2019; Apanasevic et al., 2016). The long-term use of fintech is defenseless and dubious (Ryu, 2018). There is a need for research that proposes critical factors that influence people's intention to keep using digital financial services (Rana et al., 2015).

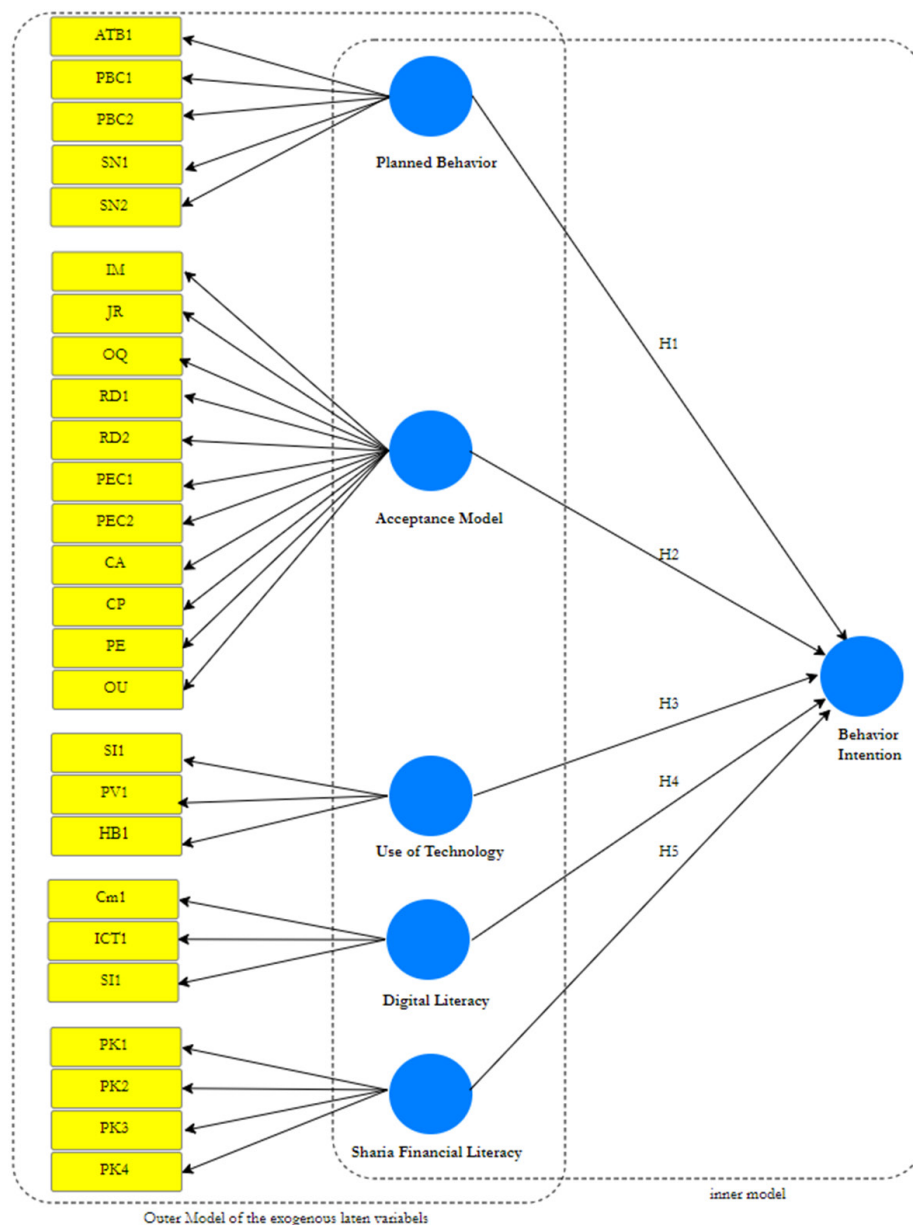
This study uses the theory of Planned Behavior (PB) developed by Ajzen (1985) with indicators of Attitude Toward Behavior (ATB), Perceived Behavior Control (PBC), and Subjective Norm (SN), which have been proven to explain Behavioral Intentions (BI) using sharia fintech (Solomon et al., 2013; Haider et al., 2016; Glavee-Geo et al., 2017; Darmansyah et al., 2020). The Technology Acceptance Models (AM) (TAM) 2 and (TAM) 3 proposed by Davis (1989) have an Image (IM) indicator construction; Job Relevance (JR); Output Quality (OQ); and Result Demonstration (RD). Meanwhile, TAM 3 indicators are Perception of External Control (PEC); Computer Anxiety (CA); Computer Playfulness (CP); Perceived Enjoyment (PE) has been tested in various countries in estimating the behavioral intention to use sharia fintech (Zhang et al., 2018; Akhtar et al., 2019; Thaker et al., 2019; Darmansyah et al., 2020). The Use of Technology (UT) refers to theory (UTAUT) 2 by Venkatesh & Davis (2000) consisting of indicators Social Influence (SI1), Price Value (PV1), Habit (HB1) has been tested empirically in explaining behavioral intentions using fintech sharia (Baptista & Oliveira, 2015; Raza et al., 2018; Mohd Thas Thaker et al., 2020; Darmansyah et al., 2020). Researchers have widely used these theories to explore the intentions of fintech users.

Technology adoption cannot be separated from the role of digital literacy. Digital literacy is the influence of an individual in making the ability to continuously improve, understand, and utilize emerging innovations to make intelligent decisions about the adoption of a new one (Jeremy et al., 1996). Belshaw (2011) stated that one's literacy influences decisions in using and supporting technology. In this case, Muslims' understanding of digital literacy in fintech services is one example of decisions used to adopt technology (Affan, 2019). In addition, the literacy factor can be applied by the community to understand something that has been digitized (Coutinho, 2007). Behavioral intentions and consumer trust are also influenced by the intensity of someone using the service (Stewart et al., 2018).

This study contributes to the literature on Muslims' behavioral intentions to use sharia fintech. To the best of our knowledge, previous studies primarily focused on the customer preferences in adopting mobile banking. Few studies have identified consumer intentions to use sharia fintech. The literature on Islamic banking and finance, according to Narayan & Phan (2019), is mainly focused on the Islamic bank performance (44 percent), equities market performance (24 percent), market interaction (15 percent), and asset pricing (15 percent) (7 percent). Even though FinTech has garnered the attention of stakeholders, its long-term usage remains vulnerable and dubious (Ryu, 2018). Being skeptical of significant and unexpected risks is a barrier to realizing sharia fintech's full potential. This study aims to fill the gap by analyzing the difference between the exogenous (independent) latent variable and the endogenous (dependent) latent variable on the four types of Sharia fintech in Indonesia. This study estimates PB, AM, and UT to explain

BI on the use of sharia fintech. In addition, the novelty in this study is estimating the digital literacy (DL) and sharia financial literacy (SFL) factors in the sharia fintech adoption model. This study provides an excellent opportunity for future researchers to develop theoretical studies of digital literacy, technology acceptance models, and sharia financial literacy closely related to the intention to use sharia fintech in Indonesia.

Figure 1 The Conceptual Framework of the study



Method

This study uses the Structural Equation Modeling technique with Partial Least Square (SEM-PLS), a component-based predictive model with a variance-based or component-based approach. The stages of SEM-PLS analysis according to Ghazali &

Latan (2015): 1) determining the concept of the model; 2) determining the algorithm analysis method; 3) determining the resampling method; 4) determining the path diagram; 5) evaluating the model (evaluating the outer and inner models). This study analyzes four types of sharia fintech in Indonesia: fintech payment, fintech lending, fintech social crowdfunding, fintech risk, and management. The number of samples used was 400 respondents who were obtained by distributing online questionnaires.

Figure 1 shows a framework model used by this study. This study uses five variables: PB using one item of ATB1 indicator, two PBC items, and two SN items. This study adopts 11 indicators of a combination of TAM 2 and TAM 3 on the AM variable. The TAM 2 indicators used to explain AM are IM1 one item, JR one item; OQ of one item; and RD of two items. Meanwhile, the TAM 3 indicator is represented by two items of PEC; one item of CA1, one item of CP; one item of PE1. The UT variable in this study uses three indicators: one item of SI, one item of PV, and one item of HB. The indicators used in the DL latent variables are one item of Functional Skill and Beyond (ICT1), one item of Communication (Cm1), one item of E-safety (Sv1). The SFL variable consists of four indicators, namely PK1, PK2, PK3, and PK4.

Result and Discussion

Characteristics of respondents

Table 1 demonstrates a summary of respondents' characteristics from four types of sharia fintech. It concludes that the majority of sharia fintech service users are male. Sharia, fintech lending users, have a significant gap between male (78%) and female users (22%). The education level of sharia fintech payment users is dominated by high school graduates (58%), fintech lending (59%), fintech crowdfunding (56%), and sharia fintech risk and management (67%). There are zero master graduates found in fintech lending and sharia risk and management. Overall, four types of sharia fintech users remain at the high school education level.

Moreover, Table 1 presents the type of work of sharia fintech users. Fintech payments are dominated by students (39%). The majority of fintech lending users (91%) are entrepreneurs or self-employed. Fintech crowdfunding is dominated by users with the type of company workers (37%). And the rest is financial risk and managing users dominated by students (70%) from higher education levels as investment trends arise among millennials. The majority of sharia fintech users are between 17-25 years old. However, sharia fintech lending is dominated by users aged 26-35 years (70%).

The income and expenses of sharia fintech users are spread into six levels. The majority of payment users have an income between IDR 1-3 million (65%) with an expenditure of less than IDR 2 million in one month (54%). On the other hand, fintech lending (77%) and crowdfunding (52%) are dominated by income levels of IDR 4-5 million, with the level of expenditure of IDR 2-4 million. Risk and management fintech users with an income of IDR 1-3 million (87%) with expenses of IDR >2 million (71%).

SEM-PLS Model Evaluation

The evaluation of the model is carried out through an assessment of the model's size by testing the validity and reliability of latent constructs, then evaluating the structural model and testing the significance of the influence between constructs and variables, Ghazali & Latan (2015). The SEM-PLS analysis goes through two stages of evaluation:

- Evaluation of the Measurement Model (Outer Model)
- Evaluation of the Structural Model (Inner Model)

Table 1 The Descriptive statistics of users: four types of sharia fintech service

characteristic	Sharia Fintech Payment		Sharia Fintech Lending		Fintech Crowdfunding (n=100)		Fintech Risk And Sharia Management	
	(n=100)		(n=100)				(n=100)	
	Sub-totals	% of n	Sub-totals	% of n	Sub-totals	% of n	Sub-totals	% of n
gender								
man	59	59	78	78	51	51	56	56
woman	41	41	22	22	49	49	44	44
Education Background								
Senior High School	58	58	59	59	56	56	67	67
Academy (D1/D2/D3)	7	7	18	18	-	-	5	5
D4/S1/S.Tr	29	29	23	23	32	32	28	28
S2/S3	6	6			12	12		
work								
Student / Student	39	39	-	-	29	29	70	70
employee	22	22	-	-	37	37	19	19
Civil Servants	16	16	-	-	7	7	-	-
Self employed	18	18	91	91	20	20	9	9
Other	5	5	9	9	7	7	2	2
age								
17-25	66	66	27	27	55	55	87	87
26-35	24	24	70	70	42	42	11	11
36-45	6	6	3	3	3	3	2	2
46-55	4	4			-	-		
income								
1 - 3 million	65	65	19	19	42	42	82	82
4 - 5 million	14	14	77	77	52	52	15	15
6 - 10 million	21	21	4	4	6	6	3	3
11 - 15 million	-	-	-	-	-	-	-	-
expense								
< 2 million	54	54			35	35	71	71
2 - 4 million	25	25	96	96	63	63	28	28
5 - 9 million	21	21	4	4	2	2	1	1

Measurement Model Evaluation (Outer Model)

The outer model or known as the outer relation/measurement model explains the relationship between each indicator block and its latent variables. The measurement model is carried out by testing the convergent validity, discriminant validity test, and composite reliability test. Recommendations for convergent and discriminant validity tests if the value of factor loading (FL) (> 0.7) and the value of Average Variance Extracted (AVE) is (> 0.5) (Ghozali & Latan, 2015). Composite reliability which measures a construction can be evaluated with Cronbach's alpha (CA) and Composite reliability (≥ 0.7) (Ghozali & Latan, 2015). The results of the measurement model are shown in Table 2.

Table 2. shows that the values (FL) (> 0.7); (AVE) (> 0.5); (CA) and CR (≥ 0.7) in each construction of the latent variable are higher than the recommended level, so it can be indicated that the model construction has met the convergent validity test, discriminant validity test, and composite reliability test.

Structural Model Evaluation

The evaluation of the inner model is a structural model test to determine the direct or indirect effect between the research variables. The stages of evaluating the inner model are analyzing the R-square value, the Q-Square value, and the path diagram.

Table 2 R-square and Q-Square Test

R Square	R Square Adjusted	Q Square
0.912	0.911	0.750

Based on the R-Square Adjusted test in table 3 shows that the Behavior Intention variable in testing on sharia fintech has a value of 0.911. The effect of exogenous variables on endogenous variables is 0.911 or 91.1%. The value of Q-Square ($Q^2 > 0$) in Islamic finance is 0.750, simultaneously the value of the diversity of this research data can be explained by the structural model equal to 75% so, it can be concluded that the model has predictive relevance.

Table 3 Path Analysis

Research Hypothesis	Path	Path Coefficient	t-statistics	p-values	information
H1	Pb → Bi	2.173	21.127	0.000	Significant
H2	Am → Bi	0.234	5.864	0.000	Significant
H3	Ut → Bi	0.133	4.086	0.000	Significant
H4	DI → Bi	0.732	10.174	0.000	Significant
H5	SFL → Bi	0.224	6.304	0.000	Significant

Based on bootstrap analysis output, all factors have a positive influence on behavior intention. planned behavior ($\beta = 2,173$) = 0.05 ($\rho = 0.000 < 0.05$); acceptance model ($\beta = 0.234$) = 0.05 ($\rho = 0.000 < 0.05$); use of technology ($\beta = 0.133$) = 0.05 ($\rho = 0.000 < 0.05$); digital literacy (DL) ($\beta = 0.732$) = 0.05 ($\rho = 0.000 < 0.05$); sharia financial literacy (SFL) ($\beta = 0.224$) = 0.05 ($\rho = 0.000 < 0.05$). H1, H2, H3, H4 and H5 were supported in this study (See Figure 2).

Planned behavior (PB) has a positive influence on behavior intention (BI) (H1) as much as 2.173. This research reinforces Solomon et al's research, (2013) stating that SN is a social norm that influences one's perception of the adoption of technological innovation. The consumption pattern or behavior of Muslims' society is influenced by the prevailing norms in Islam. The study is also in line with Haider et al. (2016) finding that social norms have a significant impact on the formation of behavioral intentions to adopt mobile banking. The findings in this study support the results of Glavee-Geo et al., (2017) stated that factors influence the intention of individuals in Pakistan to adopt mobile banking. The positive and significant influence of Planned Behavior (PB) on Behavior Intention (BI) to use sharia fintech also strengthens the findings of Darmansyah et al. (2020).

Figure 2 SEM-PLS Inner Model

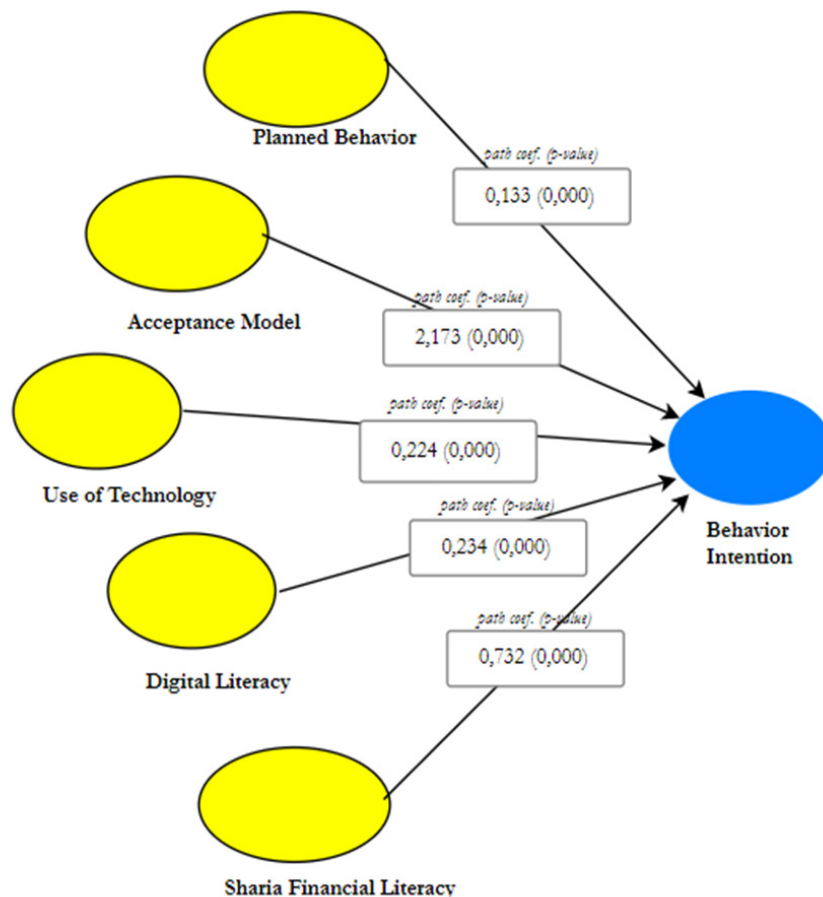


Table 2 Output of the SEM-PLS Outer Model

Items		FI	Cr	Ave	Ca
Planned Behavior (PB)			0.959	0,683	0,953
Indicators	Questionnaire Statement				
ATB1	Using sharia <i>fintech</i> will provide benefits in my life	0.824			
PBC1	I have the resources and knowledge to use sharia <i>fintech</i>	0.753			
PBC2	I can use sharia <i>fintech</i>	0.858			
SN1	People around me believe that using sharia <i>fintech</i> is useful	0.796			
SN2	The popular people I know are sharia <i>fintech</i> users	0.9			
Acceptance Model (AM)			0.907	0,830	0,796
IM1	Using sharia <i>fintech</i> increases my <i>prestige</i>	0.818			
JR1	Using sharia <i>fintech</i> helped me in various transactions	0.877			
OQ1	my performance is influenced by sharia <i>fintech</i>	0.908			
RD1	I can easily acquire the financial benefits of sharia <i>fintech</i> services	0.797			
RD2	I can easily obtain non-financial benefits (time and energy), which I get from sharia <i>fintech</i> services	0.773			
PEC1	I have full access to the Sharia fintech application used (account and password)	0.897			
PEC2	Sharia <i>fintech</i> application is compatible with the software (operating system) I use	0.892			
CA1	I'm not worried about transaction failure if I use the sharia <i>fintech</i> application	0.917			
CP1	I carefully operate systems or technologies in sharia <i>fintech</i> applications	0.733			
PE1	I think using sharia <i>fintech</i> is effective	0.715			
OU1	I think sharia <i>fintech</i> is faster and cheaper than other transaction methods (<i>offline</i> transactions)	0.727			
Use of Technology (UT)			0.881	0,713	0,797
SI1	Most of the people around me use sharia <i>fintech</i> applications.	0.866			
PV1	Sharia <i>fintech</i> applications have an affordable cost.	0.84			
HB1	The use of sharia <i>fintech</i> applications has become a habit for me.	0.842			

Items		FI	Cr	Ave	Ca
Digital Literacy (DL)			0.916	0,685	0,884
ICT1	I have the ability in the field of information technology to operate a computer / <i>smartphone</i> and the internet	0.853			
Cm1	I can communicate through digital technology media	0.894			
Sv1	I can guarantee security when exploring digital technology	0.782			
Sharia Financial Literacy (SFL)			0.961	0,861	0,946
PK1	I understand the basic knowledge of Sharia finance	0.946			
PK2	The working system of the sharia economy uses the principle of profit-sharing in a business cooperation	0.911			
PK3	I know the products (savings, insurance, and investments) in sharia digital finance	0.947			
PK4	I know of financial transactions that contain elements	0.907			
Behavioral Intention (BI)			0.886	0,721	0,808
BI1	I intend to use sharia <i>fintech</i> application in the future	0.92			
BI2	I will always try to use sharia <i>fintech</i> applications in my daily life.	0.902			

The acceptance model (AM) had a positive influence on behavior intention (BI) (H2) of 0.234. This study supports Zhang et al. (2018) show that some TAM indicators are reflected by the emotional reaction of consumers to use financial technology applications. Acceptance Model (AM) has also been proven in the research of Thaker et al., (2019) which explored the factors that influence consumer decisions in using mobile banking in Malaysia. This study supports Akhtar et al. (2019) research on the effect of several TAM indicators on the adoption of mobile banking in Pakistan and China. This research also supports Zhang et al. (2018) which shows that some TAM indicators include Perceived Enjoyment (PE), which is reflected in the emotional customer reaction to using the application, significantly affects the attitude of customers which in turn affects the intention to adopt mobile banking. The positive and significant influence of the Acceptance Model (AM) on Behavior Intention (BI) on the use of sharia fintech in this study reinforces the findings of Darmansyah et al. (2020).

The Use of Technology (UT) has a positive effect on behavior intention (BI) (H3) of 0.133. The results of this hypothesis test support the research of Baptista & Oliveira (2015) which uses UTAUT as a guiding framework for understanding behavioral intentions towards mobile banking adoption in Africa. The research of Raza et al., (2018)

was also successfully supported in this study, where the habit indicator (HB) is a factor that affects the acceptance of Islamic mobile banking in Pakistan. The research of Mohd Thas Thaker et al., (2020) has confirmed that some representative components such as perceived values are important in adopting technology. In this study, the positive and significant effect of The Use of Technology (UT) on Behavior Intention (BI) on the use of Sharia fintech strengthens the findings of Darmansyah et al. (2020).

Digital literacy (DL) has a positive influence on behavior intention (H4) of 0.732. This finding has been proven by Hargittai & Hinnant (2008) and Howard et al. (2020) who explained that literacy is a strong predictor of the use of digital activities such as searching for information and online banking by individuals. Rodríguez-de-Dios et al., (2018) found that digital literacy can help consumers improve their ability to use digital financial services. Elhajjar & Ouaida (2019) also strengthens this study by their findings that digital literacy significantly influences consumer attitudes in using digital banking services in Lebanon. Furthermore, the research of Nedungadi et al. (2020) stated that digital literacy is important so people can access financial services safely.

Sharia financial literacy (SFL) has a positive influence on behavior intention (H5) of 0.224. This research supports research conducted by Morgan & Long (2020) which stated that the correlation between financial literacy is very close to the awareness of almost all fintech products. Performance expectancy and financial literacy have a positive and significant impact on behavioral intentions to adopt fintech.

Behavior Intention for Four Types of Sharia Fintech

Data analysis in this study was carried out in two stages. The first stage to examine the overall research variables for Sharia fintech. The analysis is continued by comparing four competing models for sharia fintech types, they are sharia fintech payment, sharia fintech lending, fintech crowdfunding (donation-based), and sharia fintech risk and management. Figure 3 describes the analysis of the path diagram to compare four types of sharia fintech consisting of 1) sharia payment fintech; 2) sharia fintech lending; 3) fintech social crowdfunding; 4) sharia fintech risk and management.

The table 5 shows the evaluation of the path analysis comparison of four types of Sharia fintech. In the type of sharia fintech payment, all variables have a positive and significant influence on Behavior Intention. Planned behavior shows the value ($\beta = 0.151$) ($p = 0.000 < 0.05$; = 0.05); Acceptance Model (AM ($\beta = 2.705$) ($p = 0.000 < 0.05$; = 0.05); Use of Technology ($\beta = 0.345$) ($p = 0.000 < 0.05$; = 0.05); Digital Literacy ($\beta = 0.403$) ($p = 0.000 < 0.05$; = 0.05); Sharia Financial Literacy ($\beta = 0.981$) ($p = 0.000 < 0.05$; = 0.05). Sharia fintech (Figure 3) has a positive and significant impact on (BI) in sharia fintech payments, sharia fintech lending, fintech crowdfunding (donation based) and has no effect on sharia fintech risk and management contrary to the research of Darmansyah et al. (2020) which found that the positive and significant influence of (PB) on (BI) only occurred in the type of sharia fintech payment.

In the type of sharia fintech lending, all variables have a positive and significant

influence on (BI). In the type of Fintech Crowdfunding (donation-based), there is one variable that is not significant, namely the Use of Technology variable with coefficient value ($\beta = 0.122$) ($p = 0.095 > 0.05$; = 0.05). However, other variables have a positive and significant effect on Behavior Intention (BI). In sharia fintech Risk and Management there is also one variable that does not have a significant effect on (BI), namely the Planned behavior variable ($\beta = -0.089$) ($p = 0.113 < 0.05$; = 0.05). However, other variables have a positive and significant effect.

Figure. 3 SEM-PLS results: four competing models of sharia fintech

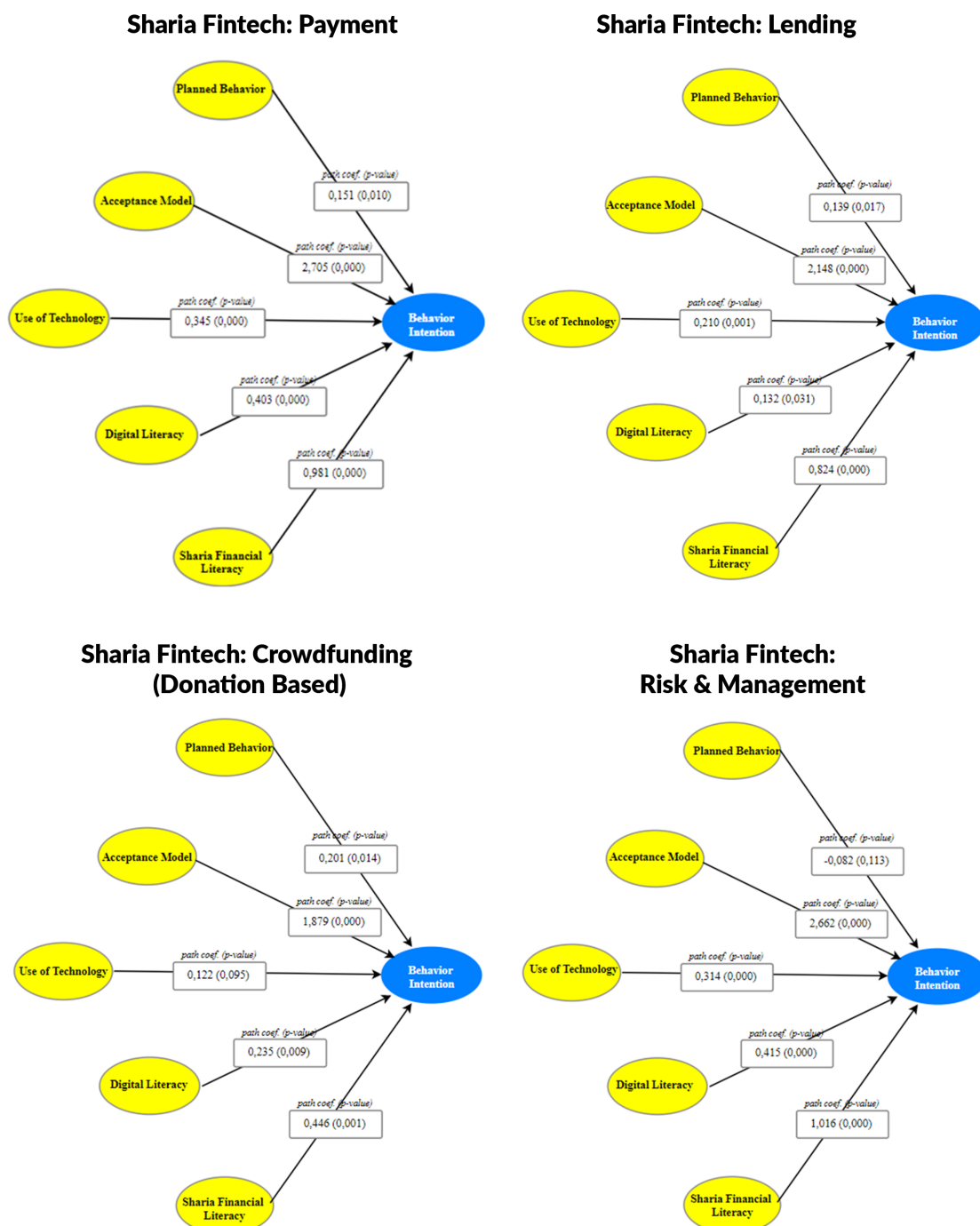


Table 5 The Direct relationship of the Structural Model of the Four Types of Sharia Fintech

Types of Sharia Fintech	Statistical Test	Research Hypothesis				
		H1	H2	H3	H4	H5
		PB → BI	AM → BI	UT → BI	DL → BI	SFL → BI
Sharia Fintech: Payment	Path Coefficient	0.151	2.705	0.345	0.403	0.981
	t-statistics	2.327	11.493	4.969	4.367	6.920
	p-values	0.010	0.000	0.000	0.000	0.000
	Sig.	Significant	Significant	Significant	Significant	Significant
Sharia Fintech: Lending	Path Coefficient	0.139	2.148	0.210	0.132	0.824
	t-statistics	2.127	12.395	3.010	1.861	6.100
	p-values	0.017	0.000	0.001	0.031	0.000
	Sig.	Significant	Significant	Significant	Significant	Significant
Shariah Fintech: Crowdfunding	Path Coefficient	0.201	1.879	0.122	0.235	0.446
	t-statistics	2.204	8.862	1.308	2.379	2.994
	p-values	0.014	0.000	0.095	0.009	0.001
	Sig.	Significant	Significant	Insignificant	Significant	Significant
Shariah Fintech: Risk and Management	Path Coefficient	-0.082	2.662	0.314	0.415	1.016
	t-statistics	1.209	10.326	4.072	4.322	6.642
	p-values	0.113	0.000	0.000	0.000	0.000
	Sig.	Insignificant	Significant	Significant	Significant	Significant

In a comparison of four types of sharia fintech (Figure 3), Darmansyah et al. (2020) found that the positive and significant influence of the (AM) on (BI) only occurred in the types of sharia fintech payments and fintech crowdfunding. Contrary, this study found that the (AM) and (BI) positive and significant influence occurred in all four types of sharia fintech explained before.

The positive and significant influence of the (UT) on (BI) occurs in sharia fintech payments, sharia fintech lending, fintech crowdfunding (donation-based), and sharia fintech risk and management. This result is contrary to the research of Darmansyah et al. (2020), which found that the positive and significant effect of (UT) on (BI) only occurred in the types of sharia fintech payments and sharia fintech lending. The analysis conducted on four types of sharia fintech shows that the influence of (DL) and (SFL) on (BI) occurs in sharia fintech payments, sharia fintech lending, fintech crowdfunding (donation-based), and fintech risk and sharia management.

Conclusion

Muslims' behavior intentions in using sharia fintech have been proven to be explained by Planned Behavior, Acceptance Model, Use of Technology, Digital literacy, and Sharia Financial Literacy. All variables have a positive and significant relationship in influencing Muslim behavioral intentions in using Islamic finance. Acceptance Model, Digital literacy, Sharia Financial Literacy are crucial compared to Planned behavior and Use of Technology in influencing Muslim behavioral intentions using sharia fintech. All latent variables influence the use of sharia fintech in sharia payments and sharia lending in this study. However, in fintech crowdfunding, the Use of Technology variable does not show a significant effect. In Sharia fintech risk and management, the Planned behavior variable has no significant effect.

Develop the proper regulatory framework in the education curriculum so that the community can be digitally literate. It is expected that the government and policymakers will continue to improve infrastructure provision to support internet access equitably. Equitable infrastructure plays a vital role in increasing digital literacy. Likewise, sharia financial literacy (SFL) in this study is proven to have a strong influence in explaining the behavioral intentions of sharia fintech users.

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The Role of Islamic Crowd Investing for Sustainable Agriculture in Indonesia

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Abstract

This research was conducted to discover the relationship between Islamic crowd investing and agriculture by exploring and analyzing the Islamic crowd-investing platform, and to describe the importance and benefits of sustainable agriculture in Indonesia. Funding platforms for agriculture are still relatively small in Indonesia. However, the potential for this sector is still very high due to the large number of demands and a large market. A systematic literature review with a qualitative approach research method was used in this study, specifically to review the literature retrieved from computerized databases, manual search, and authoritative texts related to Islamic crowd-investing and sustainable agriculture. This study showed a strong relationship explaining that financial technology, such as Islamic crowd-investing, has an important role not only in terms of funding, but also in achieving sustainable agriculture, which will have an impact on the environment that may potentiate the agricultural sector itself.

Keywords:

financial technology, Islamic crowd-investing, agriculture, sustainability.

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Introduction

The rapid development of technology has an impact on the growth of business and financial services that use website-based technology as a platform. One of the new methods of financial innovation is the crowdfunding method (Belleflamme et al., 2015). This industry was initially used only as a medium for fundraising projects and social or humanitarian activities in the form of donations (Tan, Lu, & Tan, 2016). However, with the development of this method and various forms of projects from organizers, this service is also used for financing, investing, or lending. Hence, this service is not only used for social-based endeavors, but also for profit-oriented businesses (Hornuf & Schwenbacher, 2015). Agriculture is one such sector that makes crowdfunding to be primarily based on investment, i.e., crowd-investing (Mason-D'Croz et al., 2019). The agricultural sector should not be underestimated because it is one of the backbones of livelihood amongst the Indonesian population (Allo et al., 2017).

Investment-based crowdfunding, called crowd-investing, is a unique innovation that is usually carried out by new entrepreneurs who seek a collective venture capital from the crowd, i.e., the public (Tomczak & Brem, 2013). This type of early business can be further developed into a larger business, often known as a start-up business (Rossi, 2014). The existence of various problems in the agricultural sector, such as the shift of land functions or the non-optimal changes of agricultural land management, has also received attention from various parties who are concerned with the agricultural problems in Indonesia (Alisjahbana & Busch, 2017).

Furthermore, another factor of problems for farmers and the agriculture sector is the difficulty of obtaining access to capital or financing, resulting in lost opportunities of cultivating and managing agriculture, both from the upstream and downstream ends of this sector (Syuaib, 2016). Many improvements and arrangements are needed in this sector, one of which is the optimization of investment efforts through financial technology and financing digitization (Utama, 2013). Islamic agricultural crowd-investing is a type of fundraiser for a particular agricultural project by numerous individual contributions. Since agricultural projects require huge capital investments, crowd-investing helps farmers in acquiring capital by giving the opportunity to small-scale investors.

From the prevailing definition, crowd-investing is actually a part of crowdfunding, which is a new instrument in financing start-up businesses (Johnson et al., 2018). However, in Indonesia's context, financial technology companies with this business model are still related to peer-to-peer lending activities or borrowing from several people or individuals, which can also involve organizations and institutions (Iman, 2020). By utilizing the spirit of mutual cooperation or togetherness (*gotong-royong*), the operational system of this business often involves communities or groups of people who want to lend their funds, or participate in investments (Teja, 2017).

Equally, the use of financial technology is also incorporated in the agriculture sector, which has great potential for business (Hinson et al., 2019). Farmers who have limited funds and/or business capital, and have difficulty accessing credit from financial institutions

will have the opportunity to take advantage of the digital financial service technology using the crowd-investing concept as an alternative resource to access a capital that may maximize their farming activities (Bi et al., 2017). In fact, capital is the main obstacle for most farmers, apart from other constraints, such as technology, market information, downstream crops, and climate change, especially for small-scale farmers (Amaruzaman et al., 2017).

Meanwhile, capital is an important internal factor in farming operations. In Indonesia, there are small-scale farmers who obtain capital only to set aside the expenditure to pay off farm operation costs from the previous period or season (Bashir & Yuliana, 2019). With conditions and risks of uncertainty, farmers are at a disadvantage, further burdened by the daily needs of their families. This situation causes farmers to become entangled with adverse loan systems (Duffhues et al., 2011). It is not uncommon for farmers to borrow farming capital from various places. This path usually involves borrowing from financial institutions, both formal ones such as banks, savings, and loan cooperatives, farmer groups, and KUD; as well as non-formal ones such as loan sharks (Asikin et al., 2020).

Farmers often find it difficult to access capital from formal financial institutions (Meutia et al., 2017). In addition, farmers hold negative perceptions toward loans from formal financial institutions as being difficult and expensive (Mariyono, 2019). Farmers still lack detailed information on formal financial institutions and believe that the interest-based repayment system will ensnare them (Findiastuti et al., 2018). Therefore, this is the background for the emergence of the crowdfunding or crowd-investing concept, which can be used as an alternative media to access capital for agricultural activities.

With the intention of bringing together investors and consumers, this operation also functions as a financial intermediary for the farm financing system (Firdaus & Aryanti, 2019). In line with this, the growth of various crowdfunding platforms in Indonesia facilitates agricultural projects or activities in obtaining capital assistance through digital media (Nassiry, 2018). To reach the masses, campaigns must be carried out in an effective manner (Kim et al., 2017), which involves three elements: the fund seekers or the founders; the crowd-investors; and the platform operators (Belleflamme et al., 2015). Although it is often easier and faster for raising funds (Kshetri, 2015), crowd-investors have little knowledge of the venture to be invested in. They completely rely on the information provided by the entrepreneur (Smith et al., 2017).

One of the great potentials of this platform is its ability to adhere to Islamic sharia values as part of business operations (Mujahidin, 2019). Islamic agricultural crowd-investing is a type of fundraiser for a particular agricultural project by numerous individual contributions (Sakinah et al., 2018). Through the sharia crowd-investing approach, risk and liability issues can be managed by the farmers, while the platform becomes the financial intermediary (Saiti et al., 2018). This helps to attain production efficiencies within a form. Crowd-investing in the agriculture sector also imparts the knowledge on agriculture to investors, consumers, and allied enterprises (Ordanini et al., 2011).

Table 1 shows some of the crowdfunding/investing financial technology companies that focus on the agriculture sector as of 14 October 2020, obtained from the Financial Service Authority. Based on the Table 1, the data released by the Financial Service Authority show only few companies with a core business in the agricultural sector. In fact, most of their main businesses usually finance SMEs. However, because there is a market opportunity for agriculture, they still cater to this sector (Mcintosh & Mansini, 2018). This confirms that the agricultural potential is actually very high, since many people still care about agriculture in Indonesia (Suasih & Yasa, 2017). Apart from that, many residents in rural areas are involved in agriculture as one of their livelihoods, demanding this sector to be fully supported by various parties (Wright et al., 2016).

Table 1. Crowdfunding/Crowd-Investing Agriculture in Indonesia.

Name of Company	Core Business	System	Status from OJK
Igrow Asia	Agriculture	Conventional/Profit Sharing	Licensed & Listed
Crowde	Agriculture	Conventional	Licensed & Listed
Tanifund	Agriculture (Upstream & Downstream)	Conventional/Profit Sharing	Licensed & Listed
Lahan Sikam	Agriculture	Conventional	Licensed & Listed
Crowdo	Agriculture, MSMEs	Conventional	Licensed & Listed
Goolive	Agriculture	Sharia-Based	In Process
Tanijoy	Agriculture	Sharia-Based	In Process
MyAgroLand	Agriculture, Land, Field	Sharia-Based	Not Registering
Vestifarm	Agriculture & Aquaculture	Conventional	In Process
Santara	MSMEs, Agriculture	Conventional	Newcomer, In Process

Source: (OJK Indonesia, 2020); Modified by Author

Interestingly, from Table 1, only two of the few companies that obtained permits and have registered with the regulatory agency actually adopt sharia principles in their business operations. The remaining companies only state this on their platforms, but from a legal standpoint in accordance to the criteria set by the institutional authority, they operate with a conventional system instead (Ansori, 2019). Ironically, this practice is contrary to the Muslim majority of the Indonesian society (Djawahir, 2018).

Since the Financial Services Authority and the National Sharia Council have issued 'fatwas' (rulings) for digital financial transactions, especially those related to digital transactions based on sharia principles. Several businesses, such as crowdfunding platforms, have also tried to apply this to their business systems. This present paper has emphasized that crowd-investing is a business model that can enhance and sustain agriculture in Indonesia (Strzębicki, 2015; Teja, 2017) by offering an alternative financing form of

loans or investment, in addition to the existing services offered by financial institutions (Lee et al., 2018).

In the Indonesian context, several financial technology platforms do have great motivation to develop the agriculture sector and help farmers in terms of capital. This provides an opportunity for the agriculture sector to continue to be developed (Ningrat & Nurzaman, 2019). However, the great potential possessed by this sector is not directly proportional to its implementation. Based on the data released by the Financial Services Authority in the second semester of 2020, only several financial technology companies were concerned with agriculture, and have registered or received operational licenses from the OJK as regulators. Other companies registered with regulatory agencies are more focused on financing or microfinancing other investments outside agriculture, such as property — micro, small, and medium enterprises; and other retail businesses (Mittelman & Rojas-Méndez, 2013).

There are many studies that focuses more on developing in depth “fintech” crowd-funding or crowd-investing, such as the characteristics of successful crowd-funding (Yuan et al., 2016), and the factors that influence it (Zhao et al., 2017). On the other hand, few studies discuss this fintech platform with sustainable agriculture. Other researches focus more on microfinance for the MSME sector (Pronti & Elena, 2019; Sa’ad et al., 2019), or more emphasis on the discussion of the consumptive loan process for the household sector of the economy (Gimpel et al., 2018). Furthermore, there are several studies that discuss the agriculture sector, but explore more on the business model and those associated with the marketplace in this industry (Anshari et al., 2019; Ningrat & Nurzaman, 2019; Strzembicki, 2015).

False assumption is the notion that there are not many financial technology companies operating with the concept of crowdfunding or crowd-investing applications on agriculture (Mcintosh & Mansini, 2018). Similar designs and study models related to this matter are relatively few. For example, one study by Mariyono (2019) focused on the access to financing in terms of using microcredit capital in agricultural management, especially in Indonesia. Another study by Muhyiddin (2018) discussed more on the distribution flow or the transformation of agriculture to the manufacturing industry as part of the sector’s development. Although, the attention paid by world institutions shows the support for global agriculture. According to one report by World Bank (2013), there is a need for microfinance institutions to optimize financing for agribusiness, whereas another report by World Bank (2016) stated that digitalization is also needed in maximizing the development of the agricultural sector. Hence, in this paper, we have explored the connection of Islamic crowd-investing and sustainable agriculture in Indonesia, which is still rarely discussed by other researchers. Based on several gaps from the studies that have been described previously, this research aims to discover the relationship between Islamic crowd-investing and the agriculture sector by exploring and analysing the Islamic crowd-investing platform thorough literature. Besides that, the aims of this research also to describe the importance and benefit of sustainable agriculture in Indonesia.

Method

The methods used are qualitative systematic review with an integrative analysis through documents or literature. The systematic review offers several advantages compared to the conventional literature review. The review can be strengthened via a transparent article-retrieving process, a more prominent or wider area of research, and more significant objectives, which can control research bias. Apart from that, this also motivates a researcher to produce quality evidence with more significant results (Johnson & Hennessy, 2019). Key texts (henceforth, referred to as “guidance”) are identified based on accessibility and prominence within the United Kingdom’s systematic reviewing practice (Cooper et al., 2018). The value of systematic review depends on what was done, what was found, and what was clarified from the reporting (Sierra-Correa & Cantera Kintz, 2015; Moher et al., 2015 Okoli, 2015).

The review methods of the present study were conducted using two databases, namely Scopus and Open Knowledge Maps, considering that both databases are reputable. In relation to studies on crowd-investing in agriculture, more than 134 articles in Emerald, 20 results in Scopus, and 56 journals of open access type and non-open access type in Open Knowledge Maps were covered. The appropriateness of this methodology for crowd-investing and agriculture studies review is reflected in four ways (Sierra-Correa & Cantera Kintz, 2015): (i) clearly defining research questions; (ii) explicitly identifying inclusion and exclusion criteria; (iii) assessing a large amount of relevant and available scientific literature as much as possible in a definite time; and (iv) increasing the rigor by using statistics (Morton et al., 2016; Johnson & Hennessy, 2019). A systematic review aims to minimize bias by using explicit methods, and to identify the gaps as well as new directions for future research.

The Systematic review process for selecting articles

Identifications

In this process, a number of present relevant articles were searched, collected, and selected from the databases. With the identification of keywords, this was followed by a search for related and similar terms regarding the topic of research. Therefore, a search string in terms of keywords in Scopus resulted in a total of 156 journal publications. As previously stated, the Open Knowledge Maps scientific database yielded 56 journals and additional records identified through other sources – Science Direct, Taylor Francis, Springer, MDPI database result 13 journals.

Screening

In this process, ten articles were excluded in the first stage, while 225 articles were screened based on several inclusion and exclusion criteria determined by the researchers in the second stage. The first criterion is the literature type, in which the researchers decided to only focus on journals (research articles) because they act as the primary sources that offer empirical data. Hence, this implies that publications in the form of

systematic review, review, meta-analysis, meta-synthesis, book series, books, chapters in books, and conference proceedings were excluded from the current research. In addition, it should be noted that the review only focused on articles that had been published in English.

Eligibility

In the third stage, 115 articles were prepared for screening eligibility. On a more important note, the titles, abstracts, and the main content of all articles in this stage were examined thoroughly to ensure that they fulfil the inclusion criteria of the present study to achieve the research objectives. Consequently, a total of 96 articles were excluded because they were not based on empirical data, and were discovered to be hard sciences articles or those that do not focus on agricultural practices in Asian countries and territories. Finally, a total of 19 remaining articles were ready to be analysed.

Model Development (Data Abstraction)

Full articles were assessed for eligibility. Efforts were concentrated on specific studies that responded to the formulated research questions. The table below shows the inclusion and exclusion criteria of the databases that were searched for extraction and analysis it.

Table 2. The inclusion and exclusion criteria.

Criterion	Eligibility	Exclusion
Literature type Journal	Journals (research articles) indexed by Scopus	Journals (review), book series, books, chapters in books, conference proceedings
Language	English	Non-English
Time line	Between 2018 and 2020	< 2019
Subject area	Social Science, Crowdfunding, Crowd-Investing, Islamic Crowdfunding in Agriculture	Other than Social Science, or Crowdfunding, or Crowd-Investing, or Islamic Crowdfunding in Agriculture

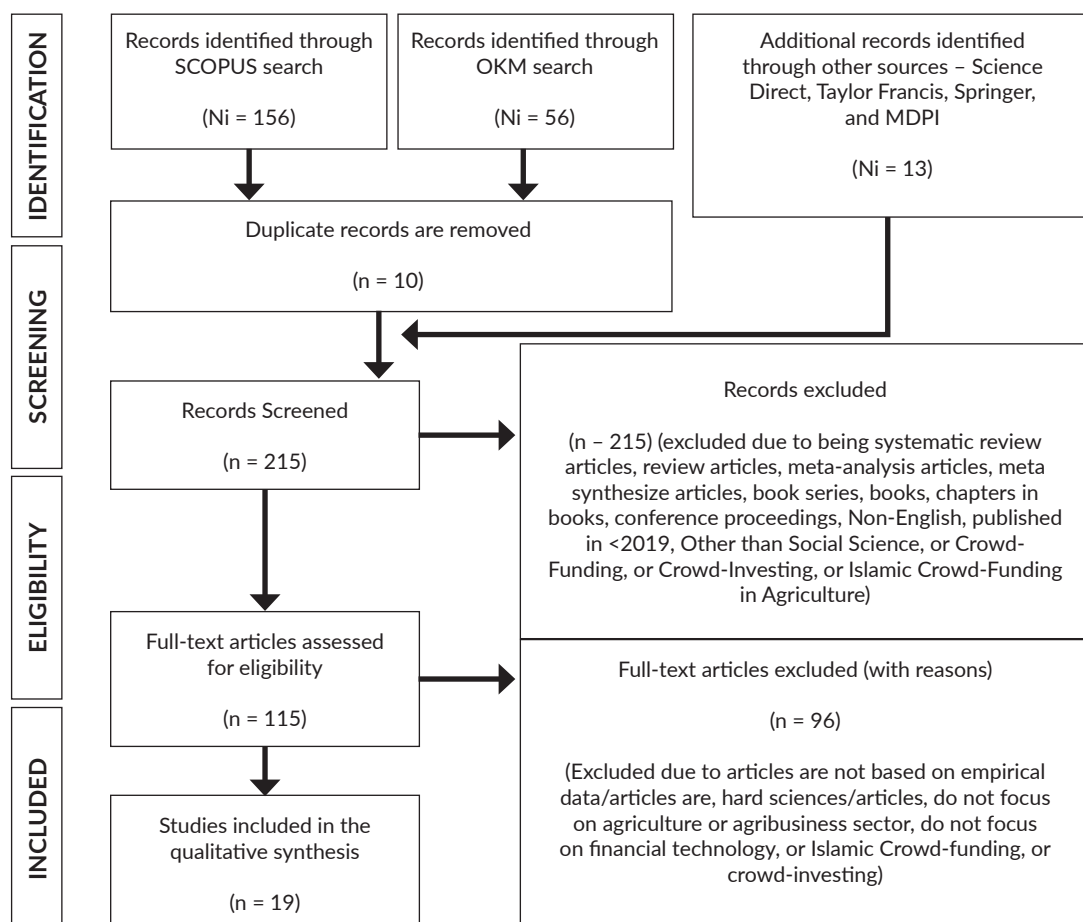
This study performed a comprehensive review technique that analysed and synthesized diverse research designs in the qualitative approach (see Table 2). The process of developing the appropriate themes and subthemes was carried out based on thematic analysis (Shaffril et al., 2019). The first phase of the theme development process was the compilation of data. In this phase, the authors carefully analysed a group of 19 selected articles to extract statements or data that answer the research questions. Subsequently, in the second phase, the authors created meaningful groups via a coding method according to the nature of the data. In other words, the second phase converts raw data into useable data via the identification of themes, concepts, or ideas for more connected data (Charrois, 2015).

Results and Discussion

Based on Figure 1, the systematic review process is explained thoroughly, including analysing and synthesizing the selected final studies for the qualitative synthesis. This process starts from identifying existing database in the online literature (Scopus, Open Knowledge Maps, Science Direct, Taylor and Francis, and MDPI Journal), and is based on some of the criteria mentioned earlier. Then, duplicate records will be removed from the database. Moreover, after the duplicates' removal, several articles were screened to define the exclusion and inclusion criteria of publication. Thus, the final result to analyse was 19 articles, which were selected in the qualitative synthesizes.

As a final point, the process has resulted in the development of three main themes, namely performance of crowd-investing in agriculture, sharia compliance, and sustainable agriculture. Meanwhile, for the subthemes, codes were created which related to project category, funding target, lender motivation, sharia application, and food sustainability. Thereafter, the authors resumed the process in each of the created theme, whereby any theme, concept, or idea that had connections with one another within the developed theme would be channelled into subthemes. Table 3 below shows the result of the data extraction from Figure 1.

Figure 1. The Systematic Review Process



Source: adapted from Moher et al. (2015).

Table 3. The Role of Islamic Crowd-Investing toward Sustainable Agriculture

No	Authors	Performance Crowd Investing Agriculture			Sharia Compliance	Sustainability Agriculture
		Project Category	Funding Target	Lender Behaviour	Sharia Application	Food Sustainability
1	Chang (2018)	v	v	v	-	-
2	Ningrat & Nurzaman (2019)	-	v*	v*	v*	v**
3	Fitriani (2018)	v*	v*	-	v*	v**
4	Hinson et al. (2019)	v	-	-	-	v**
5	Firmansyah & Anwar (2019)	v*	-	v*	v*	v**
6	Anshari et al. (2019)	v*	-	v*	v*	v**
7	McIntosh & Mansini (2018)	v	-	v	-	v**
8	Yoo & Choe (2014)	v	-	v	-	v**
9	Nassiry (2018)	-	v	-	-	v**
10	Saiti et al. (2018)	v*	v*	v*	v*	v**
11	Misso & Cesaretti (2019)	v	v	v	-	v**
12	Muhyiddin (2018)	v	v	v	-	v**
13	Sa'ad, Ahmad, & Saleh (2019)	v*	v*	v*	v*	v**
14	Nielsen (2017)	v	v	v	-	v**
15	Motylska-kuzma (2018)	v	v	v	-	v**
16	Filimonova & Ozerova (2019)	v	v	v	-	v**
17	Asfarian (2020)	v	v	v	-	v**
18	Maehle (2020)	v	v	v	-	v**
19	Li, Du, & Fu (2020)	v	v	v	-	v**

Note:

*Publication with topic sharia compliance and sustainability agriculture

**Publication without sharia compliance

The analysis produced a total of three themes and five subthemes related to the role of Islamic crowd investing in the agriculture sector and sustainable agriculture. As presented in Table 3, the three themes are performance of crowd-investing agriculture (three subthemes), sharia compliance (one subtheme), and sustainability agriculture (one subtheme). More specifically, it should be noted that several selected and eligible paper themes were found to have revealed crowdfunding or crowd-investing performance through their performance projects, while 6 (six) other papers highlighted the importance of sharia compliance to be applied, and the rest focused more on sustainable agriculture models and the systems inside them. Nonetheless, if all papers had been synthesized based on subthemes, each theme could have been connected to other codes. Despite this, not all papers were connected to other themes or subthemes. Yet, in the papers by Fitriani (2018), the findings emphasize that the role of financial technology (crowdfunding/investing/p2p

lending), especially in this digital era, is to further strengthen farmers' capital, in order to optimize facilities and infrastructure for the realization of the sustainability of the agriculture sector in Indonesia.

Meanwhile, Anshari et al. (2019) provide a concept where digital marketplaces and fintech can bridge farmers, investors, and land owners, and can expand the supply chain as well as sustainability in the agriculture sector. This is in line with Ningrat & Nurzaman (2019), where it was conveyed that fintech and Islamic finance can realize a sustainable agriculture value chain. Moreover, Firmansyah & Anwar (2019) mentioned that one of the Islamic crowd-investing companies in the agriculture sector is Goolive as mentioned earlier in Table 1. This confirms that the role of this company has promising prospects if it is optimized and managed with good organization. On a global scale, the role of fintech, whether crowdfunding/investing or p2p lending, has also been conveyed by Saiti et al. (2018) and Sa'ad et al. (2019); those who focus more on the concept of their own financing, namely by using 'salaam' and/or through the 'musharakah' smart contract mechanism, in order to maximize funding in the agriculture sector and this is very possible if implemented in the context of agriculture in Indonesia. Based on previous analyses, this study can represent the research objective (i) regarding the relationship between Islamic crowd investing and the agriculture sector in Indonesia.

Furthermore, to describe the importance and benefit of sustainable agriculture in Indonesia and at a global scale as in research objective (ii), a study by Hinson et al. (2019) revealed the important role of fintech crowd-investing toward the success of sustainable agriculture. Thus, making it part of the development in an effort to realize the SDG as a goal or vision. The study also explained that the role of the Internet is instrumental in the digitalization of the financial sector, so it needs to be improved in relation to other sectors such as agriculture. This was also further stated by McIntosh & Mansini (2018) that the optimization of non-bank financial institutions does not make them distracting, since their presence is able to maximize the functions and empowerment related to the agricultural sector, both for farmers and their surrounding environment such as the community, the society, and the market or industry from upstream to downstream. Moreover, Misso & Cesaretti (2017) explained that the internet and its development play an important role through crowdfunding in maximizing the sustainability of agri-food and agri-enterprise, and to develop a society with higher well-being. In Indonesia, Asfarian (2020) described the designing about mobile crowdfunding to reduce food insecurity and to implement the food security as an innovation through technology, internet, and fintech. Along with other researchers, agri-food through crowdfunding/crowd-investing can also have an impact on a sustainable food community as well as communication, and the factors influence the success of the campaign in order for it to run smoothly (Yoo & Choe, 2014; Pronti & Elena, 2019).

Henceforth, this study has presented the main result of the relationship between Islamic crowd investing and agriculture sector in Indonesia, and the benefit of sustainable agriculture, which can then be summarized below:

The Relationships:

1. Optimizing farmers' capital because it is accessible.
2. Increasing the availability of infrastructure needed by farmers.
3. Islamic crowd-investing can encourage the creation of digital marketplace agriculture in order to realize sustainability.
4. To bridge farmers, investors, and landowners.
5. Through Islamic crowd-investing, it can create supply chain agriculture.
6. 'Salaam' and 'Musharakah' as a process that can maximize funding disbursement in agriculture.

The Benefits:

1. The minimization in food insecurity.
2. The creation of sustainable agriculture value chain.
3. The implementation of agri-food and agri-enterprise.
4. The realization of sustainable food community toward the well-being of society.
5. The achievement of one of the SDGs Goals.

Conclusion

PRISMA is a tool that is relatively comprehensive to use in observing phenomena related to a literature. By reviewing it more in-depth and in detail, it is hoped that research gaps can be detected, whether a study has been done or (maybe) has not been completed by previous researchers. From the systematic review, a guideline can be created, compiled, and collated to use by other researchers in continuing or complementing existing research. In this study, the findings contained in the abstraction data did not limit the existence of codes, themes, and other subthemes that had not been included (or revealed) in this study. However, the existing directions can be used as a basis for reviewing the same topic further and for adding new findings to the latest research. Therefore, the role of Islamic crowd investing has seen an emergence within the agricultural development in Indonesia. Nonetheless, the potential for this sector cannot stand alone, and needs the support from stakeholders and shareholders who are concerned with agriculture as well as its ecosystems.

This research only focuses on the agricultural sector in Indonesia that still needs to be optimized more broadly. Several literatures have found that the relationship between Islamic crowd-investing and sustainable agriculture, if managed properly and by creating new innovations, will certainly be able to achieve food security and reduce the potential for vulnerable food societies in the future.

Based on the results of this research and the conclusion above, this study recommends several policies. As a new financial innovation, crowd investing tries to develop and improve the implementation of sharia regulations. Since it must comply with the system, the government must accommodate supervising and monitoring this application. Building

a digitalization of the ecosystem requires a lot of support from all parties; especially in the increasingly broad financial technology industry; strong infrastructure and optimizing practitioners in this industry are also expected to be maximized. Moreover, capacity building is intrinsic for the maintenance of the world of agriculture, both of locally and globally as well as vertically and horizontally, is urgently required. Hence, the link between industries, such as among crowd-investing fintech and the agriculture sector, can provide functions and benefits that can be experienced by farmers at large.

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Corporate Governance from an Islamic Moral Economy Perspective: The Dimensions and Analysis

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Abstract

Corporate governance from Islamic perspective is derived from Islamic worldview, whereby the God is at the apex and human beings are below Him. However, there is no unified definition of corporate governance under shari'ah point of view. To bridge the applicability of Islamic corporate governance model with Islamic moral economy framework, some key questions to be addressed are as follows. (i) do Islamic corporate governance models consistent with the aspiration of Islamic moral economy? (ii) what are the important dimensions of Islamic corporate governance? (iii) what is the concept of Islamic corporate governance inspired by the ideals of Islamic moral economy? To accomplish the objectives, this paper follows critical review analysis as a methodology, through which it aims to highlight how each Islamic corporate governance model models are being constructed and to compare those models with Islamic moral economy perspective. The paper proposes the suitable model of Islamic corporate governance under the Islamic moral economy perspective.

Keywords:

Corporate governance, Islam, Islamic Moral Economy, Dimensions.

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Introduction

The recent global financial crisis 2009 has gained interest in corporations and banking institutions worldwide. Many corporations and banking firms had to face big losses due to the result of poor governance practices. Amongst the lessons learned from the recent financial crisis is the importance of corporate governance framework to drive accountable, transparent, and efficient business operations. A proper and effective corporate governance structure is important to uplift the performance of any financial institutions. Prior studies in corporate governance literature have examined the relationship between corporate governance and performance (Chang et al., 2016; Crutchley & Hansen, 1989; Daily et al., 2003). Nevertheless, the irregularities and inconclusive results pertaining the relationship are calling for the investigation of corporate governance from the Islamic perspective.

Bringing in the issue of Islamic finance, the unprecedented growth of Islamic banking and finance is likely to have important ramification to the Islamic economics and Muslim countries. Nonetheless, a critical analysis of the remarkable growth in Islamic banking and finance exhibit a contrary development. Islamic banking and finance do not seem to support the aspirations of Islamic moral economy, which emphasizes on both self-individual maximization (*ihsan* or excellence) and society well-being maximization (*'adalah* or social justice) (Asutay, 2013). An important consequence of these aspirations is expected to create corporate governance structure of Islamic corporations with the ultimate objective of creating of a just, participatory, and sharing socio-economic system. Deriving from the ethical propositions of Islam, Islamic corporate governance has a broad spectrum of all economic agents in corporations, encompassing the spiritual and material needs of Islamic community. Yet, studies on Islamic corporate governance have largely neglected the role of Islamic moral economy in essentializing corporate governance framework.

Based on the aforementioned above, this paper is aimed to: (i) discuss the models of Islamic corporate governance and its viability within Islamic Moral Economy perspective, (ii) identify the dimensions that are supposed to be vital for Islamic corporate governance, and (iii) re-defining the Islamic corporate governance by the axiomatic approach of Islamic Moral Economy. In achieving the above objectives, both conventional conceptions of corporate governance and the Islamic approach to corporate governance will be discussed. Moreover, the question whether the mainstream corporate governance structure is suitable for Islamic corporations will be addressed in shaping the analysis of this paper. Ghayad (2008), for instance, argues that the existence of shari'ah board in Islamic banks is substitute for the conventional board of directors. Similarly, Mohammed & Muhammed (2017) regarded that the shari'ah board in Islamic banks is consistent with the stakeholder theory in mainstream governance literature. On the other hand, acknowledging that Islamic corporations operate based on shari'ah principles, Muneeza & Hassan (2014) emphasize that mainstream corporate governance is different with the Islamic corporate governance; while the former is focus on retaining the rights of stakeholders; the latter is focus on preserving the Islamicity of corporations.

To bridge the applicability of Islamic corporate governance models within the framework of Islamic moral economy, some key questions to be addressed are as follows. First, do Islamic corporate governance models consistent with the aspiration of Islamic moral economy? Second, what are the important dimensions of Islamic corporate governance? Third, what is the concept of Islamic corporate governance inspired by the ideals of Islamic moral economy? To accomplish the objectives, this paper follows critical review analysis as a methodology through which it aims to highlight each corporate governance models from both mainstream and Islamic perspective. Besides, the dimensions of corporate governance will be reviewed through manual read by author and calculated using NVivo 10 software.

This paper will fill the observed literature gap by make an assessment of Islamic corporate governance models and the mainstream corporate governance models, emphasizing the epistemology of Islamic moral economy. The paper, in turn, will propose the suitable model of Islamic corporate governance under the Islamic moral economy perspective. The paper suggests that corporate governance in Islam has a vast potential to create a just, participatory, and sharing society that is not only relegated to the removal of agency problems in Islamic corporations and retaining the rights of stakeholders. Nonetheless, this requires concerted efforts to creating participatory society as inspired by Islamic moral economy.

Methods

A qualitative descriptive approach was selected for this research because this approach is beneficial for studies to understand a selected phenomenon in corporate governance field. Kumar (2011) mentioned that a research that is emphasized on description rather than investigating relationships, is regarded as a descriptive research. A qualitative descriptive study aims to describe a particular situation, phenomenon, or describes attributes (dimensions) towards an issue. The data obtained by researcher is collected from first-hand observation through document analysis of corporate governance articles. A qualitative approach also allows the generation of comprehensive insights, for the purpose of this study, of corporate governance dimension from Islamic point of view.

In doing so, the keyword “corporate governance”, “Islamic banks”, and “Islamic perspective” were entered into the major research database such as Science Direct, Emerald Insight, Scopus Elsevier, Wiley-Blackwell, Springer, and Taylor & Francis. This first process provides considerable articles in the form of journal articles, conference papers, reports, and thesis. A further step was undertaken to remove articles from database that use the keywords of corporate governance, Islamic banks, and Islamic perspective yet did not precisely address the issues of corporate governance per se. In sum, 57 articles were included in this study. The review employed articles published between 1990 and 2016. The starting point in 1990 was selected since the seminal paper such as Cadbury Report was released.

To form a deeper understanding of Islamic corporate governance, the characteristics/

dimensions of each article were reviewed through manual read by author and calculated the frequency of each characteristics using NVivo 10 software. If a corporate governance dimension considered by ten authors, hence, this dimension will then have a frequency of ten. These bulk lists of dimensions were listed in a descending order. Figure below exhibits the dimensions of corporate governance in Islamic banking and finance. In most cases, the dimensions of Islamic corporate governance are consistent with the report released by ISRA & Thomson Reuters (2016). According to that report, there are nine corporate governance concepts related to Islamic banks, namely: (i) shari'ah scholars qualifications, (ii) synergies between scholars and practitioners, (iii) standardization, (iv) Accountability, (v) responsibility, (vi) transparency, (vii) trustworthiness, (viii) independence, and (ix) competency.

Result and Discussion

Corporate Governance from Islamic Perspective

Islamic Financial Services Board (IFSB) defines corporate governance as a set of relationship between a company management, board of directors, shareholders, and other stakeholders that provide the structure through which the objectives of the companies are set and the means of obtaining the objectives are determined according to Islamic principles. Corporate governance is not a new phenomenon in Islam. The fundamental of organizing the contractual relationship between partners with respect to the division of responsibilities has been continuously practiced in earlier civilizations (Alnasser *et al.*, 2012). Islam stipulates the concept of writing all forms of transactions and the contract should be free from any exploitation. From *maqasid al-shariah*¹ (objectives of shari'ah) perspective, corporate governance is the process and structure in managing business and affairs of the company with the goal of maximization of shareholders wealth within the values and principles of *maqasid al-shariah* (Dusuki, 2012). This *maqasid* is the backbone of Islamic banking business and operations. To uphold shari'ah compliance principles and ascertain the stakeholders of what Islamic bank doing so, hence corporate governance is necessitated (Ginena, 2014).

If we trace back from the primary sources of Islam, the concept of corporate governance has mentioned several times in the Holy Qur'an, which indicate the essential elements of corporate governance practices. For example, Allah SWT enjoins Muslim to satisfy all of their contracts (Al-Ma'idah, 5:1).

"O ye who believe! Fulfil (all) obligations" (Al-Ma'idah, 5:1).

In another verse, Allah SWT prohibits of betraying any trust (Al-Anfal, 8:27)

"O ye who believe! Betray not the trust of Allah and the apostle, nor misappropriate knowingly things entrusted to you" (Al-Anfal, 8:27)

¹ *Maqasid al-shariah* is the ultimate objectives of Islamic law which consisting of protection of religion (*ad-din*), protection of life (*an-nafs*), protection of posterity (*an-nasl*), protection of intellect (*al-aql*), and protection of wealth (*al-mal*). This *maqasid* has an importance in determining the level of *maslahah* (benefit) and *mafasid* (evil) that existed in particular case, including in the case of Islamic banks

Allah SWT prohibits the Believers of deriving income from cheating, price manipulation, dishonesty or fraud (An-Nisa, 4: 29)

"O ye who believe! Eat not up your property among yourselves in vanities. But let there be amongst you traffic and trade by mutual goodwill, nor kill (or destroy) yourselves, for verily Allah hath been to you Most Merciful!" (An-Nisa, 4:29)

Another verse of Holy Qur'an mentioned about minimizing problems due to asymmetric information between contracting parties.

"Disdain not to reduce to writing (your contract) for a future period, whether it be small or big; it is just in the sight of Allah, more suitable as evidence, and more convenient to prevent doubts among yourselves." (Al-Baqarah, 2: 282)

To date, there is a rising concern of Islamic scholars on the issues of corporate governance (Abu-Tapanjeh, 2009; Bhatti & Bhatti, 2009; Choudhury & Hoque, 2006; Iqbal & Mirakhor, 2004; Safieddine, 2009). Nevertheless, from the prior literature, we find that there is no precise definition of corporate governance from Islamic perspective. Indeed, the researchers have no agreement whether Islamic principles of corporate governance do differ from conventional principles or not. On one hand, one group of scholars mention that the corporate governance in conventional framework is no much differ within the Islamic paradigm (Bhatti & Bhatti, 2009). By definition, corporate governance is "the system by which companies are managed and controlled to achieve the corporate objectives and preserving the stakeholders' rights and interests. The peculiarity of corporate governance within the Islamic point of view lies on specific characteristics and features as compared to conventional paradigm. On the other hand, others group of scholars believe that governance framework in Islam do differ from the conventional counterpart (Abu-Tapanjeh, 2009; Choudhury & Hoque, 2006). Governance structure in Islam must follow the shari'ah principles and should realize the objectives of social well-being.

Choudhury & Hoque (2006) raised several concerns about the comparison of corporate governance framework from conventional and Islamic perspective. The paper considers that the faith-based theoretical framework of corporate governance and the theory of decision-making process based on the Islamic epistemology of *Tawhid*². The importance implications of the idea of corporate governance based on the premises of *Tawhid* are enormous, *inter alia*, all stakeholders are driven by the objective of *Tawhid* or Oneness of God. This practical implication is much differing from conventional framework of corporate governance whereby the management of organizations undertaken by the board of directors, management, employees, and shareholders are driven by wealth maximization objectives. In addition to that, corporate governance from mainstream perspective based on the rationalism epistemology that seeks to provide rational explanations of social affairs (Shibani & Fuentes, 2017). Researchers who abide this view believe that corporate governance is a technical matter and emphasize on the aspect of corporate finance. Corporate governance from this mainstream perspective seeks to solve agency problem

² *Tawhid* is oneness of God, unity of knowledge, Allah SWT. It is the fundamental concept and hold that God (Allah SWT) is One (*Al-Ahad*) and Single (*Al-Wahid*). This fundamental epistemology relates to all issues of life.

arising from separation of ownership and control in the company (Ardalan, 2007). Regardless of the models of corporate governance (Anglo-Saxon and European models), they share the same objective of reducing agency problems.

Another research by Abu-Tapanjeh (2009) points that corporate governance in Islamic perspective has vast horizon and relatively larger compared to OECD principles. The striking difference between the two is that corporate governance in OECD entitles the decision-making process and business participation dealings to limited number of people, for instance BOD and senior management. In Islamic corporate governance, however, all stakeholders have equal rights and responsibilities to involve in corporate governance process. In addition, all actions and responsibilities fall under the jurisdiction of Islam, while the OECD principles are based on six different issues and obligations. Abu-Tapanjeh (2009) argues that the Islamic principles of corporate governance is in harmony with many principles proposed by the OECD. Table 1 delineates the common principles of corporate governance from both conventional and Islamic perspective.

Table 1. The Comparison of Corporate Governance Practices Between OECD and Islamic Perspective

No	OECD Principles	Islamic Principles
1	Promote transparent and efficient markets, coupled with the rule of law	Promotion of business within ethical framework of shari'ah
2	Protect and facilitate the exercise of shareholders right	Property as trust from God
3	Ensure the equitable treatment of all shareholders, including minority and foreign shareholders	Equitable distributions of wealth to all stakeholders and disadvantages members in the form of <i>zakat</i> and <i>sadaqah</i>
4	Recognize the rights of stakeholders established by law	Islamic accountability to <i>falah</i> and social welfare orientation
5	Ensure that timely and accurate disclosure is made on all material matters regarding the corporation	Accountability with shari'ah compliance, wider accountability with written as well as oral disclosure
6	Ensure the strategic guidance of the company	Holistic and integrative guidance

Source: adopted from Abu-Tapanjeh (2009)

In addition to work of Abu-Tapanjeh (2009), Bhatti & Bhatti (2009) provide Islamic corporate governance model based on *Hisbah* institution. The peculiarity of Islamic corporate governance lies in two main aspects: (i) It is driven by shari'ah law and governs all aspects of an individual life; (ii) It is needed to consider the effect of shari'ah law and Islamic financial transactions on corporate governance practices. Unlike conventional framework, the ultimate objective of Islamic corporate governance is to realize *maqasid al-shari'ah*. It is beyond the focus of conventional approach that is more 'shareholder-centric', whereas Islamic corporate governance is more to the 'stakeholder theory' that promotes transparency and accountability. The paper had traced the Islamic corporate governance model from classical history of Islam. They believe that *Hisbah* institution represented a core element of Islamic corporate governance in early Muslim society. This

institution performs the duties of market inspection and ensuring all market activities are in accordance with shari'ah principles. Nonetheless, they cast a doubt whether such a system can be revived in its traditional form and how this can be applied in Muslim countries where corruption is already widespread.

Bringing on the issue of Stakeholder Theory from Islamic perspective, some scholars believed that Stakeholder Theory is important to understand how corporate governance works. For example, Iqbal & Mirakhor (2004) raised several concerns about stakeholder's model and governance in Islamic economic system. They posit that stakeholder model of corporate governance finds strong foundation in the Islamic economics. They discovered that Islamic concept of property rights and Islamic law of contract from both explicit and implicit contracts are the basis for stakeholder theory of corporate governance. This causes them to further propose that all stakeholders ought to be included into decision making activities of the firm's, whereas the objective of the firm is to preserve the interests of all stakeholders not only those of just shareholders. A critical review of this paper reveals that the concepts of stakeholder theory and corporate governance are well articulated with convincing arguments and used by two prominent scholars by emphasize on the rules of behavior or Islamic norms. Hence, according to them, these lead to recognize the role of stakeholders in decision making of a firm. However, far too little attention has been paid to show how to ensure that property rights are protected in Islamic economic system.

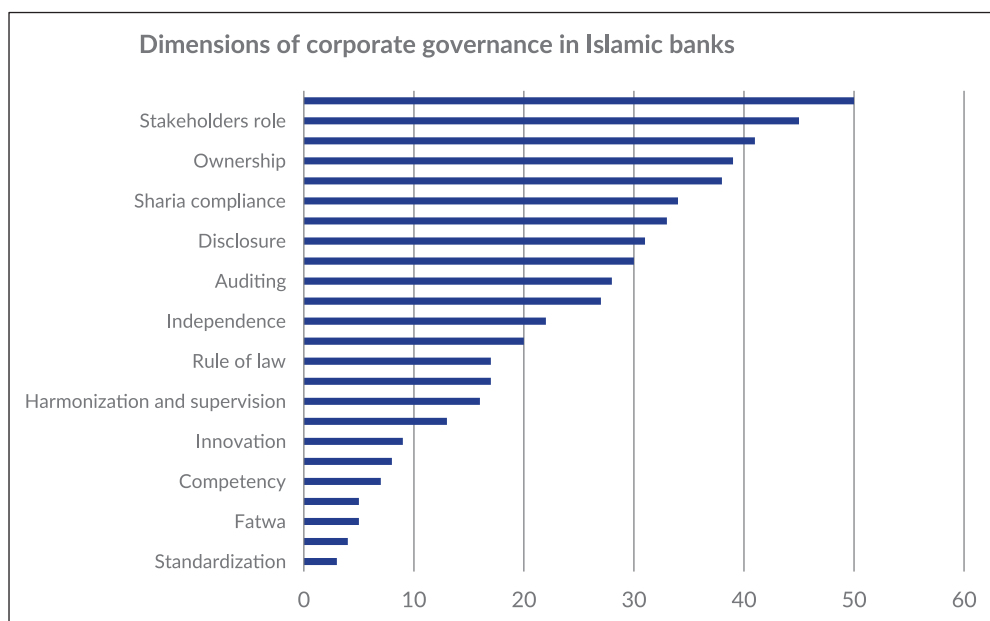
Critically examines, Chapra (2004) commented the work of Iqbal & Mirakhor (2004) on stakeholder model of governance in Islamic economic system. According to him, the paper has valuable contributions to ascertain and justify the stakeholder theory that has been rooted from Islamic principles. Nonetheless, he pointed out that the Islamic norms of behavior do not automatically protecting the stakeholders' rights. The existence of moral values or Islamic norms of behavior on stakeholder's rights will not be adequate. Consequently, according to Chapra, it is necessary to have an effective socio-economic mechanism based on incentives and deterrents to protect the stakeholders' rights.

Another research by Dusuki (2012) has proposed that the pyramid of *maslahah* as a viable tool to devise a decision-making process and managing conflicts arising from different stakeholders in IFIs. His finding is consistent with findings of past studies by Iqbal & Mirakhor (2004), which showed that stakeholder theory in Islamic perspectives provide a strong basis of corporate governance framework. The uniqueness of this study exists in the fact that the application of the pyramid of *maslahah* on stakeholder management in IFIs. For example, managers of the firms ought to protect the basic needs of their employees by a way of providing sufficient and convenient prayer rooms and guarantying the safety of their employees. This example reflects the protection of religion and life that is constituted as essential or fundamental responsibilities (*daruriyyat*) to be fulfilled by IFIs.

From the aforementioned above, we can conclude that there are three main models of corporate governance from Islamic perspective: (i) *Tawhid* based model, (ii) *Maqasid Al-Shari'ah* based model, and (iii) Stakeholder based model of corporate governance.

Tawhid (Oneness of God) based model refers to corporate governance mechanism that derived from the principle of consultation (*shura*) whereby all stakeholders are driven by the same objective of *Tawhid* or Oneness of God (Choudhury & Hoque, 2006; Abu-Tapanjeh, 2009). The *maqasid al-shari'ah* based model concerns on the practices of corporate governance with the ultimate goal to realize *maqasid al-shari'ah* (Bhatti & Bhatti, 2009; Lahsasna, 2014). Next, the stakeholder based model of corporate governance dealings with applying the stakeholders' value system with some modifications according to the Islamic norms behaviour in order to protecting the stakeholders' rights (Iqbal & Mirakhor, 2004; Chapra, 2004; Dusuki, 2012).

Figure 1. Dimensions of Corporate Governance in Islamic Banking and Finance



Dimensions of Islamic Corporate Governance

As we argued earlier, studies in corporate governance literature oftentimes have different interpretations and dimensions from Islamic point of view. As a matter of fact, there is little agreement in the use of corporate governance principles or dimensions from Islamic perspective. Accordingly, although the literature is reasonably broad however lacks of consistency and strong underpinning principles. Therefore, in this section we present the synthesis of literature on corporate governance from Islamic perspective and identifying the broad dimensions that have been employed in the study of corporate governance from Islamic banking and finance.

It was not surprising to find that different researchers have different characteristics of corporate governance because of their differences in the definition of governance. For example, Choudhury & Haque (2006) have identified the characteristics of governance in Islamic corporations are *shuratic* process, shari'ah rules, effectiveness, accountability social responsibility. Meanwhile, Abu-Tapanjeh (2009) states that Islamic principles of corporate governance are identified from shareholders right, equitable, stakeholders' role, disclosure,

transparency, and responsibility. Conversely, Zain et al. (2015) included accountability, sharia compliance, performance, and consultation as important dimensions for shari'ah governance. (See details in Figure 1)

Table 2. Identified Dimensions of Corporate Governance in Islamic Banking and Finance

Dimension	Citation References
Sharia scholars	Abdel-Baki & Leone Sciabolazza, 2014; Abdullah, Percy, & Stewart, 2015; Abu, Jasim, Abdul Razak, & Sharif, 2014; Abu-Tapanjeh, 2009; Ahmad & Omar, 2016; Ahmed, 2014; Akhtar, 2006; Al-Beshtawi et al., 2014; Al-Malkawi et al., 2014; Alnasser & Muhammed, 2012; Al-Sadah, 2007; Archer et al., 1998; Bakar, 2011; Bhatti & Bhatti, 2009; Bukair & Abdul Rahman, 2015; Bukhari et al., 2013; M. Umer Chapra & Ahmed, 2002; Choudhury & Hoque, 2006; Dalwai et al., 2015; Darmadi, 2013; Ghayad, 2008; Ginena, 2014; Grassa, 2013, 2016; Hamza, 2013; Haniffa & Hudaib, 2013; Hasan, 2009, 2012; Hashim, Mahadi, & Amran, 2015; N. A. Ismail & Razak, 2014; ISRA & Thomson Reuters, 2016; Lewis, 2005; Mizushima, 2013; Mollah & Zaman, 2015; Muneeza, 2014; Nathan & Ribière, 2007; Rosly, 2010; Safieddine, 2009; Shafii, Ali, & Kasim, 2014; Shahzad Bukhari, Awan, & Ahmed, 2013; Elias, 2015; Srairi, 2015; Ullah, 2014; Wijethunga & Ekanayake, 2015; Wilson, 2009; Zain, Zulkarnain, & Hassan (2015)
Stakeholders role	Abdel-Baki & Leone Sciabolazza, 2014; Abdullah et al., 2015; Abu et al., 2014; Abu-Tapanjeh, 2009; Ahmad & Omar, 2016; Ahmed, 2014; Akhtar, 2006; Al-Beshtawi et al., 2014; Al-Malkawi et al., 2014; Alnasser & Muhammed, 2012; Al-Sadah, 2007; Archer et al., 1998; Bakar, 2011; Bhatti & Bhatti, 2009; Bukair & Abdul Rahman, 2015; Bukhari et al., 2013; M. Umer Chapra & Ahmed, 2002; Muhammad Umer Chapra, 2004; Dalwai et al., 2015; Darmadi, 2013; Dusuki, 2012; Ghayad, 2008; Ginena, 2014; Grassa, 2013, 2016; Hamza, 2013; Haniffa & Hudaib, 2013; Hasan, 2009, 2012; Hashim et al., 2015; Iqbal & Mirakhor, 2004; N. A. Ismail & Razak, 2014; ISRA & Thomson Reuters, 2016; Kasim, Ibrahim, & Sulaiman, 2009; Mizushima, 2013; Nathan & Ribière, 2007; Shafii et al., 2014; Shahzad Bukhari et al., 2013; Elias, 2015; Srairi, 2015; Ullah, 2014; Zain et al (2015)
Responsibility	Abdel-Baki & Leone Sciabolazza, 2014; Abdullah et al., 2015; Abu et al., 2014; Abu-Tapanjeh, 2009; Ahmed, 2014; Akhtar, 2006; Al-Beshtawi et al., 2014; Al-Malkawi et al., 2014; Alnasser & Muhammed, 2012; Al-Sadah, 2007; Archer et al., 1998; Bakar, 2011; Bhatti & Bhatti, 2009; Bouzenita, 2012; Bukair & Abdul Rahman, 2015; M. Umer Chapra & Ahmed, 2002; Choudhury & Hoque, 2006; Darmadi, 2013; Dusuki, 2012; Ghayad, 2008; Ginena, 2014; Grassa, 2013; Hamza, 2013; Haniffa & Hudaib, 2013; Hasan, 2009, 2012; ISRA & Thomson Reuters, 2016; Kasim et al., 2009; Lewis, 2005; Mizushima, 2013; Muneeza, 2014; Nathan & Ribière, 2007; Rosly, 2010; Safieddine, 2009; Shafii et al., 2014; Srairi, 2015; Wijethunga & Ekanayake, 2015; Wilson, 2009; Zain et al., (2015)
Ownership	Abdallah, Hassan, & McClelland, 2015; Abdel-Baki & Leone Sciabolazza, 2014; Abdullah et al., 2015; Abu-Tapanjeh, 2009; Ahmad & Omar, 2016; Ahmed, 2014; Akhtar, 2006; Al-Beshtawi et al., 2014; Al-Malkawi et al., 2014; Alnasser & Muhammed, 2012; Al-Sadah, 2007; Archer et al., 1998; Bakar, 2011; Ben Slama Zouari & Boulila Taktak, 2014; Bukair & Abdul Rahman, 2015; Bukhari et al., 2013; M. Umer Chapra & Ahmed, 2002; Dalwai et al., 2015; Dusuki, 2012; Ghayad, 2008; Grassa, 2013, 2016; Hamza, 2013; Hasan, 2012; Hashim et al., 2015; Kasim et al., 2009; Lewis, 2005; Mizushima, 2013; Mollah & Zaman, 2015; Nathan & Ribière, 2007; Shahzad Bukhari et al., 2013; Elias, 2015; Srairi, 2015; Ullah, 2014; Wijethunga & Ekanayake, 2015; Zain et al (2015)
Transparency	Abdallah et al., 2015; Abdel-Baki & Leone Sciabolazza, 2014; Abdullah et al., 2015; Abu et al., 2014; Abu-Tapanjeh, 2009; Ahmad & Omar, 2016; Akhtar, 2006; Al-Beshtawi et al., 2014; Al-Malkawi et al., 2014; Al-Sadah, 2007; Archer et al., 1998; Archer & Rifaat, 2013; Bakar, 2011; Ben Slama Zouari & Boulila Taktak, 2014; Bhatti & Bhatti, 2009; Bukair & Abdul Rahman, 2015; M. Umer Chapra & Ahmed, 2002; Muhammad Umer Chapra, 2004; Choudhury & Hoque, 2006; Dalwai et al., 2015; Darmadi, 2013; Dusuki, 2012; Ghayad, 2008; Hashim et al., 2015; N. A. Ismail & Razak, 2014; Mizushima, 2013; Nathan & Ribière, 2007; Safieddine, 2009; Shahzad Bukhari et al., 2013; Elias, 2015; Srairi (2015)
Sharia compliance	Abdel-Baki & Leone Sciabolazza (2014); Abdullah et al., 2015; Abu et al., 2014; Abu-Tapanjeh, 2009; Ahmed, 2014; Akhtar, 2006; Al-Beshtawi et al., 2014; Al-Malkawi et al., 2014; Alnasser & Muhammed, 2012; Al-Sadah, 2007; Bakar, 2011; Bukhari et al., 2013; M. Umer Chapra & Ahmed, 2002; Dalwai et al., 2015; Darmadi, 2013; Ginena, 2014; Grassa, 2013; Hamza, 2013; Hashim et al., 2015; N. A. Ismail & Razak, 2014; ISRA & Thomson Reuters, 2016; Kasim et al., 2009; Lewis, 2005; Mizushima, 2013; Nathan & Ribière, 2007; Safieddine, 2009; Shafii et al., 2014; Shahzad Bukhari et al., 2013; Elias, 2015; Srairi, 2015; Ullah, 2014; Wijethunga & Ekanayake, 2015; Wilson, 2009; Zain et al (2015)

Dimension	Citation References
Performance	Abdallah et al., 2015; Abdel-Baki & Leone Sciabolazza, 2014; Abdullah et al., 2015; Abu-Tapanjeh, 2009; Ahmad & Omar, 2016; Al-Malkawi et al., 2014; Alnasser & Muhammed, 2012; Al-Sadah, 2007; Archer et al., 1998; Bakar, 2011; Ben Slama Zouari & Boulila Taktak, 2014; Bukair & Abdul Rahman, 2015; Bukair & Rahman, 2015; Bukhari et al., 2013; M. Umer Chapra & Ahmed, 2002; Choudhury & Hoque, 2006; Dalwai et al., 2015; Darmadi, 2013; Dusuki, 2012; Ghayad, 2008; Grassa & Matoussi, 2013; Grassa, 2016; Hasan, 2012; Iqbal & Mirakhor, 2004; ISRA & Thomson Reuters, 2016; Lewis, 2005; Mollah & Zaman, 2015; Rosly, 2010; Safieddine, 2009; Srairi, 2015; Ullah, (2014)
Disclosure	Abdallah et al (2015); Abdel-Baki & Leone Sciabolazza (2014); Abdullah et al (2015); Abu et al (2014); Abu-Tapanjeh (2009); Ahmad & Omar (2016); Akhtar (2006); Al-Beshtawi et al (2014); Al-Malkawi et al (2014); Alnasser & Muhammed (2012); Al-Sadah (2007); Archer et al (1998); Archer & Rifaat (2013); Bakar (2011); Bhatti & Bhatti (2009); Bukair & Abdul Rahman (2015); Bukhari et al (2013); M. Umer Chapra & Ahmed (2002); Dalwai et al (2015); Ginena (2014); Haniffa & Hudaib (2013); Hashim et al (2015); ISRA & Thomson Reuters (2016); Mizushima (2013); Mollah & Zaman (2015); Safieddine (2009); Shahzad Bukhari et al (2013); Srairi (2015)
Shareholder right	Abu-Tapanjeh (2009); Ahmad & Omar (2016); Ahmed (2014); Akhtar (2006); Al-Malkawi et al (2014); Alnasser & Muhammed (2012); Al-Sadah (2007); Archer et al (1998); Archer & Rifaat (2013); Bakar (2011); Ben Slama Zouari & Boulila Taktak (2014); Bhatti & Bhatti, (2009); Bukhari et al (2013); Muhammad Umer Chapra (2004); Darmadi (2013); Dusuki (2012); Ghayad (2008); Grassa (2013, 2016); Hasan (2009, 2012); Hashim et al (2015); Iqbal & Mirakhor (2004); ISRA & Thomson Reuters (2016); Lewis (2005); Mollah & Zaman (2015); Nathan & Ribière (2007); Rosly, (2010); Wijethunga & Ekanayake (2015)
Auditing	Abdullah et al (2015); Abu-Tapanjeh (2009); Ahmad & Omar (2016); Al-Beshtawi et al (2014); Al-Malkawi et al (2014); Al-Sadah (2007); Archer et al (1998); Archer & Rifaat (2013); Bakar (2011); Bukair & Abdul Rahman (2015); M. Umer Chapra & Ahmed (2002); Ginena (2014); Haniffa & Hudaib (2013); N. A. Ismail & Razak (2014); ISRA & Thomson Reuters (2016); Kasim et al (2009); Lewis (2005); Mizushima (2013); Muneeza (2014); Nathan & Ribière (2007); Rosly (2010); Safieddine (2009); Shafii et al (2014); Srairi (2015); Ullah (2014); Wijethunga & Ekanayake (2015)
Risk management	Abdallah, Hassan, & McClelland (2015); Abdel-Baki & Leone Sciabolazza (2014); Abdullah, Percy, & Stewart (2015); Ahmed (2014); Akhtar (2006); Al-Malkawi, Pillai, & Bhatti (2014); Al-Sadah (2007); Archer, Karim, & Al-Deehani (1998); Archer & Rifaat (2013); Bukair & Rahman (2015); Chapra & Habib (2002); Dalwai, Basiruddin, & Abdul Rasid (2015); Darmadi (2013); Ginena (2014); Grassa (2013); Hamza (2013); Ismail & Razak (2014); ISRA & Thomson Reuters (2016); Mizushima (2013); Rosly (2010); Safieddine (2009); Srairi (2015); Wijethunga & Ekanayake, (2015)
Independence	Al-Beshtawi, Zraqat, & Al –Hiyasat (2014); Alnasser & Muhammed (2012); Al-Sadah (2007); Bakar (2011); Chapra & Habib (2002); Dalwai et al. (2015); Darmadi (2013); Grassa (2013); Hamza (2013); Hashim, Mahadi, & Amran (2015); ISRA & Thomson Reuters (2016); Kasim, Ibrahim, & Sulaiman (2009); Mizushima (2013); Mollah & Zaman (2015); Nathan & Ribière (2007); Safieddine (2009); Srairi (2015); Wilson (2009)
Accountability	Abu-Tapanjeh (2009); Ahmad & Omar (2016); Alnasser & Muhammed (2012); Al-Sadah (2007); Bakar (2011); Bhatti & Bhatti (2009); Bukair & Abdul Rahman (2015); Chapra & Habib (2002); Darmadi (2013); Dusuki (2012); Haniffa & Hudaib (2013); Hasan (2009); Iqbal & Mirakhor (2004); ISRA & Thomson Reuters (2016); Kasim, Ibrahim, & Sulaiman (2009); Lewis (2005); Mizushima (2013); Mollah & Zaman, (2015)
Effectiveness	Alam Choudhury & Ziaul Hoque (2006); Al-Beshtawi, Zraqat, & Al –Hiyasat (2014); Al-Malkawi, Pillai, & Bhatti (2014); Alnasser & Muhammed (2012); Al-Sadah (2007); Bukair & Abdul Rahman (2015); Bukhari, Awan, & Ahmed (2013); Chapra & Habib (2002); Hamza (2013); Mizushima (2013); Mollah & Zaman (2015); Noor Azian Ismail & Shaikh Hamzah Abdul Razak (2014); Safieddine (2009); Shahzad Bukhari, Awan, & Ahmed (2013); Wilson (2009)
Rule of law	Abdullah, Percy, & Stewart (2015); Abu-Tapanjeh (2009); Ahmad & Omar (2016); Ahmed (2014); Alnasser & Muhammed (2012); Bakar (2011); Bhatti & Bhatti (2009); Darmadi (2013); Ghayad (2008); Grassa (2013); ISRA & Thomson Reuters (2016); Lewis (2005); Muneeza (2014); Rosly (2010); Wijethunga & Ekanayake (2015); Wilson (2009)
Harmonization	Abdullah et al (2015); Akhtar (2006); Alnasser & Muhammed (2012); Al-Sadah (2007); Archer, Karim, & Al-Deehani (1998); Bukair & Abdul Rahman (2015); Chapra & Habib (2002); Ghayad (2008); Ginena (2014); Grassa (2013); Hamza (2013); ISRA & Thomson Reuters (2016); Lewis (2005); Mollah & Zaman (2015); Safieddine (2009); Ullah (2014)

Dimension	Citation References
Culture	Abdallah, Hassan, & McClelland (2015); Ahmed (2014); Bakar (2011); Bukair & Abdul Rahman (2015); Bukhari, Awan, & Ahmed (2013); Chapra & Habib (2002); Darmadi (2013); Grassa & Matoussi (2013); Haniffa & Hudaib (2013); Hashim, Mahadi, & Amran (2015); Mizushima (2013); Nathan & Ribière (2007); Shahzad Bukhari, Awan, & Ahmed (2013)
Innovation	Abu, Jasin, Abdul Razak, & Sharif (2014); Abu-Tapanjeh (2009); Ahmed (2014); Akhtar (2006); Ghayad (2008); Hasan (2012); ISRA & Thomson Reuters (2016); Nathan & Ribière (2007); Rosly (2010)
Strategic vision	Abu-Tapanjeh (2009); Bakar (2011); Grassa (2013); Hasan (2009); Hashim, Mahadi, & Amran (2015); Mizushima (2013); Nathan & Ribière (2007)
Competency	Alnasser & Muhammed (2012); Bakar (2011); ISRA & Thomson Reuters (2016); Mizushima (2013); Mollah & Zaman (2015); Shafii, Ali, & Kasim (2014); Wilson, (2009)
Fatwa	Alnasser & Muhammed (2012); Ginena (2014); Grassa (2013); Hamza, (2013); ISRA & Thomson Reuters (2016)
Trust (<i>Amanah</i>)	Abu-Tapanjeh (2009); Archer & Rifaat (2013); Hasan, (2012); Iqbal & Mirakhor (2004); Nathan & Ribière (2007)
Efficiency	Ahmed (2014); Al-Beshtawi, Zraqat, & Al -Hiyasat (2014); Bakar (2011); Chapra & Habib (2002)
Standardization	Akhtar (2006); Hamza (2013); ISRA & Thomson Reuters (2016)

In sum, there are 24 identified dimensions of corporate governance from the analysis. Most of these dimensions also recognized in corporate governance from conventional literature. Moreover, the most frequently dimensions of governance from Islamic perspective can be named as follows: (1) sharia scholars, (2) stakeholders role, (3) responsibility, (4) ownership, (5) transparency, and (6) sharia compliance. Each of these frequent dimensions was mentioned in more than 30 articles respectively. In addition, two-third of all dimensions investigated in the corporate governance literature pertinent to the context of Islamic banking and finance being examined by author. Table 2 shows the citation references for each identified dimensions of corporate governance in Islamic banking and finance.

Islamic Moral Economy and Its Association With Corporate Governance

Islamic moral economy has emerged in the post 1960s as a result of the failure of economic development and the rise in Islamic political identity in Muslim countries. The concept of Islamic moral economy is proposed as a response of the failure of mainstream economic systems, whether capitalist or socialist, with derived from the primary sources of Islam, namely the *Qur'an* and the *Sunnah* (Asutay, 2013). The advocates of Islamic moral economy argue that this economic system is designed to develop Islamic system of economics and economy in realizing *maqasid al-shari'ah* (the objectives of *shari'ah*) and achieving sustainable development and social justice (Chapra, 2000). The concepts and principles such as '*adalah*' or justice and '*haqq*' or right are the core of Islamic moral economy.

As embodied in Islamic economic system, there are four elements of Islamic values that should be existed in Islamic banking and finance. First, since Islamic banking and finance industry is derived from the ontology of Islam, this industry prohibits all

activities and transactions involving *riba* (interest-based transactions), *gharar* (speculation), *maisir* (gambling), and any products that violates Islamic norms such as liquor, tobacco, pornography, weapons, etc. Second, this industry promotes the risk-sharing model based on profit-loss sharing (PLS) contracts such as *mudharabah* and *musharakah*. Third, the financing activities in Islamic finance promote the real economy and maintaining stability. Fourth, the financing activities also determined by non-economic factors, such as religions (Islam), reciprocity, altruism, and distribution.

All of those elements are the articulation and operationalization of *maqasid al-shari'ah* or the objectives of *shari'ah*. Hence, the objective of Islamic moral economy is not only focusing on economic growth, but also rather promoting human well-being and socio-economic development. Beyond this objective, Islamic moral economy is aimed to realize '*ihsan*' or beneficence/excellence and '*falah*' or salvation in the world and hereafter. Hence, Islamic moral economy is a moral system of economy and society through multidimensional and multidisciplinary approach by essentializing social justice, equality, sharing economy, and participatory in the society.

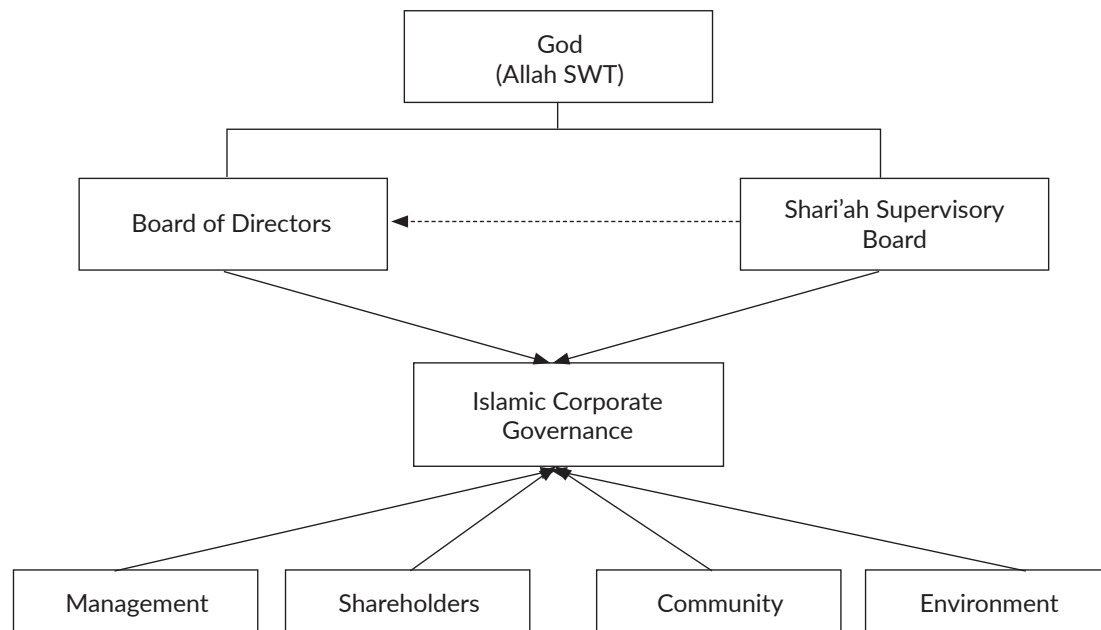
Bringing in the issue of Islamic corporate governance, as we argued earlier, there is no precise definition of corporate governance from Islamic perspective. Nonetheless, that there are three main models of corporate governance from Islamic perspective: (i) *Tawhid* based model, (ii) *Maqasid Al-Shari'ah* based model, and (iii) Stakeholder based model of corporate governance. Looking critically, none of those models essentializing the value principles of Islamic moral economy. Islamic corporate governance is reduced to the mere protection of stakeholders rights and removal of agency problems within Islamic corporations. Rather than establishing a just, participatory, and sharing socio-economic system, Islamic corporate governance has been pursuing the same objectives as conventional corporate governance. This trend on Islamic corporate governance has deviate away from the aspiration of Islamic moral economy to reconcile self-individual interest with society welfare interest. It is therefore imperative to make reference to the values and principles of Islamic corporate governance as formulated by the Islamic moral economy. For this reason, the framework of Islamic moral economy should be articulated and Islamic corporate governance should be positioned within this framework.

Aside from that, we observe that corporate governance models from Islamic perspective is derived from Islamic worldview, whereby the God is at the apex and human beings are below Him (Muneeza, 2013). Regardless of the corporate governance models embraced by the IFIs, the basic structure shall be abiding to the God and then to the BOD and stakeholders. Unlike the structure of corporate governance from mainstream perspective in which the company discharging its duties to the BOD and then stakeholders. Accordingly, we proposed the corporate governance model from Islamic view based on that basis. Figure 2 below shows the Islamic corporate governance model, which the author proposes.

Figure 2 illustrates that the proposed model of Islamic corporate governance. This Islamic corporate governance is based on the Islamic worldview, whereby all elements in

Islamic corporate governance structure shall abiding Allah SWT. The Islamic approach to corporate governance focuses on a broad spectrum of society well-being, which aims to achieve a just, participatory, and sharing socio-economic system, not only relegated to protection of stakeholders' interests. Accordingly, all economic agents in Islamic corporations shall participate in corporate decisions, to realize the objective of social well-being which encompassing both material and spiritual needs. Furthermore, all economic agents in Islamic corporations supposedly do not dominate each other's in achieving the objectives.

Figure 2. The Proposed Model of Islamic Corporate Governance



Conclusion

In conclusion, the peculiarity of Islamic corporate governance lies on specific values and Islamic norms as compared to conventional conceptions of corporate governance. Looking critically from prior literature on Islamic corporate governance, at least, three main models of Islamic corporate governance: (i) *Tawhid* based model, (ii) *Maqasid Al-Shari'ah* based model, and (iii) Stakeholder based model of corporate governance. First, *Tawhid* (Oneness of God) based model refers to corporate governance mechanism that derived from the principle of consultation (*shura*) whereby all stakeholders are driven by the same objective of *Tawhid* or Oneness of God. Second, the *maqasid al-shari'ah* based model concerns on the practices of corporate governance with the ultimate goal to realize *maqasid al-shari'ah*. Third, the stakeholder based model of corporate governance dealings with applying the stakeholders' value system with some adjustments following the Islamic norms in order to protecting the stakeholders' rights.

However, all of those Islamic corporate governance models lie beyond the aspirations of Islamic moral economy. Essentializing the aspirations of Islamic moral economy,

Islamic corporate governance should focus on a broad spectrum of society well-being, which aims to achieve a just, participatory, and sharing socio-economic system, not only relegated to protection of stakeholders' interests. Accordingly, all economic agents in Islamic corporations shall participate in corporate decisions, to realize the objective of social well-being which encompassing both material and spiritual needs.

Looking at the dimensions of Islamic corporate governance, we observe six critical dimensions of corporate governance from Islamic perspective, namely: (i) shari'ah scholars, (ii) stakeholders' role, (iii) responsibility, (iv) ownership, (v) transparency, and (vi) shari'ah compliance. These identified dimensions suggest an important of preserving shari'ah norms and values in corporate governance structure of Islamic corporations.

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Anton Bawono
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Beny Witjaksono
Cavin Dennis Tito Siregar
Dani Setiawan
Darwanto
Darwis Harahap
Didit Welly Udjianto
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Hendri Tanjung
Ike Purnamasari
Kanang Amos Akims
Mansor H Ibrahim
Masruri Muchtar
M. Dharma Tuah Putra Nasution

M. Nur Rianto Al Arif
M. Rizky Prima Sakti
M. Rofiuddin
M. Shabri Abdul Majid
Mohammad Ali Tareq
Mohammad Ikhsan
Musa Abdullahi Sakanko
Nofrianto
Joko Susanto
Raditya Sukmana
Riatu Mariatul Qibthiyyah
Rifda Nabila
Rinayanti
Rustam
Salina Kassim
Salman Ahmed Shaikh
Saiful Anwar
Sari Ramdayani
Sofyan Rizal
Sri Murwani
Sudarno Sumarto
Suriani
Sutan Emir Hidayat
Taufiq Fahrizal
Vivian A Odishika
Yunie Muliana

ARTICLES AND AUTHORS

Volume 10(1), 2021

No	Name	Title	Note
1	Rustam, Mohammad Ikhsan, Djoni Hartono, Sudarno Sumarto	Calorie Consumption and Indonesia's Household Expenditure: Is There a Paradox?	Lecturer and researcher from Universitas Indonesia and The SMERU Institute, Indonesia
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3	Joko Susanto, Didit Welly Udjianto	Do Growth Spillovers Matter?	Lecturer and researcher from UPN Veteran Yogyakarta, Indonesia
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6	Cavid Dennis Tito Siregar, Estro Dariatno Sihaloho	Could Palm Oil Plantation Increase Individual Expenditure? The Dutch Disease Implication in Indonesia	Lecturer from University of Padjadjaran, Indonesia
7	Rinayanti, Riatu Mariatul Qibthiyyah	Indonesia Local Industry Structure and Firms Productivity in Industrial Area	Lecturer and researcher from Universitas Indonesia, Indonesia
8	Sofyan Rizal, Arief Fitriyanto	Can Revenue and Human Development Promote Happiness: Study on Provinces in Indonesia	Lecturer and researcher from UIN Syarif Hidayatullah Jakarta, Indonesia
9	Musa Abdullahi Sakanko, Kanang Amos Akims	Monetary Policy and Nigeria's Trade Balance, 1980-2018.	Lecturer and Researcher from University of Jos, Nigeria
10	Hasdi Aimon, Sri Ulfa Sentosa, Moh. Ridha Mahatir	E-money and Stock: Empirical Evidence from Indonesia and Thailand	Lecture and Researcher from Universitas Negeri Padang, Indonesia.

Volume 10(2), 2021

No	Name	Title	Note
1	Sutan Emir Hidayat, Ahmad Rafiki, M. Dharma Tuah Putra Nasution	Bibliometric Analysis and Review of Halal Tourism	Lecturer and researcher from Universitas Gunadarma, Universitas Medan Area, and KNEKS, Indonesia
2	Beny Witjaksono, Hamzah	Optimum of Strategic Asset Allocation for Indonesian Hajj Fund	Lecturer and researcher from Esa Unggul University & Pakuan University, Indonesia
3	Sari Ramdayani, M. Shabri Abd. Majid, Suriani	Does Women's Participation in Politics Matter for Economic Development in OIC-15? An Islamic Perspective	Lecturer and researcher from Universitas Syiah Kuala, Indonesia
4	Raditya Sukmana, Mansor H Ibrahim	Restructuring and Bank Performance in Dual Banking System	Professor from Universitas Airlangga, Indonesia and Professor from INCEIF, Malaysia
5	Salman Ahmed Shaikh	Incorporating Private Savings Behavior in Product Offerings: A Case Study of Pakistan	Project director and editor of Islamic Economics Project
6	Masruri Muchtar	Opportunities and Challenges of Retail Sovereign Sukuk Issuance: Lesson from Twelve Years' Experience	Lecturer from Politeknik Keuangan Negara STAN, Indonesia
7	Hendri Tanjung, Agus Windiarto	Role of Cash Waqf Linked Sukuk in Economic Development and International Trade	Lecturer and researcher from Universitas Ibn Khalidun, Indonesia
8	Anton Bawono, M. Rofiuddin, Rifda Nabila, Saiful Anwar	Impact of Coronavirus and Macroeconomic Indicators on Sharia Obligation with Simultaneous Model	Lecturer and researcher from IAIN Salatiga, Indonesia
9	Nofrianto, Yunie Muliana, Adi Cahyadi	The Impact of Islamic Bank Financing, Government Spending, and Investment on Economic Growth in Indonesia	Lecturer and Researcher from UIN Syarif Hidayatullah Jakarta, Indonesia
10	Arisman, M. Nur Rianto Al Arif, Darwis Harahap	Trade Agreement and Economic Growth: Evidence in D-8 Countries	Lecturer and Researcher from UIN Syarif Hidayatullah Jakarta & IAIN Padangsidempuan, Indonesia

11	Dani Setiawan, Darwanto, Edy Yusuf Agung Gunanto	Determinants of Behavioral Intentions to Use Sharia Financial Technology	Lecturer and Researcher from Universitas Diponegoro, Indonesia
12	Ike Purnamasari, Salina Kassim	The Role of Islamic Crowd Investing for Sustainable Agriculture in Indonesia	Ph.D student and Lecturer from International Islamic University of Malaysia
13	M. Rizky Prima Sakti, M. Ali Tareq, Hajime Kamiyama	Corporate Governance from an Islamic Moral Economy Perspective: The Dimensions and Analysis	Lecturer from Univesity College of Bahrain, Universiti Teknologi Malaysia, and Kushiho Public University of Economics, Japan.

SUBJECT INDEX

Acceptance model
Agriculture
ASEAN
Autoregressive distributed lag
Bank competition
Bank performance
Behavioral intention
Beneficial ownership
Bibliometric analysis
BI rate
BPKH
Calorie intake
Calorie needs
Citation analysis
Connectivity
Consumption
Control of corruption
Coronavirus disease
Debt
D-8 countries
Digital literacy
Economic growth
E-money
Exchange rate
Export
Female participation in politics
Financial technology
Firm productivity
Government spending
Growth
Gross domestic product
Halal tourism
Happiness
Household expenditure
Household size
Human development
Ijarah
Import
Individual expenditure
Industrial estate
Investment
Investment motive
Islamic banking
Islamic bank penetration
Islamic crowd investing
Islamic human development index
Local industry structure
Macroeconomic variables
Manufacture to service ratio
Manufacturing
Muslim friendly tourism
Monetary policy
Natural-resource abundance
Non-Oil Sector
OIC countries
Optimization of investment
Palm oil production
Panel ARDL
Poverty
Remittances
Repeated cross-section method
Return
Risk and return
Savings
Savings motives
Sharia fintech
Sharia financial literacy
Spillovers
Stock
Strategic assets allocation
Sukuk
Sustainability
Sustainable growth
The Dutch disease
Tourism
Trade agreement
Trade balance
Two stage least square
Underlying asset
VECM
Women and OIC economies

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Table 1. Quality of Life Index (Selected Countries)

Countries	2005	2013
ASEAN Countries		
Indonesia	5,814 (71)	5,54 (71)
Malaysia	6,608 (36)	6,62 (36)
Thailand	6,436 (42)	5,96 (50)
Filipina	6,403(44)	5,71 (63)
Singapura	7,719 (11)	8,00 (6)
Vietnam	6,080 (61)	5,64 (68)

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