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Smart Contract's Contributions to Mudaraba

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Abstract. *A Smart contract is a technology initiated in 1994 by Szabo and was taken over and became potentially highly applicable since the emergence of Blockchain technology. The idea that was developed by Szabo is to adopt digital self-executing contracts between parties without human intervention by using distributed ledgers to store contracts. This new technological era is intended to be used on a large scale in the financial sector. Insofar as the financial sector seeks to benefit as much as possible from these new technologies, Islamic finance also aims to position itself and integrate these innovations into its core. In the context of Islamic finance, the mudaraba contract (equity-based investment contract) despite its great economic benefits remains under-applied because of technical risks, investment obstructions, and Sharia restrictions. This work aims to study to what extent Smart contracts can contribute to the resolution of these drawbacks and the improvement of the mudaraba contract to be applied potentially by Islamic finance institutions. It is concluded that by the mudaraba contract can be enormously developed technologically, operationally, and from Sharia compliance perspective by applying smart contracts.*

Keywords: *Smart contract, Blockchain, Islamic finance, Mudaraba.*

Abstrak *Kontrak Cerdas adalah teknologi yang diprakarsai pada tahun 1994 oleh Szabo dan diambil alih dan menjadi berpotensi sangat berlaku sejak munculnya teknologi Blockchain. Ide yang dikembangkan oleh Szabo adalah untuk mengadopsi kontrak self-executing digital antara pihak-pihak tanpa campur tangan manusia dengan menggunakan buku besar yang didistribusikan untuk menyimpan kontrak. Era teknologi baru ini dimaksudkan untuk digunakan secara besar-besaran di sektor keuangan. Sejauh sektor keuangan berusaha untuk mendapatkan keuntungan sebanyak mungkin dari teknologi baru ini, keuangan Islam juga bertujuan untuk memposisikan diri dan mengintegrasikan inovasi ini ke dalam intinya. Dalam konteks keuangan Islam, kontrak mudharabah (kontrak investasi berbasis ekuitas) meskipun memiliki manfaat ekonomi yang besar tetap kurang diterapkan karena risiko teknis, hambatan investasi, dan pembatasan Syariah. Karya ini bertujuan untuk mempelajari sejauh mana kontrak Cerdas dapat berkontribusi pada penyelesaian kelemahan ini dan peningkatan kontrak mudharabah untuk diterapkan secara potensial oleh lembaga keuangan Islam. Disimpulkan bahwa kontrak mudharabah dapat dikembangkan secara besar-besaran secara teknologi, operasional, dan dari perspektif kepatuhan Syariah dengan menerapkan kontrak pintar.*

Kata kunci: *Kontrak pintar, Blockchain, keuangan Islam, Mudharabah*

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Introduction

As the Internet of Things (IoT) and Artificial Intelligence (AI), blockchain sees itself as a technological revolution that will spark a new world order. It represents a decentralized system offering the possibility of settling transactions at a low cost with absolute transparency and security in an immutable distributed ledger. A distributed ledger constitutes a database recorded and put to the reach of several nodes in a decentralized structure where no entity has control over it, and therefore it cannot be modified or changed (Muneeza & Mustapha, 2020). Blockchain has grown and become famous thanks to the development of cryptocurrencies, among the most important in particular Bitcoin. However, this only represents one Blockchain category which can be called: Blockchain 1.0. The second category (Blockchain 2.0) is based on the smart contracts concept (Kamdzhalov, 2020).

Szabo developed the concept of smart contracts in 1994. It's about tiny computer programs stored in a blockchain that takes the form of digital self-executing contracts between parties without human intervention and which are created by using a distributed ledger to store contracts. Their ultimate aim is to automate the settlement, the execution, and the entry into force of contractual agreements between parties. Smart contracts are becoming a vital element in many industries such as healthcare, real estate, and securities. (Rahim et al., 2018). It is expected that their implementation will offer the opportunity to save billions of dollars in the trillion-dollar size of the global Islamic finance markets (Mohamed, 2017).

Islamic finance (financial system based on Islamic jurisprudence) should not be left behind this vague technological revolution. It is prompted to follow all the technological innovations and benefit from any form of structural development to keep its known expansion during these last decades, especially when we consider that Islamic law (Sharia) has flexibility and inclusiveness. It is thus imperative to keep abreast of these developments and find solutions to them. Among the most important factors that encourage

Islamic financial institutions to exploit these new developments and to benefit as soon as possible and as much as possible from its advantages in a world that coexists with a technological boom of accelerated digitalization, is the compliance of many of the technical principles of these new technologies with the fundamental moral principles of Islamic finance and smart contracts are among the most important within this specific framework.

In this context, the study is devoted to identifying Smart contract's contribution to a product among the very important of the Islamic financial industry, namely: the mudaraba contract an Islamic equity-based partnership contract, commonly known as a profit-sharing contract. Perceived as an effective alternative of banking investment under the rules of Islamic jurisprudence (Fiqh), it is very incentive to find the horizons which can be opened within the framework of the applicability of the mudaraba contract in Islamic banks to improve its efficiency. In this way, the remainder of this paper is structured as follows: Section 2 includes a description of work related to the Smart contract and its contribution to Islamic finance. Section 3 the characteristics and technical sides of smart contracts whereas section 4 gives the research methodology and paper exploration process. Section 5 presents the results and discussion related to the research purposes. Finally, section 6 serves as the conclusion.

Literature Review

First set of studies tried to analyze globally how fintech, blockchain, and smart contract technologies can contribute to the modernization and digitalization of Islamic finance. Rahim et al. (2018) assessed artificial intelligence (AI) and smart contract operations in Islamic finance and by explaining the smart contract process and identifying in which way they can contribute to the flourish of Islamic finance areas such as S*ukuk* (Islamic bonds), takaful (Islamic insurance), trade finance and crowdfunding they concluded that Islamic finance tended to find future in each of AI and Smart contracts. (Kasujja, 2018), discussing financial disintermediation and

Distributed Ledger Technology (DLT), concluded that Islamic banks and Islamic financial institutions generally can benefit from the transparency, immutability, and efficiency provided by blockchain, and smart contract technologies. (Lacasse, Lambert, & Khan, 2018), analyzing the monitoring process between Islamic bank stakeholders (contributors, beneficiaries, Sharia Supervisory Boards, and governmental regulators) affirmed that blockchain technology and smart contracts contribute to transparency in Islamic banking which is the main asset in its fundamental principles. In a global context, many works have taken place to assess the future visions of Fintech in Islamic finance. Kamdzhalov (2020) found an interconnection relationship between financialization, Blockchain, and Islamic finance and that Blockchain could contribute to business prosperity.

There studies have attempted to identify these contributions technically on the operational side, and models have been developed in this context. By studying the horizons of blockchain technology and fintech within the framework of Islamic finance, Peredaryenko (2019) has identified that smart contracts help ensure funds transfer operations in banking systems that comply with *sharia* rules. Kapsoulis et al. (2020) discussed the implementation of smart contracts in the Know Your Customer (KYC) process within a decentralized framework. This is among the indirect operational contributions of smart contracts to general Islamic finance and the *mudaraba* contract in particular. An e-mudaraba system was proposed by (Hamid & Allaymoun, 2019) in which they discussed the different advantages that the digitalization of banking services can provide to the different operational functionalities in the *mudaraba* contract within Islamic banks. Feng et al. (2019) have tried to develop new models of smart contracts that go against the vulnerabilities of current smart contracts. They suggested a new operating model based on the division of smart contracts into subcontracts and then discussed the applicability of this model. (Sa’ad et al., 2019) proposed a *musharakah* (partnership-based investment contract) smart contract model in which a P2P company liaises between the investor and the business owner.

Smart Contract

Background

Perceived as an innovation that will make a technological and organizational disruption over a wide area, smart contracts are expected to be the future of a whole automated, immutable, and transparent institutional ecosystem. That said, traditional contracts, taking the form of physical paper, are exposed to non-transparency, fraud risks, and slowness. Although this could be resolved relatively by delegating a financial intermediary, high costs will be recommended above (Cant et al., 2016). However, smart contracts, transactions will be independent, transparent, without a financial intermediary, and therefore at low cost and reliability since they result from a programming process.

At the beginning of their invention in the 90s, smart contracts could not be spread on a large scale given the lack of a technology sufficiently capable of supporting such fields of programming, until the emergence of blockchain technology. This last form is data chain of transactions between users stored in blocks where each block records a specific amount of data encrypted thanks to cryptographic hashing. If a user wishes to carry out a transaction, he must communicate it to all other network users to verify the authenticity of the operation. Each user will have a copy of the data ledger. Thus, all transactions are visible and transparent to all of them, making any false transaction, fraud act, or hacking operation impossible. Fig 1 shows us how transactions are being promoted in a blockchain. The first step is about creating a digital security code by making encryption. The second step is where users attempt to authenticate the transaction while preserving private information. Finally, the transaction is thus recorded imminently and will be automatically distributed to all users (Changa et al., 2020).

Figure 1. How Blockchain promotes transactions
Source: Changa et al (2020)

Blockchain and smart contract are strongly stood out, and more specifically, it was thanks to Ethereum decentralized exchange protocol which allows users to create smart contracts for exchanges while using a cryptographic currency called Ether as an accounting unit. Thus, most smart contracts today are being applied on blockchain platforms (Feng et al., 2019). There are different types of Blockchain, and smart contracts do not always operate in the same blockchain type. For example, while Hyperledger Fabric applies the alliance chain, Ethereum smart contract model mainly uses the public chain platforms (Feng et al., 2019). Blockchain and distributed ledger technology a smart contract will be impossible to hack and, therefore, be protected from any falsification.

Although smart contracts are promising to be used in multiple activity sectors, they remain the most sought in the financial sector, where transactions generally suffer from heaviness, slowness, lack of transparency, and high costs. The fields in which smart contracts can help develop the financial industry can be divided into four categories: Capital markets Investment banking and stock exchange infrastructure / Commercial and retail banking / Insurance / RegTech and compliance functions (Oseni & Ali, 2019).

Process

The process is based on creating a contract in the form of algorithmic codes stored in a blockchain so that once it is created, it can never be modified or changed again (Immutability) and should be validated by all the users in the network (Distribution).

Like any traditional contract, the process takes birth by an agreement between specific parties on a set of items. These items take the form of computer algorithms that translate a flow of instructive steps executed one after the other until the transaction takes end (Rahim et al., 2018). Once the parties agree on the contract's content, they proceed to cryptographically sign a smart contract and deploy it into a distributed ledger. Contract data are therefore accessible by any computer on the network and integrated into the Blockchain in the form of codes and when a specific code is met the smart contract will automatically trigger a corresponding action (Levi & Lipton, 2020).

Several blockchain platforms use smart contracts. Among those, Bitcoin, the cryptocurrency which was the main cause of blockchain's notoriety. However, the main blockchain, which is considered as a benchmark in this field, is Ethereum. This last was created specifically for the implementation and the execution of smart contracts through a contract-oriented, high-level, and Turing-complete programming language (Kapsoulis et al., 2020).

The settlements in the smart contracts are realized through cryptocurrencies for the digital assets, while for physical assets, it is through fiat money and actions. (Rahim et al., 2018).

Sharia Perspective

Sharia is flexible and open to any innovation likely to enable it to achieve its objectives (Maqasid al-Sharia) since it follows a fundamental rule in the organization of transactions which stipulates that anything is allowed as long as there is not a text which prohibits it (Alam et al., 2019). The correct Islamic transaction dealing must be based on honesty, truthfulness, and clarification of conditions in a way that removes confusion and matches reality within harmony with the Islamic jurisprudence perspective (International

Islamic Fiqh Academy, 1995). Therefore any technology capable of giving advantages to stimulate such values will be welcome.

When we talk about the smart contract, we can easily conclude that they are placed relatively within this framework since it meets the Sharia values in the transparency that it establishes as well as it helps to avoid practices that distort morality such as maysir (gambling), dharar (harms), tadlis (cheating) and gharar (uncertainty) thanks to the distributed ledger technology (Peredaryenko, 2019). In addition to that, the transactions are secure and risk-free since the terms are in the form of algorithmic codes. Thus, not only will parties' interests be protected, but it will also lead to an environment of trust and sincerity, which are the primary purposes of Sharia (Alam et al., 2019).

However, some challenges related to smart contracts need to be resolved for this product to be fully Sharia-compliant. Among these challenges, the inevitability of an offer and acceptance (sighah) that expresses the esoteric will of both parties, adapting of the contract session (majlis), the way the settlement is realized, warranty and liability for loss and defects, and finally the contract evidence, that is, how to prove a contract without a physical paper so as not to lead to disputes. There is also another challenge related to cryptocurrency and how it can be a Sharia-compliant means of payment under any conditions. In light of this, the International Islamic Fiqh Academy held at its twenty-fourth session in Dubai, during the period 04 - 06 November 2019, decided to postpone the decision on the subject.

Within Islamic Finance

The application of smart contracts programmed on blockchain platforms in Islamic finance is still in its early stages. However, it promises to be applied in a very broad field in Islamic banking, takaful, Sukuk market, microfinance, and crowdfunding. Islamic finance is struggling to operationally impose its values in a traditional financial ecosystem that is not the most favorable on the regulatory side to achieve its purposes. These new features will facilitate this, especially when we know that blockchain and smart contracts operate in a decentralized system, thus offering independence to IFIs from the pressures of the regulation dominance of traditional finance.

Over time, it is expected that Blockchain and smarts contracts will be dominant technologies in the banking and financial sector, this is why even if it currently seems an optional choice for IFIs to take them into the application, they will face a huge lack of competitiveness compared to conventional financial institutions if they do not apply them in the future (Baniamer & Tahsin, 2019). The framework even touches the macroeconomic aspect because the context does not only present a simple integration of technology in Islamic finance but touches a whole new structure of a new Islamic digital economy which going to be a channel for economic prosperity such as growth, job creation and solving the problems that Islamic countries are facing (Peredaryenko, 2019).

Several traditional and Islamic financial institutions have started introducing smart contracts into their organizational systems, as in Malaysia, where nine banks have integrated blockchain technology into their trade financing application (Hilal & Jamaludin, 2019). Smarts contracts have broad opportunities to be applied in all Islamic finance contracts, whether investment or financing contracts based on profit and loss sharing such as musharaka (partnership) and mudaraba (equity-based).

Method

Mudaraba is an Islamic finance contract based on profit and loss sharing in which the bank takes the role of an entrepreneurial partner (*mudarib*) by ensuring the investment of its client's funds (*Rab'ul mal*) in sharia-compliant projects. This form applied today in Islamic banks is a developed one of the traditional mudaraba, where the IFI enters as a capital partner and an entrepreneurial partner at the same time and forms a unified investment pool in which capital is raised from many clients.

The mudaraba system in Islamic banks is based on the successive mixing of client funds. Thus, even if new clients want to enter, their new contributions will be allocated to the old ones. Once the funds have been collected and invested, a certain percentage will be taken from the profit for the reserve requirements, and the rest will be shared between the bank and the investment pool according to percentages determined in advance where each client will earn a profit according to his contribution rate, and this is done within accurate calculations. Thus, investing by mudaraba in Islamic banks is a process that never turns off, and we never talk about a final profit payout only if the client closes his investment account and withdraws his funds (Dardour, 2017).

Given the complexity of the operational side of the mudaraba contract in IFIs, the technology of smart contracts applied on blockchain platforms will significantly help simplify the procedures, whether relating to the technical sides, from a sharia compliance perspective or again within the investment framework.

The study will adopt the analytical methodology based on the collection of information and link it with the body of our subject and the inductive methodology through the examination of pieces of information and opinions mentioned to identify the potential contributions of smart contracts mudaraba.

Results and Discussion

Technical contributions of smart contracts to mudaraba

Matching Financer to the financed

The smart contracts applied on blockchain platforms pave the way towards a decentralized financing system, where the one in need of financing can easily collect the required funds by only connecting to his blockchain account (on Ethereum for example) while establishing a set of demand and also showing his project proposal (Kasujja, 2018). This can also potentially be applied in matching the financer (*Rab'ul mal*) to the financee (*mudarib*) so that the customer does not have to go to the bank himself to put his money under mudaraba investment, as smart contracts allow a direct link between the two parties without mediation simply by entering in an account that the client has on a blockchain platform and communicates with the funder directly who offers the project that suits him.

Accounting Process Facilitation

The operational side within the framework of the mudaraba applied in Islamic banks is based on a relatively complicated calculation system especially in the profits accumulation rules. The mudaraba contract is made on an investment account, allowing the client to withdraw his funds over time. That said, profits accumulation is ascending between the bank and the customer (every three months for some banks: 50-50 / 40-60 / 30-70 / 20-80). Besides, the client is entitled to profit only on the part of the funds that have not withdrawn throughout a specified investment period (at least three months). Adding to this, the calculation relating to the investment pool, roughly speaking, is a fairly rigorous and strict calculation process that consumes time, effort, and material costs (Dardour, 2017).

All these accounting rules can be included in a smart contract in the form of algorithmic conditions, and a smart contract will self-execute a corresponding action if one of the conditions is met. This will reduce banks 'trouble in manual verification (i.e., non-automated) from the rates of an immovable fund in the light of which profits will fall, as well as in investment pool calculations and the process of deduction of capital if a loss occurs. All of this becomes an automated process that smart contracts undertake, facilitating the audit and protection process, reducing costs and gain time, and stimulating the efficiency of financial services for Islamic banks within this framework (Kasujja, 2018).

Efficiency in transferring funds

Transferring funds is time-consuming for banks, especially in their third-party relationships with suppliers, companies, and customers. Smart contracts contribute enormously to the acceleration of this operation while preserving transparency and accuracy given that algorithmic codes are immutable and distributed within the network. A smart contract will also contribute to the post-negotiation phase, where the verification of the transaction and the settlement will no longer be a manual operation (Lambert, 2019).

Improving KYC process

Know Your Customer (KYC) technique is a set of data relating to the customer's identity collected by the bank to offer services more effectively. It prevents impersonation, financial fraud, money laundering, and terrorism finance (Moiseev, 2019). The need for a KYC procedure arises mainly in the opening of bank accounts, the granting of loans or credit cards, and investments in mutual funds such as mudaraba. Any client who wants to join a mudaraba investment pool needs to be identified by the bank through the KYC procedure.

How Blockchain and smart contracts can contribute to the development of KYC should be considered in this field. An example process should be : a certification node (usually owned by the state or an authorized agent) is first integrated into the blockchain network. Once company A requests a certain number of documents on company B, it sends its request to this certification node. The latter thus ensure the verification of the validity of the documents after having taken consent for this from company B. All this process can be programmed in a smart contract, and the ultimate advantage in this context will be to reduce the time necessary for data collection and authenticity control (Moiseev, 2019). The same example can be seen in a bank and its customer.

The more efficient Crowdfunding process

Crowdfunding, a method of raising funds through online platforms, is among the fields where smart contracts can be applied. Crowdfunding was also approved and adapted for application within the framework of Islamic finance principles under a new analog concept known as Islamic crowdfunding. It thus relies on partnership contracts of Islamic finance such as musharaka and mudaraba to finance projects, start-ups, small and medium enterprises, or capital increase (Kamdzhalov, 2020).

In this sense, concluding a mudaraba contract in the form of a smart contract within a crowdfunding operation will be a very sophisticated digital combination. All the conditions relating to the operation can be coded in a smart contract which will automatically ensure the corresponding actions if one or the other condition is satisfied. Supporters of a project by mudaraba transfer their funds to the smart contract automatically allocating these funds to the project if the latter has been fully funded and returning the funds to its owners if the project ran out of funds. This will make the fundraising operation through mudaraba more transparent and faster in an environment of total trust between parties.

Smart contract benefits to Mudaraba investment mechanisms and prospects

Mitigate investment risks

In a partnership contract like mudaraba, the bank tends to participate in the investment pool with the funds of its depositors, which exposes it to a risk familiar in all banking systems that of the loss of these funds and the lack of liquidity, especially in the case of risky investments that can upset the stability of the financial sector. Indeed we talk about counterparty risk in the bank balance sheet, which can be mitigated through sufficient monitoring of the funds available and how they are used as well as making the share of profits or losses clear and all this is thanks to the transparency provided by smart contracts within distributed ledger technology (Kasujja, 2018).

Mudaraba Smart Sukuk

Islamic investment certificates named Sukuk present a modern investment method in the context of Islamic finance. There is a golden opportunity to integrate the smart contract into the negotiation of transactions based on Sukuk and thus conclude a new model called Smart Sukuk. This is already implemented, and the first Smart Sukuks in the world were from Blossom finance which uses Ethereum smart contracts. As a result, investment in Sukuk will be more efficient, transparent, less costly, potentially minimize financialization effects, and open the way for SMEs, projects with social impact, groups, and associations to issue their Sukuk thanks to blockchain technology (Kamdzhalov, 2020).

Integrating mudaraba in a smart Sukuk opts for a Mudaraba Smart Sukuk model, which will benefit significantly from these benefits. Blossom is already using this form of investment through investors and fund providers who are mainly American and rewarded based on a mudaraba agreement (Kasujja, 2018).

Financial Inclusion Improvement

It is possible and potentially promising to deploy smart contracts in Islamic microfinance activities in to automate the chain of intermediation or facilitate disintermediation and transformation into other intermediaries. Thanks to this automation, the resource planning tools of companies can be integrated into a blockchain which allows supporting young companies and start-ups with transparency and visibility on the operational side as well as in the advice in terms of their commercial operations (Kasujja, 2018). Mudaraba contracts used Islamic microfinance can greatly benefit from these advantages and contribute to a digitalized and more efficient financial inclusion system. An investor in a mudaraba contract in a microfinance operation can take the form of a venture capitalist or a business angel

The more flexible Investment system

Technically speaking, smart contracts allow simultaneous transactions to be carried out (Prause, 2019). By adopting a system in which smart contract links each client, it is possible to operate in a flexible investment system where entry and exit operations in the investment pool are also carried out simultaneously, which is very attractive as a flexible investment mechanism for investors as it is less costly and less time-consuming.

Smart Contracts for a more Sharia-Compliant Mudaraba

Ensuring a halal investment

Some Islamic banks are suspected of investing the funds of the investment pool in the context of the mudaraba outside the framework mentioned in the contract, i.e., in projects which may not be confused with the principles of Sharia. Through blockchain technology, invested funds in the mudaraba investment pool will be accurately tracked to know where and for what purposes have been used. This verification can be done by encrypting and including halal certification in the blockchain in PDF form. As a result, it cannot be manipulated or modified as the transparency of blockchain technology ensures (Peredaryenko, 2019). It is thus always checked whether the mudaraba investment is sharia-compliant or not.

Contract Binding

It is well known that Islamic contracts are of two types: binding contracts and not binding contracts. A binding contract is a contract in which neither party can terminate the contract without the consent of both parties, while either party can terminate a not binding contract. Mudaraba in the general principle is not binding except if the business was already started, so in this case, it becomes binding up to the date of actual or constructive liquidation, or if a period during which the contract will remain in force has been determined (AAOIFI-Accounting and Auditing Organization of Islamic Financial Institutions (2005), Shariah Standards. (n.d.).).

Technically speaking, smart contracts can be used to function as escrow account. Thus, in a sale contract, a smart contract will not release the funds to the seller only if the buyer transfers the agreed amount to this account and take ownership of the asset, for example (Hilal & Jamaludin, 2019). The same thing can be applied to the mudaraba framework. Both conditions for binding of a mudaraba contract can be implemented in a smart contract and assisted by an escrow account. The automatic implementation of the mudaraba contract will not begin unless the mudarib has handed over his fund to the IFI and this last start investing, and there is no review in this case because the contract became binding. Thereby, the smart contract guarantees and organizes binding mudaraba issues with full transparency.

Fund Guarantee

In mudaraba, the mudarib is trustworthy, which means that the fund he gets from Rab'ul mal is not guaranteed unless it is proven that he abused, intentionally failed to perform his tasks, or violated a contract agreement. These counterparty risks are difficult to identify with traditional methods. However, with smart contracts applied on blockchains, by the possibility of tracking transactions one by one in a completely transparent system, it is easy to know if such violations or other negligence have been committed, which minimizes disputes between parties and makes Rab'ul mal keener.

Conclusion

Our work focused on identifying the different contributions of smart contracts to one of the most important contracts in Islamic finance, the *mudaraba* which suffers from some obstacles preventing it from being applied on a large scale. We concluded that the *mudaraba* contract could largely be developed from the technical and operational sides and Sharia-compliance perspective. If smart contracts are applied correctly in IFIs, *mudaraba* will present an efficient, secure, and innovative investment model and will be able to overcome the downsides faced by the traditional system. It is important in future works to study what smart contracts can improve in the rest of Islamic finance contracts.

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An Innovative Sukuk-Waqf for Islamic Microfinance Institutions: Integrating Maqasid Al-Shariah, SDGs and Waqf

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Abstract. *The present study aims to introduce a Sukuk-waqf model as a source of funds for the Islamic MFIs through a cash waqf model. In achieving this object,ive, the study adopts a qualitative research approach and proposes a Sukuk-waqf model for the development of Islamic MFIs. The combination of cash Waqf with Sukuk for raising funds for the Islamic MFIs is expected to contribute to the economic sustainability and viability of the institutions. In modelling the Sukuk-waqf model, the study attempts to integrate SDGs, Waqf, and Maqasid al-shariah, which emphasis on the poverty eradication, social justice, and economic welfare through the notion of Hifze deen (preservation of faith), hifze maal (preservation of wealth) and by providing access to the poor for productive resources such as education, training, and credit. The results from this study are expected to provide important inputs for sustainability of Islamic MFIs and assist the MFIs to contribute towards achieving the SDGs and ultimately, the Maqasid al-shariah.*

Keywords: *Sukuk-waqf, Islamic micro-finance institutions (IMFIs), SDGs, Waqf, Maqasid al-shariah.*

Abstrak. *Penelitian ini bertujuan untuk mengenalkan sebuah model sukuk berbasis wakaf sebagai sumber pendanaan bagi Lembaga Keuangan Mikro Syariah (LKMS) melalui model wakaf uang. Oleh karenanya, penelitian ini mengadopsi pendekatan penelitian kualitatif dan mengajukan satu model sukuk wakaf bagi pengembangan LKMS. Kombinasi wakaf uang dan sukuk guna meningkatkan pendanaan bagi LKMS diharapkan dapat berkontribusi pada ekonomi berkelanjutan dan juga kelangsungan hidup LKMS. Dalam pemodelannya, penelitian ini berusaha mengintegrasikan SDGs, wakaf, dan maqasid syariah, dengan penekanan pada pengentasan kemiskinan, keadilan sosial, dan kesejahteraan ekonomi melalui perlindungan terhadap agama, harta, dan juga penyediaan akses bagi warga miskin untuk mendapatkan sumber produktif seperti pendidikan, pelatihan dan juga pembiayaan. Hasil penelitian ini diharapkan dapat memberikan masukan yang penting bagi pengembangan keberlanjutan LKMS dan membantu LKMS dalam berkontribusi kepada pencapain SDGs dan Maqasid syariah pada akhirnya.*

Kata Kunci: *sukuk wakaf, Lembaga Keuangan Mikro Syariah (LKMS), SDGs, Wakaf, Maqasid syariah*

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Introduction

Eradication of poverty, achievement of social justice, and improvement of wellbeing of all members of the society are among the ultimate objectives of Islamic finance. Islamic financial philosophy emphasizes on the concept of adl (justice) and ehsan (fairness) in the financial system, which signifies taking care of the underprivileged segments of society who do not have access to the economic resources or are excluded from the market for financial resources (Khan, 1997). While Maqasid al-Shariah focuses on the poverty eradication through the notion of preservation of life and preservation of deen (faith), recently the United Nations (UN) has also emphasized this issue in their very famous Sustainable Development Goals (SDGs) (Abdullah, 2018). With regards to poverty, SDG#1 - No Poverty, a goal is set to end poverty in all its dimensions by providing the poor access to productive resources such as education, training, and credit (Robert, 2005).

Microfinance institutions have been widely recognized as an important means to tackle poverty and improve the economic socio-economic wellbeing of the poor (Ahmed, 2007). Banerjee & Jackson (2017) stated that many scholars and strategy makers believe that microfinance empowers the deprived sector of the society (especially women), supports entrepreneurial spirit, improves income-generating opportunities for poor, and provides access to educational and health facilities for vulnerable societies. According to Nwigwe, Omonona, & Okoruwa (2012), microfinance has been widely adopted by many countries by including it in their national development agenda due to its impressive role in poverty alleviation, job creation, and economic enhancement. Microfinance also promotes financial inclusion by making financial products and services accessible to the un-bankable sector of society. The greater emphasis has been placed on financial inclusion in the UN's development agenda through the various sustainable development goals, i.e., SDG 1 (no poverty), SDG (zero hunger) 2, SDG 3 (good health and well-being), SDG 5 (gender equality), SDG

8 (decent work and economic growth), SDG 9 (industry, innovation and infrastructure), SDG 10 (reduce inequalities), and SDG 17 (partnerships for the gole) (UN Capital Development Fund, 2020). While it is a relatively a new initiative pursued by the conventional finance through the multi-lateral agency such as the UN, preserving the essence of human being through equality in income distribution as part of the achievement of the Maqasid al-Shariah has been the basic structure shaping Islamic finance right from the start. The Shariah has also focused on financial inclusion through the risk-sharing notion and redistribution instruments (Nawaz, 2018).

Many studies show that microfinance institutions (MFIs) have been very successful in achieving their intended objectives. However, some recent studies show the failure of many MFIs due to several issues. One of them has been the economic viability and operational sustainability of MFIs due to the lack of fund mobilization. Several countries have launched Islamic MFIs by adopting the Islamic modes of financing on the asset side of the conventional MFIs model. However, these MFIs faced the same problems as their conventional counterparts on their liability side, leading to the MFIs not being able to sustain their operations (Ahmed, 2007).

On the backdrop of the issues mentioned above, this study attempts to introduce an innovative Sukuk-waqf model for Islamic MFIs to address the issue of lack of sources of funds especially from Shariah-compliant sources. While previously there have been many attempts by scholars to introduce waqf-based MFIs for the same reason, a novelty aspect of this study is that an innovative Islamic financial instrument is proposed, namely the Sukuk-waqf model that is expected to address the funding side of the Islamic MFIs, which is a highly critical component in ensuring the sustainability of the institutions. The waqf-based Sukuk has the potential to provide a good and sustainable source of funds for Islamic MFIs which can ultimately solve the abovementioned dilemma.

The paper is organized as follows. Section 2 is a literature review. This section explains the integration of waqf, Mqasid Al-Shariah and SDGs and further highlights the definition and role of MFIs in poverty eradication. Together with that, it also describes funding issues in MFIs and Islamic MFIs. It also put a glance at previous studies on Waqf for Islamic Microfinance Institutions. In addition, the chapter also describes Sukuk-waqf Framework, Principles and Requirements. Section three discusses the methodology employed in conducting research. Section four presents' findings and discussions along with the proposed model. Section five concludes the study.

Literature Review

Integration of Waqf, Maqasid Al-Shariah and SDGs

The fundamental objective of Shariah could be summed up as facilitating the comfort and eliminating human suffering. Thus, the inception of Waqf, Sadaqa and Zakat aim to help poor and remove hardships from people and eventually complying with the Maqasid Al-Shariah and SDGs. To this effect, Abdullah (2018) asserts that the global Awqaf (plural of Waqf) should interact and cooperate voluntarily with the SDGs of the United Nations. The international community strives to attain the SDGs in a progressive but consistent manner. The potential contribution of waqf in this quest can be surprisingly important.

In addition, considering the crucial importance of this development mission, different old and new, local, and global Awqaf may embrace these goals and can strive to satisfy the selected social goals at micro and macro levels. He further states that the desired integration and coordination among wqaf-based funding or Maqasid hierarchy can only be accomplished if wqaf revenues are distributed in an appropriate quantity to the prevailing requirements of necessities, desires, and luxuries. In other words, the integrated and holistic approach of Maqasid implies the development of Waqf in the globalised sense in order to address the issue of deprivation vs dignity as one of its preferences (Abdullah, 2018). Kamali (2008) argues that, parallel to the framework of the SDGs, a new framework of the Waqf-based development program can be drawn up among Muslim majority countries in line with the Maqasid al-Shariah approach. According to the Maqasid perspective, the primary goals of all developmental schemes can include assisting the human species to acquire an absolute necessity of life which is required for the dignified existence of everyone.

Besides, the SDGs philosophy and structure are closely aligned with the underpinning paradigm of Maqasid al-Shariah. Confronting the different types of starvation; whether it be nutrition, healthy life, decent education, social position, equality, and opportunity to flourish are some of the common features of SDGs and Maqasid al-Shariah. Similarly, the preservation of sustainability of resources by preservation of marine, ocean, atmosphere, environment, energy and water, along with the promotion of economic growth, industrial revolution, urban protection, and collaboration between all and productive consumption patterns are among the priorities of both Maqasid and SDGs (Al-Ahsan, 2015).

In addition, Khan (2015) implies that the exhaustiveness of the framework of the SDGs provides a shared ground between the SDGs and the Maqasid al-Shariah. Perhaps the integration of the Maqasid approach within the framework of waqf-based development will immediately establish a point of combination between waqf and SDGs. However, it should be ensured that the SDG's framework provides opportunities for the stakeholders of waqf institution to demonstrate the significance of waqf to the global community by conceptualising the nature and approach of waqf in order to satisfy the modern development requirements. This could be accomplished by utilizing a convergent framework of the waqf-based development with the SDGs to the level that the unified Maqasid approach requires it to do so. A convergent route with SDGs can provide a new scenario for Awqaf administration in multiple countries to cooperate with other global institutions working towards similar advancement goals (Abdullah, 2018). Finally, it can be inferred that Awqaf must play a significant role in the global struggle toward absolute poverty. Possibly Awqaf may better persuade the aims of Shariah by integrating the motto of "Poverty Reduction" while also guaranteeing the achievement of the SDGs, particularly in Islamic countries. Ultimately, concentrating on this motto will help the institution to further strengthen its modern relevance.

Definition of Microfinance and Islamic Microfinance

Microfinance is a relatively new concept which evolved in recent years. Asian Development Bank defines microfinance as "...the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises" (Conroy, 2002). Microfinance provides financial support to the poor and to those who do not have access to the banking or other financial institutions' facilities.

Islamic microfinance has been defined as "an investment of capital (in cash or in-kind), based on Islamic modes of finance, to the low-income clients, low-income entrepreneurs in order to help them start or maintain their businesses (Smolo, 2012)." Islamic microfinance is a microfinance innovation that aims to conform to Shariah and Islamic ethical considerations. As Islamic microfinance comes from Islamic finance, its foundation is based on the Quran and Sunnah, thus the prohibitions of interest, speculation, and uncertainty in business transactions are strictly upheld, and the offering of Islamic microfinance products should also promote profit-and loss-sharing-based trade.

Role of MFIs and IMFIs in Poverty Eradication

MFIs have been widely recognized as an important means to tackle poverty and bring prosperity to the poor. According to Obaidullah (2008) microfinance "implies provision of financial services to poor and low-income people whose low economic standing excludes them from formal financial systems. Access to services such as, credit, venture capital, savings, insurance, remittance is provided on a micro-scale enabling participation of those with severely limited financial means". Similarly, prior studies on microfinance reported a positive relationship to poverty alleviation, particularly in the countries where it was applied. This corelation is due to the positive effect that has led in individuals livelihoods, women empowerment and youths, socio-economic enhancement, job creation and increament in people's income and spending levels (Rokhman, 2013; Nazirwan, 2015). However, as stated above, that many scholars and strategy makers believe that microfinance empowers the deprived sector of the society (particularly women), supports entrepreneurial spirit, improves income-generating opportunities for the poor, and provides access to educational and health facilities for vulnerable societies (Banerjee & Jackson, 2017). Professor Mohammad Younus, the founder of Grameen Bank in Bangladesh and the originator of the concept of microfinance, considers that 5% of Grameen Bank's clients come out of poverty each year. According to the report, In the United States, micro-finance created jobs directly and indirectly and 60 percent of borrowers being able to hire others (Mecha, 2017). Yunus and Khandker (2001) found that the welfare of microfinance members increases in terms of net worth and per capita consumption, and its effect on female borrowers are much greater.

On the other hand, Islamic micro finance is founded on the core concepts of Islamic finance that prohibits riba (interest) gharar (excessive risk), maysir (gambling) and illegal and unethical transactions and it emphasises on mutual partnership and profit and loos sharing contracts (Abdul Rahman, 2010). Further, Iyad (2015) cited that, Islamic microfinance have a positive impact on poverty eradication in Bangladesh, especially in rural areas. According to Obaidullah (2008) Islamic microfinance aims to minimise poor people 's reliance on charity by establishing the empowerment programmes needed by the poor and leaving the rewards of charity to the poorest of the poor and impoverished who is unable to participate in income generating programmes. A study in Pakistan observed that Islamic microfinance is playing a very crucial role in improving the factors which directly involves poverty eradication.

Those factors include living standard, educational awareness level, employment level, per capita income, and unequal distribution etc (Aslam, 2014). For these reasons, there has been a great emphasis to alleviate poverty and to bring formerly excluded segments form financial services through Islamic Micro-finance programs worldwide.

Issues in Funding IMFIs

Microfinance has been considered as a popular tool for economic development and financial inclusion worldwide. Many studies show the success of MFIs in achieving their desired objectives. However, some recent studies also show the failure of many MFIs due to several issues. One of them has been the economic viability of MFIs. According to Ahmed (2007), MFIs have been successful in mitigating credit risk through social collateral. However, the economic viability of MFIs is still an area of concern for practitioners and policymakers. The high operating cost and the dearth of fund mobilization place viability of MFIs in a dangerous position. Hashemi (1997) stated that Grameen Bank would have been operating in a loss if it would not be aided by the grants. Similarly, without subsidies, Grameen bank would need to raise its interest rate by further 21% in order to make any profit in 1996. Hulme & Mosley (1996) pointed out that out of 13 MFIs in six nations, 12 have positive Subsidy Dependence Index (SDI) which vary from 32% to 1884%. Several countries have launched Islamic MFIs by adopting the Islamic mode of financing on their asset side. However, they faced the same problems as their conventional counterparts at their liability side. The survey in Bangladesh pointed out the shortage of funds as the main impediment in the growth of Islamic MFIs. On top of that, the survey also showed that Islamic MFIs face some specific problems in obtaining funds from external agencies. For example, the funds available from the government agencies put such terms and conditions on funding which is contrary to Islam. Those conditions restrict Islamic MFIs to utilize those funds to finance their asset side (Ahmed, 2007).

The shortage of funds also leads to other problems in Islamic MFIs. Due to the lack of funds, Islamic MFIs limit themselves in hiring employees which results in fewer field workers. The low number of field workers means less supervision and monitoring which is very important for MFIs' profitability. The lack of funds also leads Islamic MFIs to the hiring low pay workers and low pay workers mean low productive workers. The lower wages also incentivize recruited workers to move to better-paying jobs after getting experience. This increases the chances of default and reduces the expected income to Islamic MFIs (Ahmed, 2007). Therefore, there have been many suggestions from different authors to introduce Waqf-based Islamic MFIs which could solve these problems. However,we intend to propose Sukuk-waqf for funding Islamic MFIs in our study as it has the potential to solve the problems faced by the Islamic MFIs.

Previous Studies on Waqf for Islamic Microfinance

Research related to waqf-based microfinance has been limited. Among the available information, the Global Islamic Finance Report (2016) cites waqf and zakat as a source of funding required for microfinance and further elaborates that microfinance can use zakat and waqf exclusively as a possible source of financing needed to address the requirements of vulnerable people and substantially to eliminate poverty. However, prior to this study most of the waqf-based microfinance researches have discussed the models could be used to help the poor people, for example, Thaker et al. (2016) state that cash waqf can play a critical role in poverty alleviation, which could be funded by MFIs. Further, Duasa and Thaker et al. (2016) show that how cash waqf was utilized in micro-financing in the time of Khalifah Uthman ibn Affan (RH). At the time of Uthman Ibn Affan (RH), Some people have created cash waqf, and they loaned it to no more than 20 separate lenders. The lenders' houses were converted as collateral, and they would pay the waqf 's rent. Once the total amount of debt is repaid, the land will be returned to the lenders. The overall rent that the owners have collected will further split into three portions; Some of the portions of the third part of the benefit are used for administrative purposes, and some for-humanitarian purposes for which waqf has been created and the remaining part was incorporated into the original endowment to shield the actual value from inflation. However, waqf-based microfinance is emerging as a future opportunity in the service of poverty reduction. In this regard, many researchers and scholars have promoted this vision by suggesting a waqf-based microfinance framework (El-Gari, 2004; Kahf, 2004; Ahmed, 2007; Obaidullah, 2008; Hasan, 2010; El-Zoghbi and Tarazi, 2013; Mohammed et al., 2015; Haneef, M.A. et, al., 2015; Thaker et al., 2016; Shaikh et al., 2017).

Likewise, research by Haneef et al. 2015) has suggested incorporating waqf into the microfinance sector as a source of funds that will make it cost-effective for small borrowers in Bangladesh and at the same time alleviate poverty dramatically. Further, Rana et al. (2020) mention that the concept of combining microfinance with waqf is to solve the fund mobilization restrictions. Microfinance may accumulate funds from internal resources, such as deposits and equities. Though it may not be enough, because most of the microfinance customers are vulnerable people. Whereas Islamic microfinance may obtain alternative funding from government agencies, but they enforce several terms and conditions which often contradict the concepts of Islam. Government funds, for example, are commonly provided based on interest charges. Hence, If the source of the funds is not lawful (halal), it will be impossible to implement an Islamic financial scheme. Therefore, it is needed to come up with a compatible and sustainable integrated model that will fit the condition and alleviate the level of poverty considerably. Thus, a proposed waqf-based microfinance model has formulated to full fill the necessity of the poor Muslim borrowers (Figure 1).

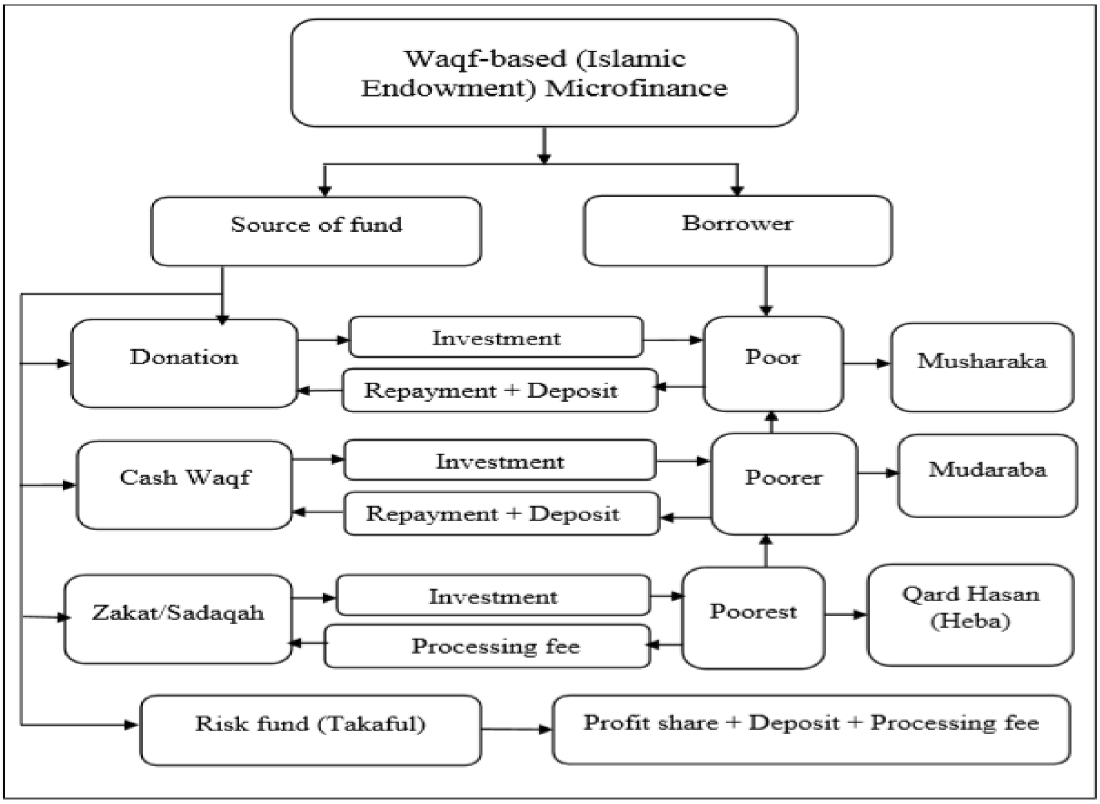

Figure 1. waqf-based (Islamic endowment) microfinance

Source: Rana et al. (2020)

As shown in Figure 1, the source of the fund has been categorized into three sections namely donation, cash waqf, and zakat. Subsequently, the fund would be allocated to impoverished Muslims as an investment. The level of poverty of the Muslims has also been categorized into three parts like poor, poorer, and the poorest. The money raised from the donation will be disbursed to the poor by the Musharakah (sharing/partnership) model of funding. The poor segment would use the invested amount and repay the instalment along with the deposit amount agreed by the lender and borrower. Likewise, cash waqf will be allocated through Mudarabah (trust financing contract) funding system as an investment to the comparatively poorer segment and the borrowers of this credit will pay back the instalment with a specific amount of agreed deposit. Lastly, the Zakat Fund will be entertained by the poorest segment of people through Qard Hasana (interest-free loan) funding methodology. The poorest lies at the hard-core level of poverty. Consequently, if the poorest are unable to repay the loan sum, no fine or penalty will be implemented. In this situation, the borrower would only be required to pay the processing expenses to process the amount of the loan. The whole fund will be secured by a risk fund or through the implementation of takaful (mutual guarantee/cooperation) or some internal risk control arrangement. A portion of the deposit and transaction fees paid by the borrowers will set up the risk fund.

Critical Review of Sukuk-waqf Framework, Principles and Requirements

Sukuk-waqf comprises two Islamic financial instruments: sukuk and waqf (Dali, Zakaria, Salleh, Zainuddin, & Jalil, 2017). Sukuk waqf is described by Oubdi & Raghibi (2018) as an exchangeable certificate of equivalent monetary worth that reflects a fixed quantity of money (Al-mal al-mawquf). The structure of a sukuk waqf is identical to that of an ordinary sukuk. On the other hand, the shareholder in a sukuk waqf is not driven by any profits or returns (Oubdi & Raghibi, 2018). However, Musari (2019) differentiates amongst two forms of sukuk-waqf, i.e. waqf linked sukuk and sukuk linked waqf. The majority of sukuk linked waqfs are utilized to fund the expansion of the waqf assets. The money generated by the sukuk is utilized for development purposes. The underpinning for this sukuk generally comprises waqf assets. Waqf linked sukuk is a type of temporary waqf. It is a cash waqf invested in sukuk . The income from the investment is used to maintain and improve societal activities in the community, including academic and medical services. Musari (2019) emphasized that Kasri & Saeran (2016) in their study highlighted numerous researches proving the sukuk-waqf as an ideal solution for the charitable funding gap. Shukri, Zamri, Muneeza, and Ghulam (2019) suggested sukuk-waqf for the redevelopment of waqf assets and for the rehabilitation of Marawi city, which was devastated due to the endless battles amongst ISIS (Islamic State of Iraq and al-Sham) and political figures. Sukuk al-musharakah in Singapore and Sukuk al-intifa in holy Makkah are two examples of successful initiatives to renovate waqf assets using the sukuk waqf. According to Musari (2016), Sukuk-Waqf is an efficient tool for the sustainable financing of higher educational institutions. As per Reuters (2018), the Indonesian government has raised $1.64 million thru Sukuk-waqf to develop public infrastructure and disaster-affected regions. Oubdi and Raghibi (2018) consider Sukuk-waqf a solution to public finance deficits and suggest it for the advancement of public infrastructure in Muslim nations. Dali et al., (2017) cited that as per Rifki Ismail (assistant director of Shariah Finance and Economic Department at Bank Indonesia), customarily waqf has been utilized for societal considerations. However, the sukuk-waqf is founded on commercial observations. However, the merger of sukuk and waqf has been valued by several authors.

On the contrary, Cizaka (2016) considers it challenging as it forms numerous issues related to shari'ah and finance, i.e. temporality of the waqf, reimbursement of sukuk proceeds and the usage of waqf corpus as collateral etc. Further, he views that the model comprises gharar and tries to distort the waqf institutions that have assisted the ummah throughout history. He urges Ehsam as a viable tool to combine with the waqf.

Research Framework

A research framework is a concept that demonstrates what the researcher wants to discover in his / her research (Swaen 2015). It describes the relation of cause and effect between the variables analysed in the study. This provides a visual description of how ideas connect in research. It is the most straightforward means by which a researcher presents his / her answers to the problem he/she has established (Adom, Hussein and Agyem 2018).

The section discusses the research framework of the study. In comparison, a content analysis of literature on Waqf, Maqasid Al-shariah, SDGS, MFIs, Sukuk and IMFIs will lead to introduction of Sukuk-waqf that will full fill the funding requirements of Islamic MFIs and provide investment opportunities to the deprived segment of the society and encourage them to participate in investment activities which will accelerate the economic growth and contribute to poverty eradication. Moreover, it will enhance the economic viability of Islamic MFIs by providing a good source of funds which is a serious challenge for all Islamic MFIs. The research framework of study is shown in the following figure 2:

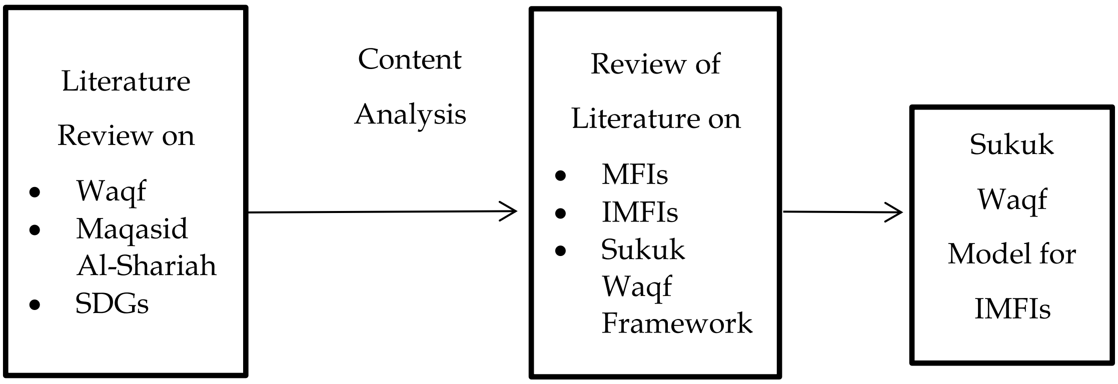

Figure 2. Research Framework of the study

Method

To provide a historical overview of the topic, the study has adopted a semi-systematic review approach as the research paper has discussed the past studies on Waqf for IMFIs, historical evaluation of MFIs and challenges in funding Islamic and conventional microfinance institutions. Besides, this research paper has employed the content analysis and proposes the use of Sukuk-waqf for the development of Islamic MFIs. In collecting the data, these secondary resources were used, i.e., journal articles, published reports, research papers, etc. These resources were also employed in literature review to define and explain the integration of Maqasid Al-Shariah, waqf and SDGs with a brief overview of Microfinance and Islamic Microfinance. Overall, the study provides comprehensive and coherent material on the topic which will serve as a guiding note for administrators of Islamic MFIs, and policymakers to enhance the economic sustainability and viability of Islamic MFIs through cash waqf.

Results and Discussions

The study suggests Sukuk-waqf model for Islamic MFIs to raise funds in order to finance microfinance activities. We propose a cash waqf mechanism to be combined with Sukuk for raising funds as it is the easiest and the most commonly used mode of Islamic endowment in the 21st century. The merger of Sukuk and waqf in a single structure has been considered worth pursuing by different scholars. It has been displayed as a perfect solution for the philanthropic financing gap by several researchs. The model will provide a good source of funding needed for the viability of Islamic MFIs.

The structuring of Sukuk-waqf is similar to the structuring of general Sukuk. However, the investor in Sukuk-waqf is not motivated by any profitable returns. The cash waqf raised through the Sukuk will be invested and the return will be used to finance microfinance activities. The figure below illustrates the flow of the model as shown in Figure 3:

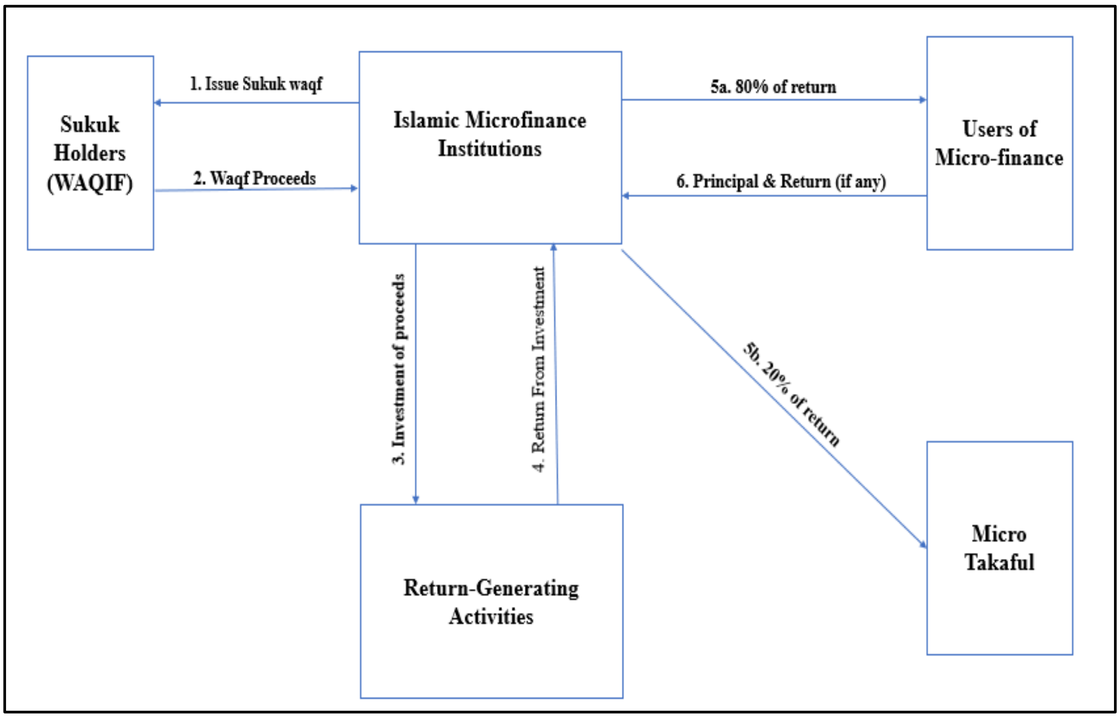

Figure 3. Proposed Sukuk-waqf Model for Islamic MFIs

The modus operandi of the proposed Sukuk-waqf model are as follows:

- Islamic Microfinance Institution as an issuer will issue the Sukuk-waqf.
- Sukuk holders as a waqif will donate the cash-waqf in exchange for the Sukuk certificates. Islamic MFIs will act as a trustee of the waqf fund after receiving it.
- Islamic MFIs will then invest cash waqf in secured low-risk return-generating investment activities. This will lead to the sustainability of the cash-*waqf* fund.

- The return from the investment will be divided into two portions. 80% of the return will be used for micro-financing activities while 20% of return will be used for the micro-takaful purpose. It will further mitigate the risk of microfinance institutions.
- Islamic MFIs can use different Shariah contracts on their asset side. The Murabahah or Ijarah contracts can be used if the client needs a real commodity or asset. The real assets will be exchanged based on the previously referred contracts. It will reduce the risk of diverting funds for non-productive activities by the clients which eventually result in default. Islamic MFIs can also use Musharakah and Mudhrabah contracts to finance trading activities. This will absorb the burden of losses from the clients. Islamic MFIs can also use Qard al Hasan for financing a very poor segment of the society. In this scenario, Islamic MFIs will only charge operational costs from them.
- The client will pay the periodic return to the Islamic MFIs (if any) based on the contract. The losses also will be borne by the relevant parties based on the contract. For example, in the Ijarah contract, the client will pay the rental. In Musharakah, the profit will be distributed according to the agreed ratio and the loss will be borne as per the capital contribution. In the Mudharabah contract, the profit will be divided based on the agreed ratio while the loss will be borne merely by Islamic MFIs.
- At the maturity, the contract between client and Islamic MFIs will be terminated as per the need of the contract. The client will return the capital amount to the Islamic MFIs. In the event of Qard al Hasan, the client will only return the capital and pay the operational cost. The Islamic MFIs will use the same money for subsequent financing.

Conclusion

Several studies has displayed Sukuk waqf as a perfect solution for the philanthropic financing gap (Musari, 2019; Kasri & Saeran, 2016). According to the Reuters (2018) the Indonesian government has raised $1.64 million through Sukuk waqf especially for the development of public infrastructure and disaster-hit areas. Therefore, the present study tends to introduce a Sukuk waqf model to faclitate the development of public infrastructure in Muslim countries and to remedy the public finance deficit. However, the proposed model of Sukuk waqf is grounded on the social considerations and commercial observations.

Thus, the merger of Sukuk and waqf in a single structure to full fill the funding requirements of Islamic MFIs will provide investment opportunities to the deprived segment of the society and encourage them to participate in investment activities which will accelerate the economic growth and contribute to poverty eradication. On the other hand, in the proposed model of Sukuk waqf governments, NGOs, rich Muslims and people who are highly motivated to participate in philanthropic and voluntarily causes will provid funding to Islamic MFIs through Sukuk waqf. Whereas Islamic MFIs will invest the fund in secured portfolios and the return from the investment will be utilised to provide financing to the un-bankable segment of the society through applicable Shariah contracts and concepts.

Hence, the proposed model has potential to solve the problem faced by the Islamic MFIs on their liability side. As it will enhance the economic viability of Islamic MFIs by providing a good source of funds which is a serious challenge for all Islamic MFIs. MFIs have been proven to be the good performer in poverty reduction which is one of the most important objectives of Shariah as well as SDGs. However, due to the funding issues, several Islamic MFIs have faced serious threat which hindered their operation. Therefore, the research has proposed a cash waqf model to full fill the funding requirement of Islamic MFIs. Nonetheless, zakat and sadaqah can also be used for this purpose. The study is an attempt to introduce the traditional concept of waqf in its new method to fulfil the objective of Shariah. There is a dire need for such studies that could bridge the gap between the theory and practice of Islamic finance.

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Managing Islamic Financial Planning Inclusion In Indonesia

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Abstract. *Indonesia is a country with the largest Muslim population. However, the understanding of Islamic finance is still limited. Meanwhile, more people are becoming more aware of the importance of managing personal finances. The interest of Muslim community to financial planning is a great opportunity to improve Islamic financial inclusion. The community is not only learning how to control personal finance according to Islamic principles, but also knows how and where to invest funds in compliance to shariah principles. Long-term impacts can increase the share of the Islamic financial market in Indonesia, both in the Islamic banking sector, Islamic insurance, sukuk, Islamic capital market, or fintech. Thus the shariah ecosystem could be strengthened further. This paper surveys the literature in the area of Islamic financial planning, and aims to design the basic concepts of Islamic personal financial planning needs, as well as to compare it with conventional personal financial planning. The next stage is to calculate the factors that could increase the inclusion of Islamic personal financial planning. The output of this study is a conceptual framework of Islamic financial planning that could also improve Islamic financial literacy and inclusion.*

Keywords: *Financial Planning, Islamic Financial Inclusion, Islamic Finance*

Abstrak. *Indonesia merupakan Negara dengan populasi muslim terbanyak. Akan tetapi pemahaman akan keuangan Islam masih sangat terbatas. Sementara itu, sekarang ini semakin banyak masyarakat menyadari pentingnya mengatur keuangan personal. Adapun adviser financial planner terbatas, lebih lagi mayoritas ilmu financial planner masih berbasis konvensional. Minat masyarakat muslim akan perencana keuangan menjadi peluang besar sebagai media inklusi keuangan Islam. Masyarakat tidak hanya mampu mengendalikan keuangan personal sesuai kaidah Islam, tetapi juga mengetahui cara dan tempat menginvestasikan dana secara tepat dan sesuai syariah. Dampak jangka panjang dapat meningkatkan pangsa pasar keuangan islam di Indonesia, baik di sektor bank syariah, asuransi syariah, sukuk, pasar modal syariah, p2p lending syariah, e-money syariah, dan sebagainya. Dengan demikian ekosistem syariah akan terbentuk secara masif dan terintegrasi. Studi ini merupakan literatur studi yang bertujuan merancang konsep dasar kebutuhan Islamic personal financial planning, serta mengkomparasikan dengan personal financial planning konvensional. Tahap selanjutnya adalah mengkalkulasi faktor-faktor yang mampu meningkatkan inklusi Islamic personal financial planning. Output dari studi ini adalah kerangka konseptual perencana keuangan syariah yang mana dapat meningkatkan literasi dan inklusi keuangan syariah, yakni IFP yang inklusif.*

Keywords: *Financial Planning, Islamic Financial Inclusion, Islamic Finance*

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Introduction

The times have resulted in an increase in complex and complicated human needs. On the other hand, commonly people has economic limitations to meet all their needs and wants (Senduk, 2008). Thus, it is important to arrange the priority and allocate the fund appropriately according to economic conditions. The gap between complex needs and financial capabilities can be overcome with good financial planning. Financial planning also has an important role, especially in dealing with uncertain economic and market conditions. As has happened recently, the outbreak of the Covid19 pandemic has had a major impact on the economic conditions of the community (Dennis, 2020; Wijayanti, 2020).

Financial planning is a planned process to achieve one's life goals (FPSB Indonesia, n.d.). While Islamic financial planning is when the processes carried out in achieving these financial goals do not conflict with shariah principles, and these goals are not only oriented to the world but also the hereafter (Financial Services Authority, 2019).

The majority of the population in Indonesia is Muslim (Amilahaq et al., 2020). The Muslim population in Indonesia reaches 87.18% of the total population of 255 million (BNI Syariah, 2020; Kaltim Post, 2020; Koran Jakarta, 2020), with a middle class population reaching 50 million people. Meanwhile, the number of professional financial planners (Certified Financial Planner/CFP) in Indonesia is only 1,598 people (FPSB Indonesia, n.d.). Thus, the country still need more experts in personal financial planning, in an effort to help people achieve financial independence with good financial planning. Moreover, financial planners who are experts in the field of Islamic financial planning. Because the Muslim community should have a financial plan that is in accordance with the values of their beliefs, allocating investments in shariah products, utilizing shariah products as risk management, as well as the process of distributing wealth in accordance with shariah provisions (inheritance law).

As a country with a majority Muslim population, Indonesia has a very low index of Islamic literacy and inclusion compared to conventional literacy and inclusion indexes. The Islamic literacy index in 2019 is 8.93% while conventional literacy has reached 37.72%. The level of Islamic financial inclusion in 2019 was 9.1%, while conventional financial inclusion has reached 75.28% (BNI Syariah, 2020; Financial Services Authority, 2019; Kaltim Post, 2020; Koran Jakarta, 2020; Nurrahman & Hartoyo, 2019; Puspaningtyas & Yolanda, 2019; Puspaningtyas & Zuraya, 2019). This shows the great efforts that must be made by the Islamic finance industry, government, shariah economists, Islamic economics enthusiasts, and academics, to improve Islamic financial literacy and inclusion in Indonesia.

The low index of literacy and inclusion of Islamic finance shows that the Islamic financial industry is still far from realizing well literacy. With a good literacy level, it is hoped that the community, especially the Muslim community, can take advantage of appropriate financial products and services to achieve sustainable financial well being (Amalia, 2020). Moreover, one way to overcome the damage from the global financial crisis is with good financial literacy by the whole community (Zeamer & Estey, 2020). The community needs to make efforts such as seeking financial education, either individually or with a partner, such as attending seminars or hiring professional financial planner.

Based on the potential of literacy, inclusion, and Islamic financial planning that is still large in Indonesia, and due to the low level of literacy and inclusion of Islamic finance in Indonesia, this research aims to develop concepts that can improve Islamic financial literacy, Islamic financial inclusion, and awareness of financial planning in accordance with Islamic principles.

Literature Review

Financial Planning

Financial planning is the process of achieving one's life goals through integrated and planned financial management. From a professional perspective, financial planning is a process of coordinating working with clients to determine and achieve client-specific life goals. These objectives will be prioritized, then the planning process that has been compiled will be evaluated and adjusted to any changes in the client's financial condition and economic capacity.

The financial goals of a person or client include; prepare education funds for children, prepare old-age funds for themselves and their spouses, prepare funds to own a house, prepare an inheritance for the family, prepare funds for the pilgrimage, holidays, and so on. Therefore, financial planning generally discusses 6 things; a) Financial management (managing income and expenses, managing assets and debt), b) planning and risk management, c) investment planning, d) planning for retirement, e) tax planning, and f) planning for inheritance. Financial planning can be done independently by studying the required sciences, or people can involving a professional financial planner (Pangeran, 2013; Zeamer & Estey, 2020)

Based on conventional financial planning, the financial goal is preparing the fund after the retirement. Financial planners are proven to help individuals achieve long-term finance (Kim et al., 2018). In an example, because the allocation of pension portfolio for employees is limited, thus the preparation of the investment plan becomes very important. Employers should ask advisors to periodically evaluate the performance of the plans under their management by using objective measures (Yao et al., 2020). Professional financial planners can also provide advice to the public / workers to decide on a pension program that suits them. Advice on the right pension program according to the wishes and needs of each employee will provide maximum satisfaction with the investment made (Ryan & Cude, 2020).

The Importance of Personal Financial Planning

Several reasons why financial planning is needed are; because there are financial goals to be achieved, the high cost of living from time to time, the condition of the Indonesian economy is not always good (there are times when it is in a crisis), the human physique will not always be healthy, and the number of financial products on offer (Senduk, 2008).

Limitations to fulfill all their desires make people have to determine the priority. The amount of funds needed to fulfill several basic things, such as vehicles, cars, and so on, has made the community also have to prepare funds in advance. And with the awareness that the productivity period is limited, encouraged them to plan funds after retiring. Thus, having financial planning is very important to do.

Financial planning has an important role, especially in dealing with uncertain economic and market conditions. As has happened recently, the outbreak of the Covid19 pandemic has had a major impact on the economic conditions of the community. The community can be calmer and ready to face such conditions after consulting with financial experts such as the Financial Planner (Dennis, 2020).

Moreover, one way to overcome the damage from the global financial crisis is with good financial literacy by the whole community (Zeamer & Estey, 2020). The community needs to have financial education, such as attending seminars or hiring professional financial planning.

Financial Planning Profession

The financial planning profession began with the establishment of the International Association for Financial Planning in 1969. This association was founded by Loren Dutton and 13 of his colleagues. Meanwhile in Indonesia, this profession was widely used in the banking and insurance industry in 1990. The monetary crisis in 1997 made many people start exploring financial planning. Many Indonesians take direct certification in America, or learn it self-taught. Financial planning after the monetary crisis in Indonesia developed with the opening of the Priority/Private Banking/Wealth Management division in the banking sector. This division provides services in the form of helping to manage the customer finances (Putra, 2013).

A financial planner is a professional who is qualified to help individuals and companies meet their long-term financial goals (Scott, 2020). A financial planner is someone who focuses on building a financial plan to help clients achieve their final goals (Smith, 2020). A financial planner is responsible to clients. They can work individually or institutions. A financial planner is in charge of consulting with clients to analyze goals, risk tolerance, life, stages, and types of investment that are suitable for them. From the results of this analysis, financial planners will plan programs that can help clients achieve their financial goals.

People who have financial planning skills can be divided into 2 groups. The first is the dependent or tied group with other agencies such as banks, insurance companies, securities companies, and asset management companies. Meanwhile, another group is independent from other agencies. So that generally the advice or opinion that is conveyed is focused on facts and the personal goals of the client. If the dependent financial planner benefits from the company's salary, the independent financial planner earns income from consulting fees provided, as well as fees from products that work with them, while maintaining the integrity and professionalism of an independent financial planner. Another source is from conducting training or seminars (financial educators).

Financial planners can explore a field in the world of finance (specialization) in order to provide optimal advice/advice to the public about the field. These specializations include corporate financial planners, personal financial advisors, investment advisors, asset management, planning management, experts in the fields of insurance, capital markets, risk, and so on.

Islamic Financial Planning (IFP)

The awareness of Muslims in Indonesia about the prohibition of usury from bank interest is the starting point for Islamic financial planning. Shariah financial institutions have emerged, such as Islamic banks, Islamic insurance, and the Islamic capital market. Conventional financial planning has also developed and transformed into Islamic financial planning.

Financial planning is a planned process to achieve one's life goals (FPSB Indonesia, n.d.). Generally, the purpose of life in financial planning is only material and world-oriented, such as financial freedom, buying assets, a prosperous old age, fulfilling children's education, tax planning, and distribution of inheritance. As for the Islamic financial planning, it is when the processes carried out in achieving these financial goals do not conflict with shariah principles, and these goals are not only oriented to the world but also the hereafter (Financial Services Authority, 2019). Islamic financial planning makes the welfare and safety of the world and the hereafter as the goal. In other words, IFP is an entire process that aims to achieve the personal goals of an individual through the acquisition, maintenance and distribution of wealth in adherence to Islamic principles and values (Ahmed & Salleh, 2016).

Islamic financial planning for individuals and families starts with managing cash flow, making future financial goals, setting priorities in life, then implementing it with Islamic way (Masyarakat Ekonomi Syariah, 2017). Islamic financial planning (*sakinah finance*) prioritizes needs based on *maqasid shariah*, namely the needs of *dharuriyyat* (top priority), *hajiyyat* (supporters), and *tahsiniyyat* (luxury items) from the stages of wealth creation, wealth accumulation, wealth protection, the distribution of wealth / wealth distribution throughout life from infancy until the end of an individual's life in the world (Wijayanti, 2020).

Some individual priorities for religious financial goals such as; performing the pilgrimage should be prioritized over the purpose of traveling abroad, and preparing children's school funds should be prioritized over the purpose of changing cars, meeting household needs, wills, having children, taking care of parents, property, *takaful & taawun*, planning emergency funds and others. Besides that, it is expected to have a better lifestyle and goals than before. Not only focusing on the present life but also with the life in the hereafter (Masyarakat Ekonomi Syariah, 2017).

In achieving these financial goals, investment products used also must comply with shariah principles. For example, sukuk, Islamic deposits, or Islamic mutual funds. As for inheritance planning, it must follow the inheritance rules in Islam (Masyarakat Ekonomi Syariah, 2017).

At least there are several things that must be considered in doing financial planning with Islamic principles. Some of these things are important to consider in order to achieve one's financial goals. 1) *Cleansing of Wealth* (zakat, infaq, shadaqah, waqaf), 2) *Management of Wealth*, regulating expenses, minimizing debt, as well as asset composition (cash flow and balance sheet), 3) Arrange financial goals in accordance with Islam, 4) Using shariah financial products, 5) Get used to a simple lifestyle and not consumptive (not wasteful), 6) *Risk & Insurance of Wealth*, determine shariah insurance and prepare emergency funds (takaful and taawun on family finances, health, assets and emergency funds), 7) *Saving & Investment of Wealth*, saving and investing according to Islamic principles. (houses, vehicles, children's education funds, pension/retirement funds, entertainment funds, Hajj etc.), 8) *Distribution of Wealth* (inheritance, will, grant) (Bratadharma, 2018; Putra, 2013).

The concept of* Rizq *in Islam (Sustenance)

Rizq (or *rezeki*) is not just in the form treasure or money. Sustenance is anything that can be taken advantage of. Sustenance is the inner pleasure that Allah SWT (Almighty and Fortuitous) gives in the world and the hereafter (*fiddunya hasanah wafil Akhirati hasanah*). As for the assets can be categorized into 4 definitions, namely; 1) assets as a trial, 2) assets as a mandate, 3) optimizing assets, 4) assets play an important role in the life / worship of a Muslim. Assets/treasure that is used to meet personal needs will run out in the world, while wealth that is donated will last forever to the hereafter.

Islamic financial planning regulates how humans should value assets or money as a mandate and part of sustenance. Thus Islamic financial planning explains toward Muslims about ways to gain sustenance (property), how to manage or spend it, so that it can be accounted for wisely in the afterlife. Technically, Islamic financial planning discusses obtaining *halal* income, spending Islamically (*toyyib*), debt management, protection (risk management) according to Islamic law, investment decisions such as saving, social responsibility such as zakat, alms, infaq and endowments, and financial planning for long term such as for unproductive periods (retirement) and inheritance policies (Putra, 2013).

Islamic Financial Planning Concept

According to Islam, all human activities must be aimed at achieving *falah* (success in this world and in the hereafter). The main purpose of Islamic laws is to bring prosperity or benefit (*maslahah*) and avoid damage (*mafsadah*) (Ahmed & Salleh, 2016). Islamic financial planning (IFP) is important as a form of fulfillment of the objectives of shariah (*maqashid al syariah*). Then it must be planned as well as possible. In Islamic financial planning, the process carried out must notta contradict the principles of Islam and it is oriented towards the afterlife. For example managing cash flow, establishing financial goals, using Islamic products, and planning inheritance. In cash flow management, Islamic financial planning must; a) include the allocation for zakat as the first responsibility, b) prioritize debt payments if have, c) develop financial goals according to Islamic thoughts, d) allocate investment in products that are in accordance with Shariah, e) adopt an Islamic lifestyle such as controlling desire (avoid excessive lifestyle), and f) prepare a reserve fund or an emergency fund.

IFP is designed to serve every segment of all population so that IFP does not only for high-income and middle-income households, but also to serve low-income households and those who are stricken with poverty (Ahmed & Salleh, 2016).

Islamic financial planning can be executed into 2 ways, namely for net surplus households (high income and middle income) and for net-deficit households (low and poor income). The difference in service between net-surplus households and net-deficit households is due to differences in characteristics and financial needs between each group (Mat Nawi, 2018). After grouping, the planning will then be compiled, the planning includes the following points (Ahmed & Salleh, 2016).

Table 1. Characteristics of Society in Personal Financial Planning Strategies

Difference	***Net Surplus Household***	***Net Deficit Household***
Money Management	In this group, people have started planning zakat payments and productive investment, which can maximize the obligation to pay zakat.	For net-deficit households, budgeting is needed to provide income, commonly their income could be supported by zakat receipts. Furthermore, this group also needs productive spending that can be covered from shariah microfinance and zakat receipts. In addition, money lending for consumptive purposes is also available through qardhul hasan loans and savings needs can be met by creating a wadiah account at shariah bank.
Emergency Planning	net-surplus household can start to participate in takaful schemes related to waqf. Thus they will not only be covered by shariah insurance but also donate in the form of wakf.	For net-deficit households, emergency planning can use shariah insurance services (*takaful*), both disabled income takaful, house takaful, and family takaful using funds from zakat and waqf receipts. In addition, emergency savings through wadiah accounts and shariah pawnshops (*ar-Rahn*) can also be other alternatives.
Investments for Specific Purposes	Besides old-age savings, the long-term investment that can be made by a net-surplus household is investment to fulfill the realization of waqf assets. As for the investment products use shariah financial products such as shariah banking, shariah insurance, islamic stocks markets, sukuk (Islamic obligation), shariah pawnshops, etc.	This investment is intended to meet long-term needs, such as old age savings. For net-deficit households, their focus is on fulfill their daily needs rather than long-term needs. Thus, financial educator or financial planner has a task to motivate them towards this need (long term need, long term plans).
Wealth Transfer Planning	Especially for the net-surplus household, they can inherit the assets which are then used for the	

Difference	*Net Surplus Household*	*Net Deficit Household*
	creation of waqf, which must be in accordance with the will of the deceased.	

Source: Ahmed & Salleh (2016)

Islamic Financial Planning Opportunities in Indonesia

The majority of the population in Indonesia is Muslim (Amilahaq et al., 2020). The Muslim population in Indonesia reaches 87.18% of the total population of 255 million (BNI Syariah, 2020; Kaltim Post, 2020; Koran Jakarta, 2020), with a middle class population reaching 50 million people. Meanwhile, the number of professional financial planners (Certified Financial Planner/CFP) in Indonesia is only 1,598 people (FPSB Indonesia, n.d.). Thus, the country still need more experts in personal financial planning, in an effort to help people achieve financial independence with good financial planning. Moreover, financial planners who are experts in the field of Islamic financial planning. Because the Muslim community should have a financial plan that is in accordance with the values of their beliefs, allocating investments in shariah products, utilizing shariah products as risk management, as well as the process of distributing wealth in accordance with shariah provisions (inheritance law).

Conventional financial planners in Indonesia generally have to follow the inheritance law in the State. In this case, it means that it is also in accordance with the inheritance law in Islam, as the majority pupulation in the country is Muslims. However, the perspective of wealth in Islam, the point of view of consuming in Islam, are values that are contained in religious thaughts and are reflected in Islamic norms (*akhlaq*). So that an inclusive and comprehensive Islamic financial planner is still very much needed.

Thus, it is very important to provide financial planning education from an early age, as an effort to eradicate poverty, including the poor mindset (mental poor). The simple education about sakinah finance (Islamic financial planning) can discuss the planning and management of assets by individuals or families for the financial achievement of a sakinah family (Wijayanti, 2020).

Islamic Financial Literacy and Inclusion in Indonesia

Islamic Financial Literacy

Financial literacy is a series of processes or activities to increase the knowledge, skills and confidence of consumers and society so that they are able to manage personal finances well (Amalia, 2020)

As for Islamic financial literacy is basic knowledge of economic and financial principles according to Islamic rules, as well as having the skills (financial skills) and confidence (financial confident) in managing their financial resources (financial behavior) appropriately, to achieve well-being and balance in the world and the hereafter according to Islamic guidance (Departemen Ekonomi dan Keuangan Syariah, 2020)

Financial literacy is very important because before consumers are ready to adopt products and services, they will go through various processes including knowledge, persuasion, decision and confirmation. With good financial literacy, it will affect a person's behavior ability in making consumption decisions, including investment. The level of literacy and inclusion of Islamic finance that is not good enough makes industry penetration less optimal. Because more and more Shariah financial transactions are carried out by the community, the more businesses and community production can be funded by Shariah finance (Amalia, 2020).

Islamic Financial Inclusion/Shariah Financial Inclusion

Financial inclusion is a process that ensures easy access, availability and use of the formal financial system for every person (Amalia, 2020). Financial inclusion ensures access to common financial products and services that are appropriate and needed by all levels of society, as well as for vulnerable groups economically and in a location (remote). This access must be safe, comfortable, fair, and at an affordable cost. This access can be utilized by the community properly, if only the community has been provided with adequate and sufficient education (literacy). So that they can make financial decisions better according to what they need, and then they will receive optimal benefits. In other words, financial inclusion is an inseparable part of financial literacy (Amalia, 2020).

The government has implemented the National Strategy for Financial Inclusion (Strategi Nasional Keuangan Inklusif /SNKI) through Presidential Regulation number 82/2016. The aim is to encourage economic growth, accelerating poverty reduction through reducing gaps between individuals and between regions, and forming an inclusive, stable and deep financial system (BNI Syariah, 2020). An inclusive level of finance shows a good understanding including financial awareness, knowledge of financial products, and understanding of the benefits of using financial products or services (Puspitasari et al., 2020). As for increasing financial inclusion, it must overcome the barrier such as the limited supply (financial service providers), high costs (price barriers), information barriers (public ignorance), design product barriers (suitable products), and channel barriers (facilities and infrastructure) (Norman, 2020).

Based on previous research, it is known that financial knowledge and financial experience affect the behavior of family financial investment planning; the attitude of financial managers moderates and strengthens the influence of financial knowledge (Silvy & Yulianti, 2013).

Development of Islamic Financial Literacy and Inclusion in Indonesia

There are still many people who have not been able to access financial services, especially accessing Islamic banking. Even though financial inclusion is a major banking issue in the world (Lubis & Ramadhoni, 2020). The results of the National Financial Literacy Survey in 2019 showed the financial literacy index in Indonesia reached 38.03%, and the financial inclusion index was

76.19% of people who had acquired financial literacy. This value has exceeded the financial inclusion target of 75% (Financial Services Authority, 2019).

Table 2. Development of Islamic Financial Literacy and Inclusion in Indonesia

INDEX	2016	2019
Conventional Financial Literacy Index	29,3%	37,72%
Shariah Financial Literacy Index	8,1%	8,93%
National Financial Literacy Index	**29,7%**	**38,03%**
Conventional Financial Inclusion Index	65,6%	75,28%
Shariah Financial Inclusion Index	11,1%	9,1%
National Financial Inclusion Index	**67,8%**	**76,19%**

Sources: (BNI Syariah, 2020; Financial Services Authority, 2019; Kaltim Post, 2020; Koran Jakarta, 2020; Nurrahman & Hartoyo, 2019; Puspaningtyas & Yolanda, 2019; Puspaningtyas & Zuraya, 2019)

Meanwhile, the level of Islamic financial literacy in Indonesia is at 8.93%, and the inclusion of the Islamic financial index at 9.1% (Kaltim Post, 2020; Koran Jakarta, 2020). The level of Islamic financial inclusion has decreased where previously it reached 11.1% in 2016 (BNI Syariah, 2020; Nurrahman & Hartoyo, 2019). This is because although there has been an increase in Islamic financial inclusion from 2016 to 2019, the market capitalization for increasing conventional financial inclusion is much greater. So that the Islamic financial inclusion index appears to be decreasing in a ratio (Nurrahman & Hartoyo, 2019; Puspaningtyas & Yolanda, 2019; Puspaningtyas & Zuraya, 2019). Thus, the point is as a country with a majority Muslim population, Indonesia has a very low index of Islamic literacy and inclusion compared to conventional literacy and inclusion indexes.

The largest population in Indonesia is the Muslim community (Amilahaq et al., 2020). The population of Muslims in Indonesia is 87.18% of the total population of 255 million. So the potential for increasing the Islamic financial inclusion index is very large (BNI Syariah, 2020; Kaltim Post, 2020; Koran Jakarta, 2020).

The low index of literacy and inclusion of Islamic finance shows that the Islamic financial industry is still far from realizing well literacy. With a good literacy level, it is hoped that the community, especially the Muslim community, can take advantage of appropriate financial products and services to achieve sustainable financial well being (Amalia, 2020).

Efforts to increase financial literacy and inclusion need to involve various agencies such as the government, supervisory parties such as the OJK, as well as the financial services industry and other parties. One effort that can be done is targeting the halal industry (Kaltim Post, 2020; Koran Jakarta, 2020). Which is providing services such as Islamic financial planning is part of halal industry in services.

Method

This research uses descriptive of literature study. Descriptive of literature study is research that is more specific to the understanding of social problems based on real conditions that are complex and detailed (Indriantoro & Supomo, 1999). Resource of study is collected from various literature such as scientific journals, books, mass media (news), reports relating to the problem under study, etcetera. Social problems are conditions that many people find unpleasant, disrupting the social functioning of a number of people, and their reasons for asking for collective solutions. One of the social problems is the need of shariah financial planning to be known to the Muslim society in Indonesia. By using social problem theory is expected to make a positive contribution in solving the overall problem.

Results and Discussion

The Concept of Islamic Financial Planning in Improving the Islamic Financial Literacy and Inclusion

Financial knowledge is a basic need for everyone to avoid financial problems. Financial difficulties are not only because the low income. Financial difficulties can also arise if there is an error in financial management (miss-management). Besides financial knowledge (literacy), the factor that affects investment planning is financial experience (inclusion). Experience in managing finances reflect the capability in understanding and doing well the investment, then manage it. So that the financial decision is correct as the wish (Sriwidodo & Sumaryanto, 2018).

There are 2 sources for obtaining an understanding of financial planning, namely internal and external. Internal information sources include human resources, psychological factors, and attitudes. As external sources come from professionals from various fields of financial services. Previous studies have shown that obtaining advice from external parties, such as financial professionals, can mediate internal sources of consumer financial management outcomes such as saving behavior and using consumer credit. In increasing the quality and accessibility of internal and external information to the society, it needs financial education programs and affordable professional financial services (Fan, 2020).

Professionals who focus on Islamic financial planning can make society understand that money is used not only for wordly matters but also for the sake of heavenly and social interests. Therefore literacy of Islamic economic and finance needs to be improved (Ahmed & Salleh, 2016). By integrating Islamic financial literacy, Islamic financial inclusion, and Islamic financial planning (IFP), thus IFP inclusiveness can run well.

People who want to make planned financial goals need to increase their financial knowledge (literacy) and financial experience (inclusion) (Norman, 2020; Sriwidodo & Sumaryanto, 2018). Because with good literacy and inclusion, the planning will be very mature. Even more so if they have good self-control. The implementation of financial planning can be executed more discipline (Sriwidodo & Sumaryanto, 2018). That control is embedded in the values that Islam has. In Islam, people are encouraged to control consumptive behaviour, paying more attention towards others than for self fun, and many other humble values.

It is possible that people do not interested in shariah finance product because they do not know about the products advantage. The proper education about shariah finance industry is needed. Thus the literacy and inclusion of shariah finance products can increase and the market share is reach the target

(Lestari, 2019). Without clear objectives, it will be difficult to increase public awareness of Islamic financial literacy. The goals to be able having good financial planning will increase the public's acceptance about Islamic financial literacy and inclusion.

Literacy has an important role in increasing people's understanding of appropriate financial planning methods. With this literacy (psychologically) it can increase readiness, open mindset, and public awareness of the importance of financial planning. Because psychological factors are often considered a key factor in making decisions (financial decision). This can also affect lifestyle patterns, unplanned shopping patterns, life mindset, and so on (Subiaktono, 2014).

Previous research has described the framework of the relationship between financial planning, financial literacy, financial inclusion, and zakat and waqf. The combination of these 4 dimension will create the inclusive Islamic financial planning. This shows the role of financial literacy and financial inclusion in achieving inclusive Islamic financial planning (Ahmed & Salleh, 2016).

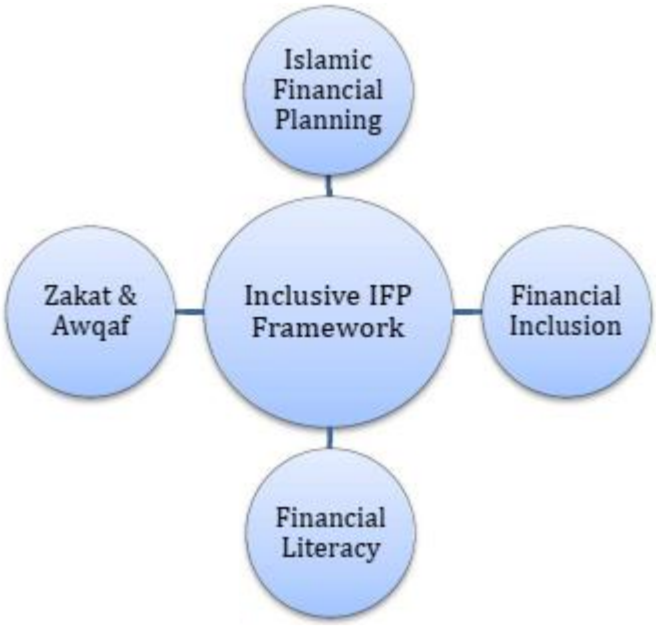

Figure 1. Inclusive Islamic Financial Planning
Sources: (Ahmed & Salleh, 2016), Durham University, United Kingdom

Based on the previous research model, the right strategy is formulated to increase the market share of the Islamic financial industry in Indonesia. Namely by explaining the importance of Islamic financial planning for each individual. When the community having a sense of need for this knowledge, Islamic values in muamalah can be more easily socialized to the community. Next step is the introduction of the products from Islamic financial industry as a medium that can be used by the Muslim community. This study develops a conceptual framework for developing a relationship between personal information seeking behavior and financial management outcomes. The model arranged is as follows.

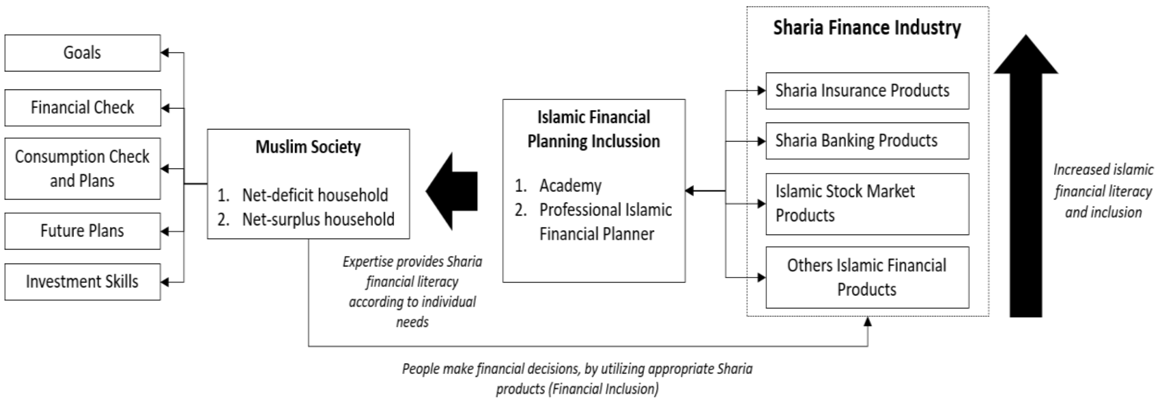

Figure 2. Managing Islamic Financial Planning Inclusion in Indonesia (Proposed Framework)

The figure shows the actors of Islamic financial planning inclusion are professional practitioners and academics. While the professional practitioners make financial planning services a da'wah as well as a source of livelihood, the academics can make this method a field of da'wah and knowledge distribution. Academics and experts in the field of Islamic economics can become the vanguard in increasing Islamic financial planning literacy, because they have some excellence namely; 1) Have an understanding of risks in an investment portfolio, 2) Have an up to date understanding of financial management topics.

For the net-deficit household, and the middle class of net-surplus householed. It could be quite difficult for them to hire a professional financial planner. Moreover, with still not many people who are aware of the importance of Islamic financial planning. This chance is become the task of academics as agents of change to disseminate this knowledge. Namely as a financial educator.

As financial educators of the inclusive Islamic financial planning, academics are the right people because they are able to hold the principles of financial planning code of ethics, namely: 1) Client first, 2) integrity, 3) objectivity, 4) fairness, 5) professionalism, 6) competence, 7) confidentiality, 8) diligence. Financial planners or financial educator from academia will act objectively, fairly and professionally. Because they does not have an element of interest with any party (in example insurance agent). Academics also have adequate integrity and competence in related topics.

Strategy for the Implementation of Islamic Financial Planning in Increasing Islamic Financial Literacy and Inclusion

In the literature review chapter, 2 groups in Islamic financial planning have been explained, namely net-deficit household and net-surplus household. The strategies undertaken to manage money, prepare emergency plans, and investments, are tailored to each group. However, the basic stage in disseminating Islamic financial planning must begin by defining the financial goals of the community and providing an overview of financial goals from an Islamic perspective.

Having socialization in simple language is expected so that will more easily understood by the society. Because basically discussing finance will be closely related to cash flow, budgets, and financial recording, which are often use terms in accounting. The terms in Islamic financial planning is also closely related to accounting science.The Islamic financial educator's efforts is use easy and light phrase for the society. With simple, relaxed, and light of talk accounting, it will be more effective than reading personal financial reports in an overly tense situation (Saadah, 2018).

The flow that can be used as a guide in continuous socialization can be described as follows.

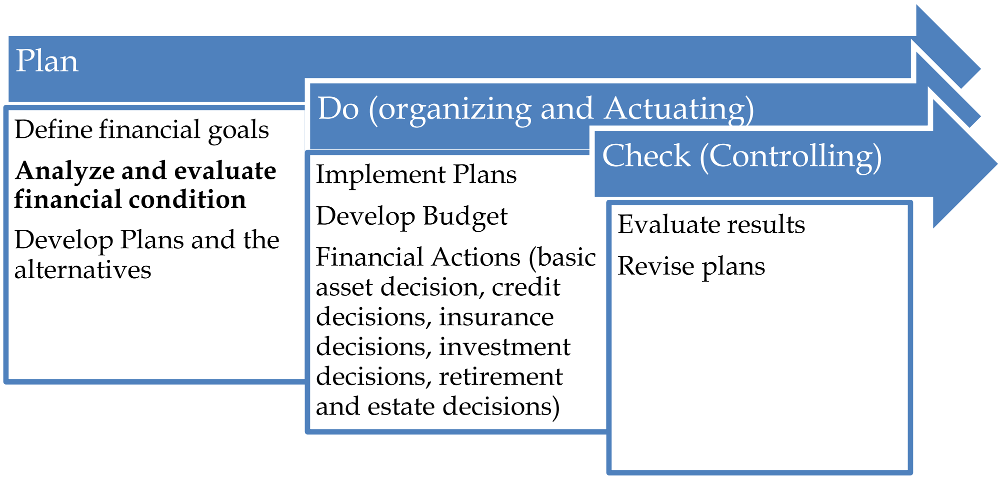

Figure 3. Financial Planning Process

Sources: (*Islamic Financial Planner | ArRIJAL & Partners*, n.d.; Smith, 2020)

Some explanations for the stages above are as follows.

1. Define Financial Goals

   Everyone certainly has their own goals. Therefore, the first thing to explain toward society is to provide awareness of the financial goals. The formulation of these financial goals also needs to be balanced with Islamic values regarding the proper financial goals (which are in accordance with Islamic principles). Financial goals are not limited to worldly things but also have a vision of the hereafter. With clear goals and visions, determining the priority goals will be easier. For example, performing the Hajj is an obligation for a Muslim who is financially capable, so the priority for performing the Haj pilgrimage must take precedence over other worldly desires such as buying a car, traveling abroad, and others (Bratadharma, 2018). Academics as financial educators play a role in conveying these things.

2. Analyze and evaluate financial condition, and minimize debt

   After knowing the goals, it is necessary to evaluate the personal financial condition. They are income, expenses, savings, debt, debt repayment, and others. Generally, this evaluation must be proven by data or monthly records. In this way, it can be seen which parts are less than ideal and need to be repaired. For example, income is too low, so people need to increase income first, or it turns out that the expenses are too large so it is necessary to know the cause. Whether because the high consumptive habit, or the large debt repayment, or others.

In Islam, having debts is allowed. However, Islam encourage us not to go into debt unless in an emergency or urgent situation. For someone who has debt, paying it off must be a top priority (Bratadharma, 2018). Academics as financial educators play a role in conveying these things.

3. Develop Plans and the alternatives

After knowing the targets, goals to be achieved, and the financial condition. So detailed financial planning is carried out, to improve financial conditions, and to achieve these financial goals.

a) Allocating funds for zakat, infaq and alms

As a Muslim, having a target to become a capable person (in finance) is a must. This is shown from zakat as one of the pillars of Islam. Zakat as one of the commands of Allah SWT must take precedence over other expenses. Especially for the net-surplus household group. By giving zakat, it is hoped that the sustenance obtained will be a blessing (Ali Imron 92) (Bratadharma, 2018).

b) Get used to a simple lifestyle and not wasteful

Simplicity is the beginning of happiness, because a simple life does not always mean lack but a way of life that aims to distance oneself from being greedy. Starting from a thrifty and simple lifestyle, managing income and expenses neatly, and getting used to only buying things that are needed and not extravagant (Bratadharma, 2018).

c) Setting up an emergency fund

Same with the preparation of a general financial plan, an emergency fund is still one of the things that must be fulfilled. Before allocate money for various financial purposes such as buying a car, house, and so on, an emergency fund is the first thing that must be prepared. These funds are used to anticipate various unexpected events, such as layoffs so that the source of income is reduced, accidents that require funds for medical treatment, and various other unexpected events.

d) Using Islamic financial products

In achieving financial goals, of course, someone is already accustomed to using various financial products such as savings, deposits, insurance, and mutual funds. This is where the benefits of Islamic financial literacy and inclusion are integrated with the Islamic financial planning program. Because with Islamic financial goals, the efforts made must also be in accordance with shariah. Namely utilizing Islamic financial products.

Islamic financial literacy and inclusion play an important role here so that people can understand Islamic financial products, and can decide which Islamic financial products are suitable for them.

4. Financial Educator helps people carry out the plan

   On the way to implementing the inclusive of Islamic financial planning, the community will be faced with various problems and obstacles. As a financial educator can help provide solutions to these problems. Moreover, maintenance for what have start is the key point of success of the project.

5. Help to keep an eye on the basic plan of Islamic financial planning

   Follow-up and maintenance are activities that are rarely carried out but are very important in ensuring the strategy is successful. Likewise in this financial planning. Financial educators can help oversee the implementation of Islamic financial planning by the community by continuously communicating with the community and receiving various complaints or consultations. This step also helping people to keep consistency with the Islamic principle, especially in keep remembering the Islamic financial goals.

Conclusion

Without clear objectives, it will be difficult to increase public awareness of Islamic finance. Having the community to embrace financial planning activities could improve Islamic financial literacy and inclusion. Those who aspire to achieve their financial goals need to increase their financial knowledge (literacy) and financial experience (inclusion) (Norman, 2020; Sriwidodo & Sumaryanto, 2018). Because with good literacy and inclusion, the planning and implementation process will be more reasonable and achievable (Sriwidodo & Sumaryanto, 2018). At the same time, an inclusive Islamic financial planning can be obtained.

The main drivers of Islamic financial planning inclusion could be from the professional practitioners and academics. While the professional practitioners render financial planning services a *da'wah* as well as a source of livelihood, the academics can make this method a field of *da'wah* and knowledge distribution. Academics and experts in the field of Islamic economics can become the vanguard in increasing Islamic financial planning literacy, because they have better understanding of risks in an investment portfolio, and also an up to date knowledge of financial management topics.

As financial educators of inclusive Islamic financial planning, academics are the right people because they are able to hold the principles of financial planning code of ethics, namely: 1) client first, 2) integrity, 3) objectivity, 4) fairness, 5) professionalism, 6) competence, 7) confidentiality, and 8) diligence. Financial planners or financial educator from academia will act objectively, fairly and professionally. Because they does not have an element of interest with any party (in example insurance agent). Academics also have adequate integrity and competence in related topics. Thus this study had proposed a concept of Islamic financial planning that could improve Islamic financial literacy and inclusion.

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How Waqf Solves Backlogs

Munira Pratiti Satriyasyifa[1], Anita Priantina[2]

Abstract. *The gap between demand and affordable supply has led to a housing backlog, especially in Indonesia. Solution is needed, especially to provide housing for low-income earners. This study discusses the potential for implementing a new financing scheme that combines Sukuk Linked Waqf, Cash Waqf Linked Sukuk, CSR, and non-halal funds for housing development in the long-term using the Benefit, Opportunities, Cost and Risk-Analytical Network Process (ANP-BOCR) method. The results of this study indicate that under this alternative scheme, the benefits and opportunities for all parties involved in housing development outweigh the costs and risks. Therefore, the combination of SLF and CWLS has significant potential to solve backlog problem in Indonesia.*
Keywords: *Sukuk Linked Waqf, Cash Waqf Linked Sukuk, non-halal funds, backlogs.*

Abstrak. *Kesenjangan antara permintaan dan pasokan yang terjangkau telah menyebabkan masalah backlog, terutama di Indonesia. Solusi diperlukan, terutama untuk menyediakan perumahan bagi masyarakat berpenghasilan rendah. Penelitian ini membahas tentang potensi penerapan skema pembiayaan baru yang menggabungkan Sukuk Linked Wakaf, Cash Waqf Linked Sukuk, CSR, dan dana non halal untuk pembangunan perumahan dalam jangka panjang dengan menggunakan metode Benefit, Opportunities, Cost and Risk-Analytical Network Process (ANP-BOCR). Hasil penelitian ini menunjukkan bahwa skema gabungan ini memiliki bobot Benefit dan Opportunities yang lebih besar dibandingkan dengan Cost dan Risk bagi semua pihak yang terlibat dalam penyediaan perumahan. Oleh karena itu, kombinasi SLF dan CWLS memiliki potensi yang signifikan untuk mengatasi masalah backlog di Indonesia.*
Kata Kunci: *Sukuk Linked Waqf, Cash Waqf Linked Sukuk, dana non halal, backlogs*

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Introduction

As a basic need, meeting housing needs often encounters difficulties due to high demand. With continued economic growth, the supply of affordable housing cannot keep up with the demand, especially among low-income earners. Housing prices have increased significantly over time, further exacerbating the backlog problem.

By early 2020, the demand for housing has reached 260,000 units, while only 86,000 houses have been built due to limited funds (Kompas, 2020). Therefore, the government is expected to play an important role in mobilizing resources by developing segregation and policies to build cheap housing for the poor (Nafar, 2018).

Islamic home financing is a financial alternative to replace the conventional mode of interest-based financing (Azli & Othman, 2016). One of the ways to overcome the housing shortage is for the government to develop a strategy to enable the community to build adequate housing using government funds or Waqf funds from Waqf. Waqf is an Islamic based social finance instrument which has better flexibility compared to other social instruments.

The number of certified *waqf* land in Indonesia has reached 134,237 parcels of land with an area about 111,281,173 m^2 (BWI, 2019). The potential for Waqf land is that with which the government should cooperate and produce the land for the benefit of the community. The potential for cash waqf reaches 2,000 trillion rupiah per year (*Keuangan*, 2019).

The issuance of SW001 *Sukuk Waqf* by private placement has attracted as much as IDR 50,84 billion. It is expected to be an opening gate for the development of productive social investment and endowments in Indonesia.

To provide affordable housing for low-income earners, non-commercial funds are needed. National Sharia Council of the Indonesian Ulema Council or DSN-MUI has issued a fatwa regarding TBDSP (*Tidak Boleh Diakui Sebagai Pendapatan*) or non-halal funds, whereby these funds could be used for social needs of the community. Companies wishing to channel such funds must have a Cash *Waqf* Linked *Sukuk* or 'CWLS' program or also other social BWI programs. Other social fund such as CSR could also be structured into a CWLS.

Example use of non halal funds under CWLS is the construction of an eye hospital in Serang where the distribution has an initial discount of IDR 2.8 billion. The construction of this hospital requires funding of IDR 13 billion, which is only a plenary fund collection in the fourth year and submitted to *mauquf alaih* and receives a yield of 10% from this project. The combination of funds from cash *waqf* and non-halal incomes is expected to reduce the amount of rent so prospective residents can pay rent at a low price.

Commercial companies consider their participation with *waqf* as a way to channel their corporate social responsibility, by turning social projects into cash flow projects that have special appeal (Javed et al., 2015). Allocating scarce financial capital to its most productive use is a fundamental role that financial markets play and CSR has a significant impact on this capital allocation process: market participants are more willing to allocate scarce capital resources to companies with more CSR good performance (Ioannou et al., 2014). For example, PT Indo Tambangraya Megah Tbk has CSR funds of IDR 19 billion (PT Indo Tambangraya Megah Tbk, 2018) or PT XL Axiata has IDR 855 million for just one program (XL Axiata, 2018).

The halal industry has expanded the product sector, but also the marketing sector, supply chain, logistics, packaging, manufacturing, branding and financing (Azam & Abdullah, 2020). The use of this Shariah instrument provides the opportunity for the transaction to become a halal transaction. This is further reinforced by the current situation, which shows that the Islamic economy continues to play an important role in Indonesia's development.

Among the challenges of having a new Islamic financial scheme is lack of management system (Jalil & Ramli, 2008), proper education to parties involved (AD Rarasati & Bahwal, 2019), and inadequate awareness of Islamic Financing (Nafar, 2018). Potential risk for sukuk based instruments in general is default risk (The World Bank, 1993), and competition with other similar financial instruments (Nafar, 2018). However, when the scheme could be successfully implemented, this could enrich the availability of Sharia compliant Instruments for the housing need (Abdulkareem et al., 2019) and of course could increasing the attainment of Maqashid Sharia (Ahmad & Mahadi, 2019). From macroeconomic perspective, this scheme has a significant potential too.

Therefore, this study seeks to explore the potential implementation of a new financing system that combines Sukuk Linked Waqf, Cash Waqf Linked Sukuk, CSR, and non-halal funds for housing. To achieve the purpose, this research will first decompose the elements of benefits, costs, opportunities, and risks. It is expected that the benefits and opportunities will outweigh the costs and risks for this scheme to be able to be realized.

Literature Review

Housing is one of the basic human needs so that fulfilment is spelled out in Law No.39 of 1999 concerning Human Rights that home ownership is the right of every human being. According to the Ministry of Public Works and Housing, the number of backlogs was 7.6 million units (PUPR, 2018). The simultaneous increase in the price of subsidized housing each year has an impact on the increase in APBN funds that must be provided, as well as the potential for mis-subsidization to low-income communities (Darandono, 2020). Affordability of low purchasing power of people recorded 11 million households inhabit non-livable homes and millions of households that do not have a home (Budhiman, 2020).

Expensive house prices are issued and prices in housing become an important determinant of both the functioning housing market in the world (Green & Wachter, 2010). Not only the lack of supply of houses at affordable prices, but also the weak demand for housing due to high housing prices and high housing finance interest.

The concept of a backlog that every family is not required to own a house, but the Government facilitates/encourages every family, especially those belonging to low-income communities to live in a decent house. The so-called low income people is a society that has limited purchasing power and do not have a house yet, with a maximum income of 4 to 7 million Rupiah so they need government support to obtain a decent home (PUPR, 2011).

Islamic finance encourages prudence and transparency in investing, sharing risks rather than diverting them and avoiding products and services that would harm society from an Islamic perspective (Hayat et al., 2013).

Aspects of quality-of-life improvement and maintenance of the sustainability of *waqf* real estate were created and create comfortable and affordable housing. Good performance on *waqf* projects is highly dependent on the full commitment at the best level of each party involved in the development of *waqf*, especially the government, the community throughout the period (Ali et al., 2016).

Implementation of cash waqf in order to encourage more people to limit a portion of their wealth, as a form of contribution taken in small amounts of money to strengthen the activities of waqf. The logical extension of cash *waqf* in Maqasid from the diversification of ways in which *waqf* is practiced by offering alternatives for those who have small suggestions (Oubdi & Raghibi, 2018).

Sukuk waqf can bridge the gap between profit and non-profit sectors and link the two industries and aimed to maximum utilization of their charitable resources with a project to turn wasted charitable resources into *awqaf* revenues (Musari, 2016).

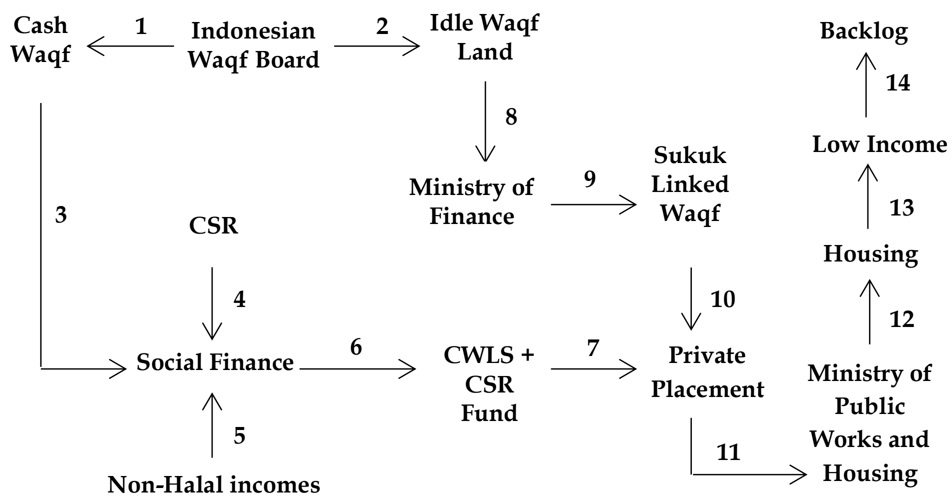

Figure 1. SLW and CWLS combined Scheme
Source: Author

In Law Number 13 of 2011 concerning Handling of the Poor, CSR is one of funding made from companies in providing community development funds as an embodiment of social responsibility for handling poor.

Backlog problem currently being addressed by the government raises many questions. The difficulty of people to meet basic needs is determined by the price that is too high. The above scheme is discussed as follows:

1. The Indonesian Waqf Board collects *waqf* assets in the form of cash;
2. Idle *waqf* land is recorded by Indonesian Waqf Board;
3. Cash *waqf* collected will be submitted to the social finance institution;
4. CSR funds from private companies are given to social institutions;
5. Non-halal funds from companies providing funds to the social finance institution;
6. Funds collected at the social finance institution will be used as joint funds from the cash *waqf* linked to CSR fund *sukuk*;
7. Funds is submitted to private placement for safekeeping so it can be used;
8. Un-productive *waqf l*and will be given to Ministry of Finance;
9. The Ministry of Finance will change the *waqf* land in the form of a linked *waqf sukuk* so that the land can be built according to community needs;
10. *Sukuk* linked *waqf* will also be submitted to the private placement;
11. All funds collected at the private placement will be given to the Ministry of Public Works and Housing;
12. Ministry of Public Works and Housing builds housing at low rent costs;
13. Cheap housing is intended for low-income people category;

Method

This study uses qualitative analysis, which is Analytical Network Process (ANP), that aims to get experts perspective and discuss the new budget using Islamic rules that produce low-income people to get decent housing at low prices. This research has a qualitative understanding of the process or tries to understand social problems (Khairunnisa and Priantina, 2019).

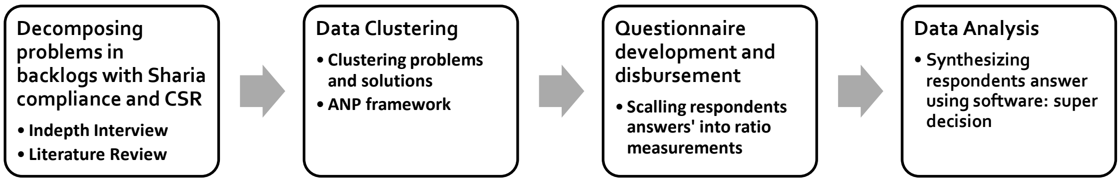

Figure 2. ANP Research Stages

Source: Author

Data collection phase is divided into two stages. First stage is collecting primary data obtained from interviews and secondary data processed from previous research. The second stage is to group data to compile a questionnaire. This question is designed to measure the opinions of all categorized respondents, namely regulators, practitioners, and academics. The regulator is the party that has the authority to regulate the rules that apply to Indonesian representatives. Practitioners are people who have strategic positions in philanthropic institutions that deal with endowments. Academics or experts in Islamic economics specifically in the problem of Islamic social funds.

Results and Discussion

The summarized framework of the benefits-opportunities, costs, and risks-Analytical Network Process is as depicted below:

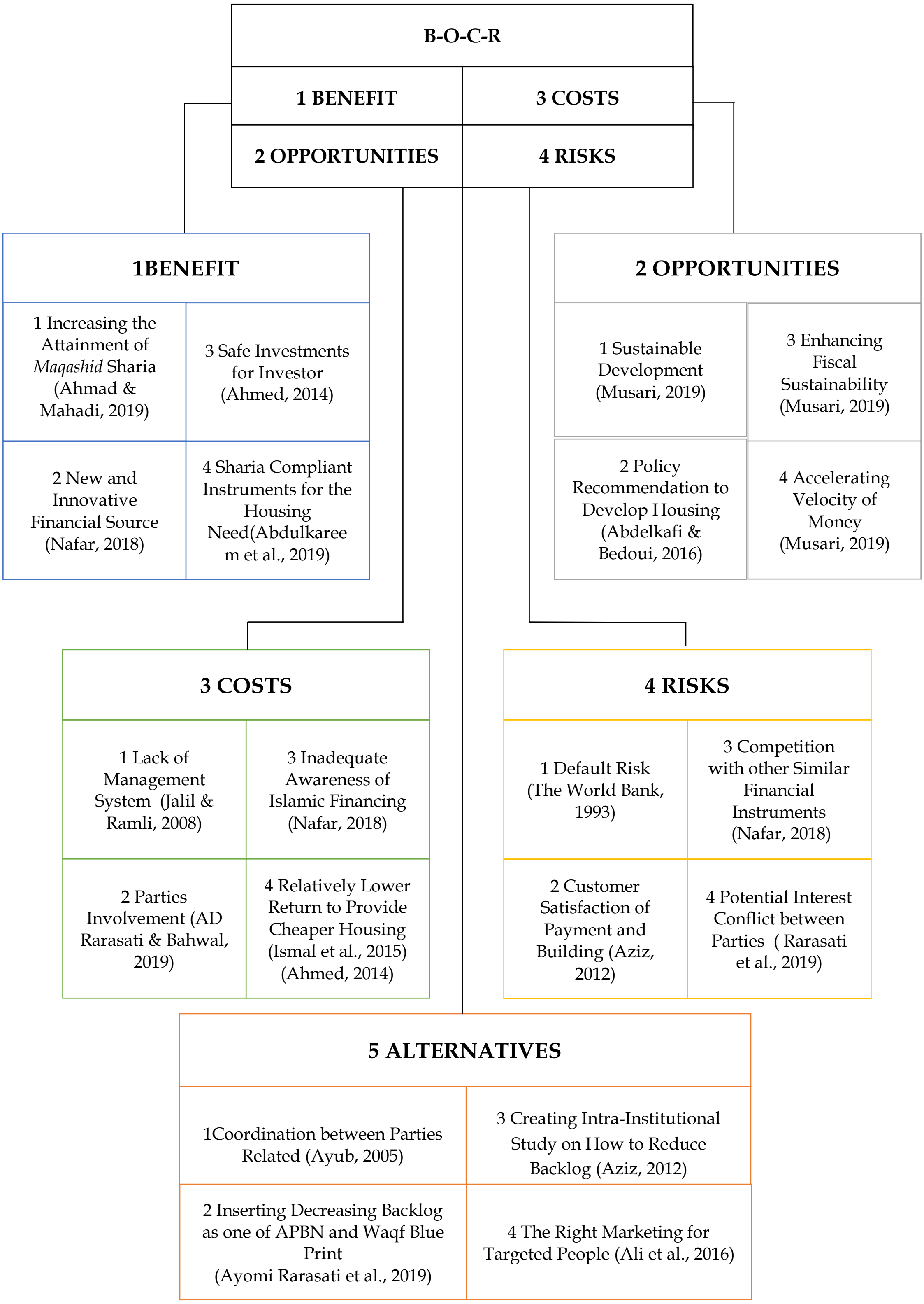

Figure 3. BOCR-ANP Decomposition Framework

The table below shows that each respondent cluster has different values obtained to determine the priority elements of benefit, opportunity, cost, and risk. The following table provides a comprehensive summary so that priorities can be determined.

Table 1. BOCR Geomeans and Rater Agreements

	Regulators	Practitioners	Academicians	Overall
BENEFIT				
Increasing the Attainment of *Maqashid* Sharia	0.449	0.303	0.315	0.256
New and Innovative Financial Source	0.231	0.196	0.283	0.182
Safe Investments for Investor	0.16	0.216	0.173	0.252
Sharia Compliant Instruments for Housing Need	0.16	0.285	0.229	0.31
Kendall's W		0.208		
OPPORTUNITIES				
Sustainable Development	0.273	0.306	0.290	0.346
Policy Recommendation to Develop Housing	0.254	0.226	0.401	0.266
Enhancing Fiscal Sustainability	0.283	0.269	0.14	0.224
Accelerating Velocity of Money	0.19	0.199	0.169	0.165
Kendall's W		0.160		
COST				
Lack of Management System	0.219	0.318	0.251	0.231
Parties Involvement	0.152	0.279	0.338	0.256
Inadequate Awareness of Islamic Financing	0.314	0.307	0.161	0.256
Relatively Lower Return to Provide Cheaper Housing	0.314	0.096	0.250	0.256
Kendall's W		0.085		
RISK				
Default Risk	0.151	0.294	0.244	0.256
Customer Satisfaction of Payment and Building	0.403	0.211	0.252	0.329
Competition with other Similar Financial Instruments	0.271	0.203	0.352	0.256
Potential Interest Conflict between Parties	0.175	0.292	0.151	0.158
Kendall's W		0.140		

Source: Author

Geometric Mean of Respondent's Benefit Cluster

Broadly speaking. benefits are a priority of a scheme with a fairly strong value (W = 0.208) with the greatest priority from each cluster is increasing the attainment of *maqashid* sharia by 0.256. The second priority is safe investment for investors with a value of 0.252

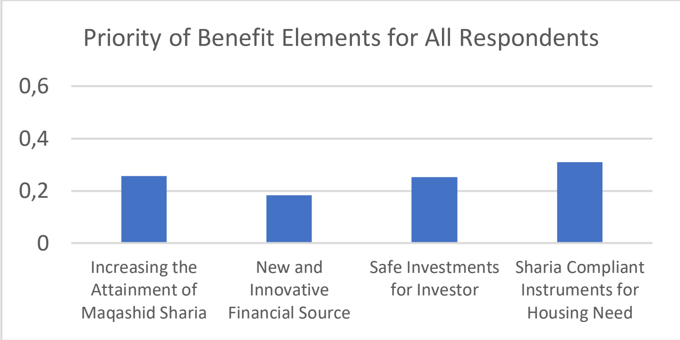

Figure 4. Priority of Benefit Elements for All Respondents

Source: Author

Geometric Mean of Respondent's Opportunity Cluster

The agreement value shown by opportunity is (W = 0.16) with the main priority of opportunity is sustainable development with a value of 0.346. The second priority is policy recommendation to develop housing of 0.266.

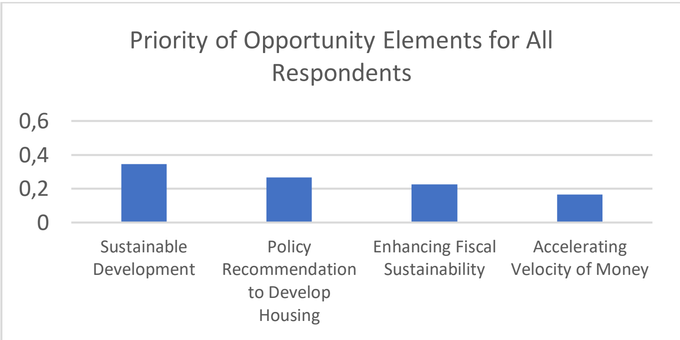

Figure 5. Priority of Opportunity Elements for All Respondents

Geometric Mean of Respondent's Cost Cluster

According to the respondents, cost has almost non-existent agreement value (W = 0.085). Even so, parties involvement, inadequate awareness of Islamic financing, and relatively lower return to provide cheaper housing have an equal position so that it becomes a concern with a value of 0.256.

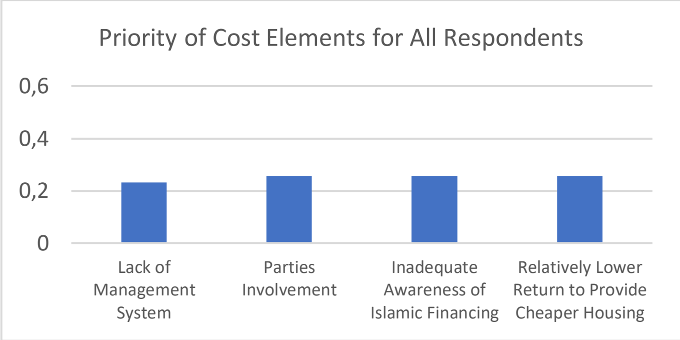

Figure 6. Priority of Cost Elements for All Respondents

Geometric Mean of Respondent's Risk Cluster

The risk agreement value was slightly lower than the agreement value of opportunity (W = 0.14). In terms of risk. the main priority is customer satisfaction of payment and building with a value of 0.329. While default risk and competition with other similar financial instruments has the same value. namely 0.256.

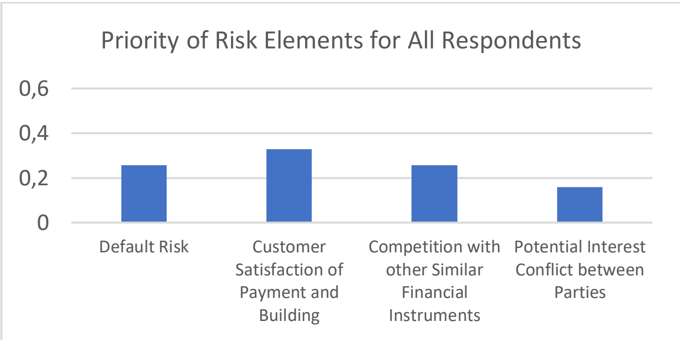

Figure 7. Priority of Risk Elements for All Respondents

Results of the BOCR Model Cluster Rater Agreement

Based on the results of data processing in the BOCR model, the respondents have a strong enough agreement indicated by the rater agreement value of (W = 0.492). So, it can be concluded that the agreement between respondents is quite strong in stating that the Sharia financing scheme in housing is an alternative in terms of benefits, opportunities, costs, and risks.

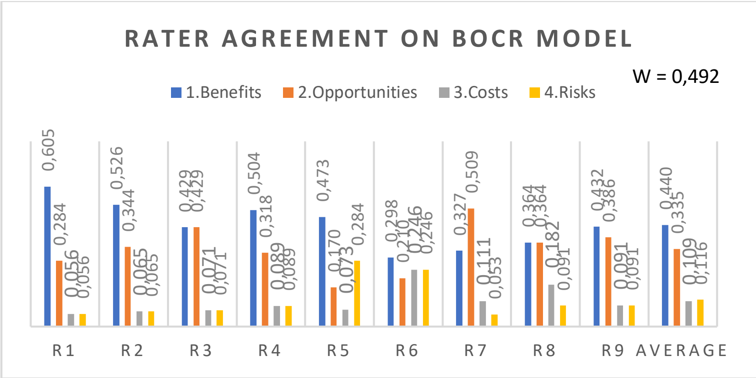

Figure 8. Rater Agreement Result on BOCR Model

Source: Author

Based on the combined average value as can be seen in the graphic above. the benefit has a value of 0.439; opportunity has a value of 0.334; while risk has a value of 0.109; and cost has a value of 0.116. It can be concluded that the benefit and opportunity clusters have a very large influence on the continuation of the scheme. According to Himawan (2020) the proposed financing scheme is a very profound innovation with the aim of utilizing waqf land and helping low-income people meet their housing needs at a low cost.

Results of the Geometric Mean of the BOCR Model

The overall results of all respondents seen from the geometric mean value show that the priority of the BOCR model is benefit as the main priority, followed by opportunity, the third place is cluster risk and the last one is cost.

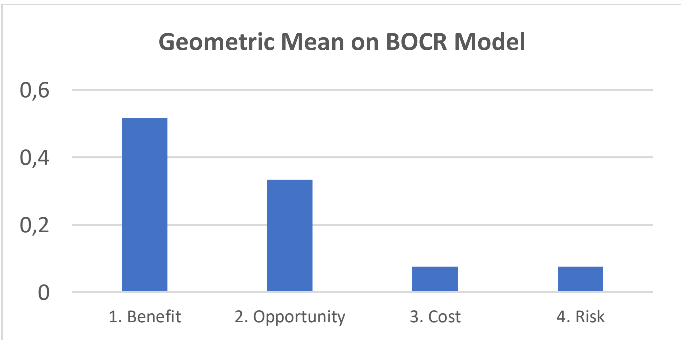

Figure 9 Geometric Mean Result on BOCR Model

Source: Author

Respondents agreed that sustainable development is an opportunity in the sharia financing scheme which is used as an alternative to meet the primary needs of low-income people with a value of 0,345. The satisfaction of prospective residents is the main focus in sustainable housing development, this factor is able to show that customer satisfaction is one of the main points of emphasis in determining the success or failure of the financing scheme (Himawan, 2020). The benefit itself has the greatest value in sharia compliant instruments for housing need with a value of 0,310.

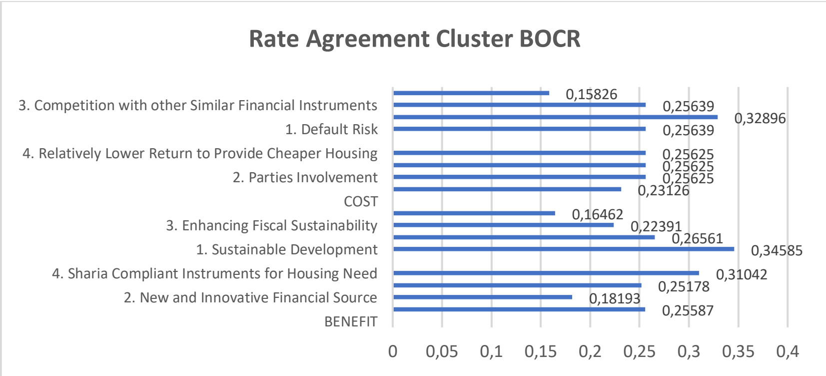

Figure 10. Aggregate Geometric Mean Result on BOCR Model

Source: Author

When viewed from cluster risk, the geometric mean of all respondents has a trend that is not much different from one node to another. The node with the highest value is 0,328 on customer satisfaction of payment and building.

In cluster cost, the trend is almost the same, namely relatively lower return to provide cheaper housing with inadequate awareness of Islamic financing and parties involvement, namely a value of 0,256.

Cluster opportunity has the node with the highest value of 0,345 in sustainable development. The node with the second highest score is policy recommendation to develop housing with a value of 0,265.

The last cluster is the benefit cluster with the highest node, which is 0,310 on sharia compliant instruments for investors. The next node is increasing the attainment of *maqashid* sharia with a value of 0,255.

Synthesis Results of BOCR

From the results of the two-layer ANP data processing, there are three parts of the resulting decision, 1) the scoring system, 2) the merits of the BOCR decision as a consideration for making decisions, and 3) the hierarchy or network of interests, objective facts that make an alternative decision more desirable than others. After the ANP modelling and analysis stages were carried out, the results obtained from the pairwise comparison of the BOCR criteria can be seen in the following table:

Table 2. Alternative Synthesis Results for the BOCR Model

No	Alternatives BOCR	B	O	C	R
1	Coordination between Parties Related	1	1	1	1
2	Inserting Decreasing Backlog as one of APBN and Waqf Blue Print	0.561	0.448	0.469	0.618
3	Creating Intra-Institutional Study on How to Reduce Backlog	0.000	0.370	0.000	0.000
4	The Right Marketing for Targeted People	0.633	0.631	0.606	0.581

Source: Author

The table above shows the results of the BOCR assessment for each aspect. Saaty describes the results of several prioritized alternatives, obtained from three results, the general conditions (standard conditions) obtained from the calculation of B/C, Pessimistic B/(CxR) and Realistic (BxO)/(CxR). The best alternative is chosen with high realistic value and the chosen alternative is considered as a decision which is determined from other alternatives.

Table 3 Alternative Weights of BOCR in the Long Run

No	Alternatives BOCR	B	O	C	R	bB+oO-cC-rR	
		0.517	**0.333**	**0.075**	**0.075**		
1	Coordination between Parties Related	1.000	1.000	1.000	1.000	1.000	0.440
2	Inserting Decreasing Backlog as one of APBN and Waqf Blue Print	0.561	0.448	0.469	0.618	0.521	0.229
3	Creating Intra-Institutional Study on How to Reduce Backlog	0.000	0.370	0.000	0.000	0.123	0.054
4	The Right Marketing for Targeted People	0.633	0.631	0.606	0.581	0.627	0.276
	Total	2.194	2.449	2.075	2.199	2.271	1.000

Source: Author

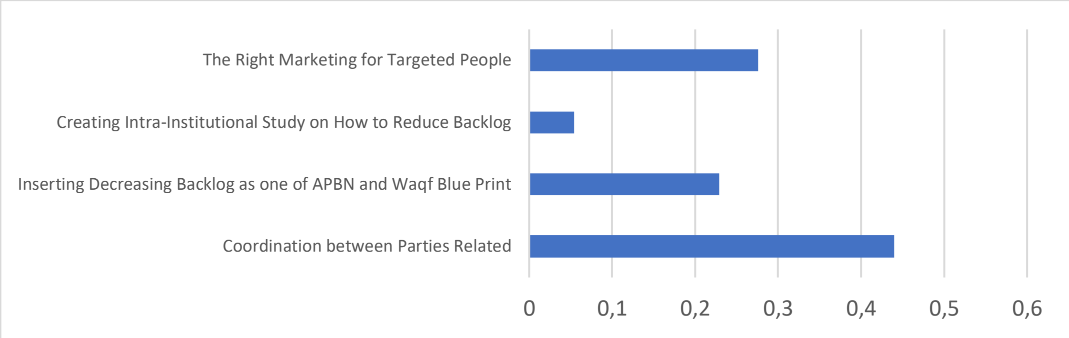

Figure 11. Long-Term Priorities by Overall Respondents

Source: Author

From the table and figure above, it can be concluded that the main priority of alternatives in the long term according to the respondents is coordination between parties related. The second priority is the right marketing for targeted people.

Table 4 Alternative Weights to BOCR in the Short Run

No	Alternatives BOCR	B 0.517	O 0.333	C 0.075	R 0.075	BO/CR
1	Coordination between Parties Related	1.000	1.000	1.000	1.000	0.333
2	Inserting Decreasing Backlog as one of APBN and Waqf Blue Print	0.561	0.448	0.469	0.618	0.289
3	Creating Intra-Institutional Study on How to Reduce Backlog	0.000	0.370	0.000	0.000	0.000
4	The Right Marketing for Targeted People	0.633	0.631	0.606	0.581	0.378

Source: Author

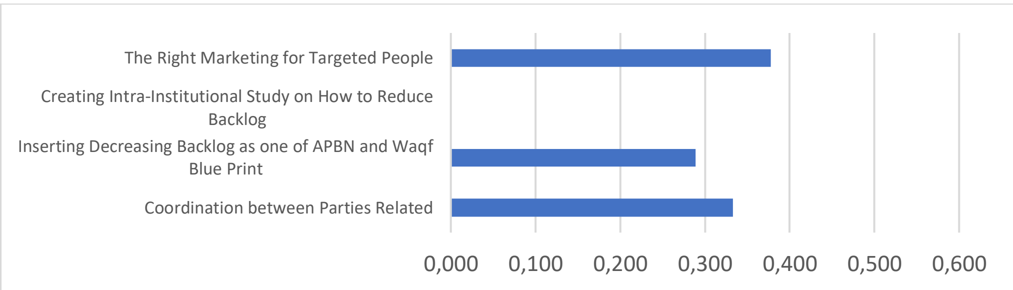

Figure 12. Short Term Priorities according to Overall Respondents

Source: Author

From the table and figure above, it can be concluded that the alternative main priority in the short term according to the respondents is the right marketing for targeted people. Furthermore, the second priority is coordination between parties related.

From these results it can be said that in the long or short term the priority alternatives produced are the same, but the resulting value is different. Both show that the coordination between parties related and the right marketing for targeted people is the most important alternative or strategy in the alternative financing scheme.

Conclusion

This study discusses the possibility of implementing a combined scheme of Sukuk Linked Waqf and Cash Waqf Linked Sukuk as instrument to provide low price housing for solving backlog problem. Sukuk Linked Waqf is used to facilitate utilizing the idle waqf land as land for housing development. Cash Waqf Linked Sukuk is utilized to facilitate social funding in order to finance this kind of low return investment. Therefore, social funding proposed are CSR and non-halal funds.

The geometric mean results of all BOCR cluster shows that the benefits and opportunities for all parties involved in housing development outweigh the costs and risks. Therefore, the combination of SLF and CWLS has significant potential to solve backlog problem in Indonesia.

All respondent clusters agree that the first priority on the benefit of this combined scheme is increasing the attainment of *maqashid sharia*. All clusters has different priorities on opportunity cluster. Practitioners view sustainable development as the top priority while regulators see that the most important element is enhancing fiscal sustainability and academicians view policy recommendation to develop housing is the most essential one.

In terms of cost, regulators think that inadequate awareness of Islamic Financing and relatively lower return to provide cheaper housing are the most challenging part; academicians view that it is parties involvement which is the most problematic one while practitioners think that lack of management system is the most essential problem. As for the potential future risk, academicians and regulators see that it is customer satisfaction of payment and building which has higher potentials while practitioners see that the default risk which will become the most risky element in the future.

When ranking on the short run and long run alternatives, respondents have different opinion on what is the most important. In the short term, it is that right marketing for targeted people which is considered as the most important. It could be understood as there are parties that should be convinced in order for this scheme to be able to be implemented. In the long run, it is the coordination between parties related that become the most essential to ensure that this scheme will be long lasting.

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The Effect of FDI and Corruption on Human Development in OIC Countries

Dewi Robbani[1]

Abstract. *This study aims to see the direct and indirect effect of FDI and corruption to Human Development in OIC Countries. Nine countries are selected representing the medium to very high human development category in OIC Countries (Egypt, Indonesia, Jordan, Malaysia, Morocco, Kazakhstan, Kyrgyzstan, Turkey, and Tunisia). Using a combination of path diagram and panel data analysis, the result of this research indicates corruption has both direct and indirect effect through economic growth to human development in OIC countries, while economic growth and FDI restrictiveness have a direct effect.*

Keywords: *Foreign Direct Investment, Corruption, Human Development, OIC*

Abstrak. *Penelitian ini bertujuan untuk melihat pengaruh langsung dan tidak langsung dari investasi langsung luar negeri (FDI) dan korupsi terhadap pembangungan manusia di negara-negara OKI. Dalam hal ini, 9 negara dipilih yang merepresentasikan kategori tingkat pembangunan manusia menengah dan tinggi di antara negara-negara OKI (Mesir, Indonesia, Yordania, Malaysia, Maroko, Kazakhstan, Kirgistan, Turki, dan Tunisia). Dengan menggunakan kombinasi diagram jalur dan analisis data panel, hasil penelitian menunjukkan bahwa korupsi berpengaruh terhadap tingkat pembangungan manusi di negara-negara OKI baik secara langsung maupun tidak langsung melalui pertumbuhan ekonomi. Sementara itu, pertumbuhan ekonomi dan pembatasan FDI memiliki pengaruh langsung.*

Keywords: *Investasi Langsung Luar Negeri, Korupsi, Pembagunan Manusia, OKI*

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Introduction

The questions arouse due to the assumption that the economic growth will be followed by human development. The UNDP has launched the proximate and more appropriate way to see the development of social and economic, as known as the Human Development Index. However the question still remains, whether some of the determinants of economic growth, namely foreign direct investment (FDI) by transnational corporations also significantly influence the human development. One of the core tools to transfer resources from developed and developing country are transnational corporation which also make FDI as its main vehicle. Eventhough the original literature on productivity spillovers still have some biased on it, it is believed that the increasing of FDI has an impact of improvement in the economic and productivity of the host economy. (Mortimore, 2004)(Fine & Gray, 1999; Mortimore, 2004; Sharma & Gani, 2004)

Foreign direct investment has a potential to make a real contribution to economic growth through escalating the human development by increasing the quality and productivity of human resources, supporting the technology and transferring the technology-plan. Having impacts to the community in terms of social and economic aspects, foreign direct investment plays a role in one's development. The social aspects include reducing poverty and increasing welfare especially for developing countries. Foreign direct investment also has an impact in developing skills and improving technical progress. Moreover, in economic aspects it can also achieve economic goals in creating jobs (Assadzadeh & Pourqoly, 2013; Kustituanto & Istikomah, 1999).

Though some empirical studies found out the positive impacts of FDI, it cannot be denied that FDI might also be 'harmful'. It could expose domestic firms to greater competition. There are possibilities of miss in important analytical point that caused domestic firms to force out of the industry (Moran, Graham, & Blomström, 2005)

Though the effect of FDI is still ambiguous, the FDI policy have an important role in determining the impacts of FDI to the development. There is a significant role of FDI policy in term of extracting the benefit. It has to be balance between attracting FDI with FDI policy and maintaining extraction of capital inflow in any form. Therefore, the conceptual benefit of FDI are in some way attached with FDI policy regime (Reiter & Steensma, 2010; Sumner, 2005).

Along with the FDI, this study will also discuss the impact of corruption to the human development. Several studies connecting the relation between corruption to FDI and Human development (Akçay, 2006; Al-Sadig, 2009; Reiter & Steensma, 2010). According to Akçay (2006), As a sympton of deep institutional weakness, corruption leads to more than an ineffective economy but also social and political outcomes. Corruption can obstruct the human development, less corruption will also increase the human development.

Meanwhile, Habib & Zurawicki (2002) found a relation between corruption and FDI. They said, *"Understanding the pernicious role of corruption to FDI is important since it heightens uncertainty and raises costs. Moreover, it creates distortion to both company and the host country."* Corruption affects the flow of FDI in one's country. FDI has a tendency to decline due to the corruption. High level corruption is mostly associated with unfavorable institution and government. Thereby, the studies find a negative long-run impact of corruption has an impact to FDI (Egger & Winner, 2005). It will affect the investors perception to the business, which disturbing the inflow and the utilization of FDI. (Akçay, 2006; Al-Sadig, 2009; Habib & Zurawicki, 2002)

Corruption and foreign direct investment (FDI) are jointly linked as the foreign investors may consider corruption morally wrong and stay away from the country. Moreover, it makes the economic turn to a difficult to manage, risky, and costly . As the form of misappropriation of public funds, corruption taken part in decreasing of health and longevity of individual by reducing amount of public goods and services. Furthermore, corruption has a two-way negative causal with development (Blackburn & Sarmah, 2008; Habib & Zurawicki, 2002)

The frustrating effects of corruption has made corruption to be the center-stage of development (Pradhan, 2012). While the World Bank claims corruption as "the single greatest obstacle to economic and development." However, the theoretical and empirical work is still needed.

OIC countries face 'development dilemma', this includes the scarcity of non-equity foreign financing, the debt burden, and some internal factors. With this happening, OIC countries see FDI as a 'whole-package' solution. This is because the use of FDI can solve capital, technology, managerial capabilities and market access problems. Although some literature doubts the efficacy of FDI in solving problems in least developed countries. This does not reduce the attractiveness of FDI as a development solution in OIC countries.. (Zeinelabdin, 1998).

This study uses 9 OIC countries (Malaysia, Indonesia, Egypt, Jordan, Kazakhstan, Kyrgyzstan, Turkey, Tunisia, Morocco) which represent OIC in the range of human development category medium to very high human development. Medium to very high human development category is considered appropriate to use FDI as an instrument of development. A set of least developed countries is considered more appropriate to use Official Development Assistance (ODA) to improve development (Kosack & Tobin, 2006; Unceta, Gutierrez, & Amiano, 2010; Zeinelabdin, 1998).

Realizing FDI as an important tool for enhancing growth and development, as other developing countries, the OIC members are also seek to enhance the inflow of FDI. However, the tradeoff caused by FDI to OIC countries are still not valid (Dabour, 2000).

Various attempts were made to attract FDI. According to the OECD, some OIC countries are increasingly open to the use of FDI as a development-tool kit, even though the FDI restrictiveness index (an index that measures the level of openness and ease of countries in welcoming FDI) OIC countries are still below 50%. The differences between policy and restrictiveness in each country also may affecting the FDI inflow to the country and its impact to the development of one's country. (Dabour, 2000; Majeed & Ahmad, 2010; Reiter & Steensma, 2010).

In addition, corruption also has a major impact to the human development (Al-Sadig, 2009) including in the OIC countries. The level of corruption in the OIC countries is quite high. According to Transparency International, 9 OIC countries (Jordan, Tunisia, Egypt, Morocco, Indonesia, Turkey. Kazakhstan, and Malaysia) are getting better year by year. The highest achiever in CPI, means lower corruption in one's country, is Malaysia. However, OIC country achievement in the corruption perception index is still low with an average achievement below 50%. Whereas 5 countries with the highest CPI levels, namely New Zealand, Finland, Switzerland and Singapore, have an average value of over 85%. This proves that the level of corruption in OIC countries is getting better but still needs to be greatly improved.

Several studies have discussed the relation between FDI, corruption and human development (Dabour, 2000; Ortega et al., 2014; Reiter & Steensma, 2010; Sharma & Gani, 2004). For instance, Reiter & Steensma (2010) studied those relationship in the developing countries. However, there is no any research discusses specifically the impact of FDI and corruption to the human development in OIC countries. Dabour (2000) only discussed the role of FDI to the economic growth of OIC. In addition, previous research only sought the direct effect relationship provided by FDI and Corruption to human development. However, it is needed to determine the actual effect of FDI and corruption on human development, whether it is direct effect or indirect effect. In this study, the intermediate variable is economic growth (Ghosh, 2006; Ranis et al., 2000; Sen, 1999; Suri et al., 2011)

This paper attempts to empirically examine the impact of FDI and corruption on human development in OIC countries. In addition, the effect of Economic growth on human development will also be tested as the basis to find the indirect impact of FDI and corruption on human development.

Literature Review

Human Development

At the beginning, several studies focused on the quantitative achievement of economic growth, financial institutions, and any other quantitative economic performance. However, to attain economic development (or moreover, human development) the increase of national income needs to be accompanied by the improvement in the improvement in quality of life in various aspects (Wibowo, 2019)

Since 1970 economic development begun to redefine. The new outlook of economic development is no longer only about creates a high growth of Gross National Product (GNP), rather is an effort to eliminate or reduce poverty level, income inequality and providing employment to sustain the economy development. In line with these objective, the main purpose of economic development is to achieve the human development. (Hanafi, 2018; Todaro, 2004)

The definition of human development is wider than some definition of well-being that related to material or aspects that publicly provided. It covers the fullest sense in the matters of public and private, economic, social, and spiritual. Human development means to reduce poverty and enhance well-being (Alkire, 2002)

Fukuda-Parr (2003) said, "*Human development is a process of enlarging people's choices*". It covers a long and healthy life, education, access to resources and a decent standard of living.

While Sen (2000), emphasized human development in a boarder scope, human development meant to integrate a variety context of human life as a people, their well-being and their freedom. Human development means to achieve value capabilities; health, nutrition, and resource development ("human capital development". Development is about removing obstacle to enhance human loves by expanding range of possibility for a person. The adding 'sustainable' prefix, before human development making the definition is getting wider, human development is more than enabling people to lead long, healthy educated live but also make sure the future generation can doing so (Neumayer, 2012).

UNDP started to recognize that human development isn't based from accumulating income and generating wealth, it is far more than that. The measurements of human development began to emerge, one of the most widely use is Human Development Index (HDI) by UNDP. According to UNDP, "The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: along and healthy life, being knowledgeable, and have a decent standard of living".

According to Faqihudin (2010), As a composite index, HDI includes three fields of human development, a basic needs of human being: health sector (life expectancy), knowledge (education), economic (decent living using GNI per capita as its proxy):

a) Life expectancy at birth

Human development is valued as an effort to enlarge choices, it must first strive to make sure the human development can reach a long and healthy life. Actually, there are many indicators that can be used to measure life span, but with consideration of global availability of data, life expectancy indicator birth is selected. Number infant mortality (IMR) is not used for this purpose because of that indicator is considered insensitive for industrialized countries that have developed.

b) Knowledge

Considering the importance of knowledge as the fundamental element of human development. Human Development Index are using literacy rates and average length of school. The indicator of literacy rates can be obtained from the ability of a person to read and write. While the calculation of average length of school is done in stages. At The beginning is calculated by the length of school for each individual using the pattern of relationships between these variables. At the stage next the aggregate length of school average is calculated.

c) A decent standard of living

Considering the availability of data, UNDP using Adjusted Real GDP per capita as its indicator. Unlike the indicators for the other two HDI elements, indicators decent living standards are recognized as input indicators, not impact indicators, so it is actually not suitable as an element of HDI. Even though UNDP is still maintaining it because other suitable indicators are not globally available.

HDI is one way to measure the quality of life of the population. Quality of life is reflected in the education, health and economic capabilities of the community as seen from the level of income. The higher the level of community education will make it easier to get better jobs and earn income so that people easily access health. Low public health causes low productivity, low productivity results in low community income. Low income causes people to not be able to access education and health due to limited costs, this causes the level of community welfare will decrease. One of the advantages of the Human Development Index (HDI) or the Human Development Index (HDI), reveals that a country/region can do much better at a low income level. (Sasana, 2009)

However, the human development has often been misinterpreted as only constructed by three factors in HDI, narrowly: literacy and schooling, life expectancy and adjusted income. This may cause human development has little to offer. Other factors may apply in influencing the concept of human development. Therefore, other indicators may have a direct or indirect effect in leading economic development and social welfare (Azam, 2016; Fukuda-Parr, 2003).

The concept of human development has also been taught in Islam. The achievement of human welfare in Islam also covers economic welfare. However, in Islamic human welfare seen from two sides, namely worldly life and eternal after life. Prosperity in Islam also recognizes the existence of "the specific positive utility of the individual driving factors ". In this case, Islam does not deny individuals to fulfill certain desires such as marriage, career, clothing, food, etc. Islam regulates identifying options; benefits and risks that can provide temporary satisfaction and cause long term harm to "spiritual matters and ethical existence" also on overall human welfare. (Shaikh, 2000)

In Islam, the term *tazkiyyah* is closely related to human development. There is a broad understanding in this matter. However, it can be said that human development in Islam leads to "growth and purification" of the relationship between humans and Allah. In Islam, humans and Allah are the center of development. So, Islam does not separate between worldly aspects and spiritual aspects. The welfare of human development can be achieved by maintaining human dignity through establishing social justice.(Relief, 2014)

Impact of FDI on Human Development

In both individual and national needs, Islam teaches the existence of "doctrine of collective duties" (*Fard kifayah*), the need to fulfill and protect the needs of every Muslim and Ummah. So, the external economic relation needs to be carried out to meet this need. The purpose of the need for external economics is to remove any obstacle to obtaining these rights. In transactions, Islamic countries need to carry out transactions according to sharia and avoid things that are detrimental to the ummah.(Siddiqi, 1992)

The OIC country is also looking for ways to get FDI inflow. FDI inflow is used as an addition to domestic saving and investment that benefits financial resources in the country. FDI also has an important role to play in achieving the target of sustaining high rates of economic growth, increasing employment, and increasing the standard of living in the country. Most of the OIC countries are developing countries, this is also the reason why FDI is used as one of the financial resources of OIC countries.(Dabour, 2000)As an important factor of increasing the economic growth in developing country, foreign direct investment has been totally proven. Foreign direct investment gives the opportunity in investment beyond the level of domestic savings can achieve. It can attract capital, technology, and competitiveness of the host country. Moreover, foreign direct investment also has a linkage between security, political stability and social welfare (Samimi, Moghaddasi, & Azizi, 2011).

Foreign direct investment (FDI) can be relied by host economies to improve the development and competitive position in global environment. FDI is corresponded to the welfare improvement in the host country. There is assumption that in addition of the increasing of purchasing power and spillover effect, FDI will transfer stronger social welfare functions: increasing education and life expectation (Jensen, 2006; Lehnert et al, 2013)

According to Noorbakhsh et al. (2001), FDI is more than just a finance and employment tools. For developing country, means to acquiring skills, technology, organizational and managerial practices. Foreign direct investment is actually approved has a linkage with human capital. Therefore, to maximize the FDI inflow the developing country needs to pursue the FDI by using FDI policy.

Some of current literature is focus on the linkage between FDI and economic development in an overly narrow view. The purpose of development is to enabling individuals to achieve their legitimate aims in life. As the FDI inflow affecting the economies and human capital, the FDI policies can strategically use FDI and prioritize state's objectives in human development. (Reiter & Steensma, 2010; Sen, 2000)

The path of FDI's influence on human development that will increase overall welfare is described by Lehnert et al ,(2013):

Figure 1 The Path of FDI to Human Development

Figure 1 means that FDI is promoting development through three channels: household, labor market, and government. The increase of FDI increases the household income and purchasing power "by driving the need for skilled workforce". Government's revenue is also increasing through taxation. Therefore, the governments can keep maintaining the social welfare; health care, increasing literacy, and standard of living.

Impact of Corruption on Human Development

Corruption comes from Latin "corruption" or "corruptus" later appears in many European languages such as English and French, namely "corruption", in Dutch "corruptive" which means bribery.

Islam prohibits corruption, the scope of corruption is very wide because the basic principle of prohibiting corruption is justice ('adl). One of the verses that prohibit corruption is:

وَلَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ وَتُدْلُوا بِهَا إِلَى الْحُكَّامِ لِتَأْكُلُوا فَرِيقًا مِنْ أَمْوَالِ النَّاسِ بِالْإِثْمِ وَأَنْتُمْ تَعْلَمُونَ

> "And let not one of you eat the treasure of the other part of you by way of inaccurate and (do not) you bring (the affairs) of that property to the judge, so that you can eat a portion of the property of others by (way of committing) sin, even though you knowing" (QS Al-Baqarah-188)

Thus, in Islam, corruption is an act of "abuse of trust, power, authority and prowess whether it is judicial, administrative, political, financial or social that emasculates societal harmony"(Abuarqub, 2009; Jabbar, 2013). Al-Maqrizi condemned corruption and argued that it stimulates an increase in the market price or inflation (Akbar & Faizin, 2019).

Corruption is the misuse of public power for private benefit. Means, public official has a direct responsibility for the provision of a public services. Corruption is an abuse of public office for personal gain and can result in a high cost economy and hamper economic growth. Corruption will interfere with the mechanism of income and wealth transmission, resulting in income inequality and increasing poverty, corruption can also affect innovation and disrupt human capital due to reduced government performance in the public sector.(Hanafi, 2018; Rose-Ackerman, 2013)

Corruption generally indicates a structural weakness of institutions national authorities and an inability of public authorities to exercise rigorous control over the acts of civil servants and economic operators. It can lead to selflessness of the country's donors when it leads to the dissipation of aid to development and thus cause a decrease in financial assistance from the International community (Lemaire, 2003)

As a symptom of deep institutional weakness, corruption leads to inefficient economic, social, and political outcomes. Many economic damages caused by corruption such as obstruct foreign and domestic investment, reduce economic growth, promotes inflation, depreciates currency. Social sectors also have damages due to corruption, misallocation and reduce education and health expenditure, increase inequality and infant mortality rates. Moreover, it distorts the fundamental role of government. The more corrupt countries tend to have levels of human developments, it retards all of the aspects of human development. The relation between corruption and human development is described by Akçay (2006), as a following:

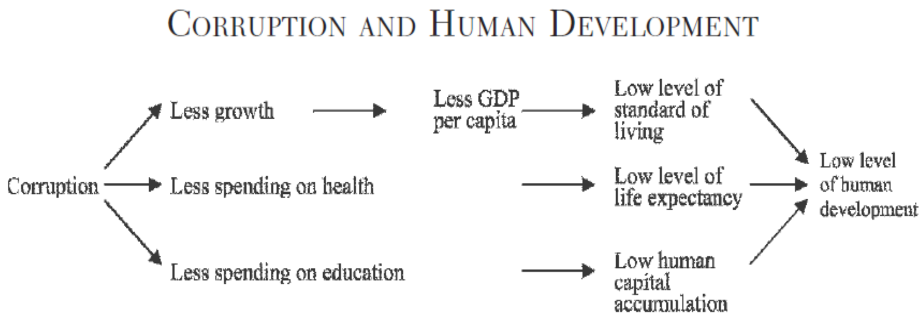

Figure 2 The Path of Corruption to Human Development

Shleifer & Vishny (1993) said, the effect of corruption to public goods can be described in the simplest way.

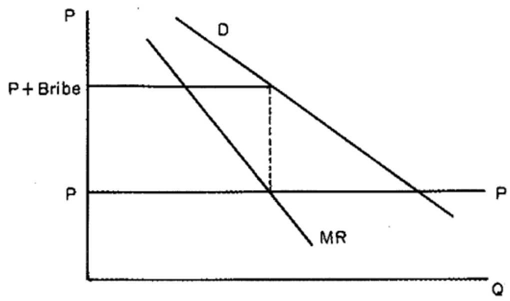

Figure 3 Corruption With Theft

The corruption without theft means the corruption occurs when the government "turns over the price of the official price of the good to the government". P is the marginal cost of providing the goods, the official government price. However, due to the corruption, when the citizens want to access certain goods or services it is needed to give bribe to the corrupt government. Therefore, the price will increase from *P* to *P*+ bribe. To sum up, corruption will increase the cost of service and goods.

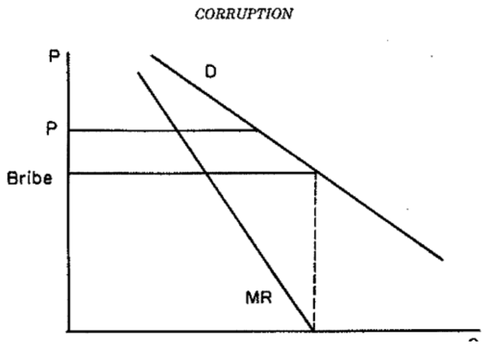

Figure 4 Corruption Without Theft

The second is corruption with theft. In this case, there is no turn over in price. However, they're simply "hides the sale". The consumers may pay for the price or bribe, which is lower than the price. The marginal cost of to the official is zero. However, the corrupt government didn't decrease the quantity as they seeking for more profit. Therefore, they reduce the quality of public goods and services. In conclusion, the corruption with theft will decrease the quality of public goods and services. Sen (1999) said, corruption is "rightly regarded as one of the major stumbling blocks in the path to successful economic progress".

Economic Growth to Human Development

Economic growth has an important role in human development. There are lots of study which discussing about the economic growth. Sen (2000) said, "Income growth clearly strikes one as the main contributor to directly increasing the capabilities of individuals and consequently the human development of a nation since it encapsulates the economy's command over resource".

According to Ranis et al., (2000)**,** GDP is an instrument in achieving a wider range of capabilities. As GDP also has a strong impact on health and literacy outcomes, through private or government expenditure. Sharma & Gani (2004) argued that GNP contributes to human development mainly through household and government activity; civil society, community organization and NGOs (nongovernmental organizations). The same level of GNP may differently affect the improvement of human development based on their allocation among institutions.

Ghosh (2006) said, "human development is the central objective of human activity and economic growth potentially a very important instrument for achieving it". The economic growth has an indirect link to human development through trickle-down effect and occurrence of poverty. When the poverty is low, which caused by higher income per capita or more equal distributed, the household expenditure on human development related items is expected to be high. The economic growth and the government spending on human development-related activities may lead on an improvement in human development.

Islam defines economic growth as a matter with a broader meaning. Economic growth is a continuous development of production factors that can properly contribute to human welfare. This is because in Islam economic growth includes the growth of material and spiritual aspects. Thus, economic development according to Islam is multi-dimensional, which includes both quantitative and qualitative aspects. The goal is not merely welfare material world, but also the welfare of the hereafter. Both according to Islam are integrated together. (Aziz, 2012; Muttaqin, 2018)

However, in several studies stated that economic growth has no impact on human development. According to Kuncoro (2003), Economic growth has always been a key point in the success of development in developing countries with the assumption that only with high economic growth can solve development problems. This has led to the insight that the success of development can only be measured by the increase in per capita income.

Economic growth does not necessarily have an automatic link with human development. There have been many observations in various societies that economic growth does not have a trickle-down effect. It must be realized that the accumulation of wealth is not always the reason for the achievement of several human choices. "In fact, individuals and societies make many choices that require no wealth at all. A society does not have to be rich to afford democracy. A family does not have to be wealthy to respect the rights of each member. A nation does not have to be affluent to treat women and men equally. Valuable social and cultural traditions can be—and are—maintained at all levels of income" (Ul Haq, 1995). Therefore, there is a need to study whether economic growth has an effect on human development in 9 OIC countries.

Method

This research uses quantitative and qualitative approaches. The quantitative approach uses path diagram and panel data regression. It aims to estimation of the value of Y on the basis of the values X1, X2, X3 and Z where the pattern of the corresponding relationship is a pattern of causal relationships between variables with the aim of proving the truth of direct or indirect influence between internal factors, external factors and student achievement, the authors decide to take the title "The Effects of FDI and Corruption to Human Development in 9 OIC Countries". In addition, this study uses a qualitative approach through content analysis of the three variables to strengthen the research.

The flows of this research are described using path diagram. In the first equation there are three exogenous variables and one endogenous variable. FDI

Inflow, FDI Restrictiveness Index, and Corruption Perception Index become exogenous variables while GDP becomes an endogenous variable. In the second equation, GDP as an exogenous variable and the Human Development Index as an endogenous variable. The combination of path diagram and panel regression has been applied by Berrington, et al(2006). The path diagram enables this research to see the direct and indirect effect, while panel regression is used to analyze the data. Therefore, the equations are:

$$Z = \beta X_1+\beta X_2+\beta X_3+e \quad \text{……………………………………………………..} \quad (1)$$

Z = GDP (proxy of economic growth)

X_1 = FDI inflow

X_2 = FDI Restrictiveness Index

X_3 = Corruption perception index

e = residue

Therefore,

$$Y = \beta X_1 +\beta X_2+\beta X_3+\beta Z+ e_2 \text{...} \quad (2)$$

Y = Human Development

Z = GDP (proxy of economic growth)

X_1 = FDI inflow

X_2 = FDI Restrictiveness Index

X_3 = Corruption Perception Index

e = residue

At this point, GDP (economic growth) can be called as intervening variable.

Data

The data used in this scientific paper is a secondary panel data obtained from Statistics, Economic and Social Research and Training Center for Islamic Countries (SESRIC), Organization for economic Co-operation and Development (OECD) data, and Transparency International with a period of 11 years (years 2008-2018) relating to 9 OIC countries (Indonesia, Egypt, Jordan, Morocco, Malaysia, Kazakhstan, Kyrgyzstan, Tunisia, and Turkey). In addition, the authors also conducted a literature study.

Model Development

This research modifies the previous research conducted by Reiter & Steensma (2010), which only looked at the direct effect of FDI and corruption to human development and conducted analysis using panel regression. Thus, this research builds a model by combining path diagrams and regression panels (Berrington, et al, 2006), in order to explain which variables have a direct or indirect effect on human development.

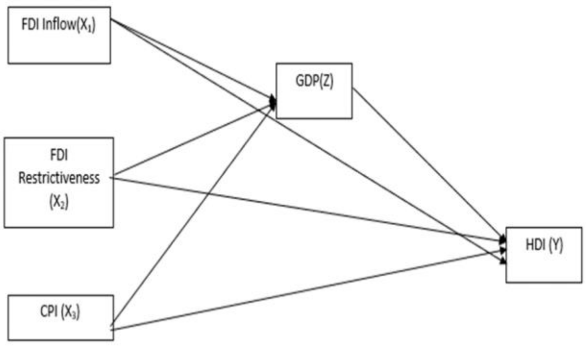

Figure 5 Model Development

There are two substructures, the first substructure where the GDP become the dependent variable, while FDI inflow, FDI Restrictiveness Index, and Corruption Perception Index (CPI) become the independent variables. And, the second substructure where human development becomes the dependent variable while GDP, FDI Inflow, FDI Restrictiveness Index and CPI become the independent variables.

Panel Data Regression

As the aims of this research is to see the direct and indirect effect of FDI and corruption to human development, this research will combine path diagram and panel regression to analyse the data. The path diagram is found to be suitable to examine the direct and indirect effect between variables (Wermuth & Lauritzen, 1990). As the type of data is panel data, therefore panel regression needs to be conducted to analyse the data. Panel data regression analysis is regression analysis the data structure is panel data. Baltagi (2008) described the benefit of panel regression are: a) able to control individual heterogeneity, b) present a more informative and variative data, reduce collinearity, and increase efficiency as well as degree of freedom, c) able to adapt to dynamics adjustment, d) better to present and compute the components which cannot be detected in pure cross-section and time-series, e) Able to construct more complicated behavioral models.

To choose the best model in a study, statistical considerations are needed. This is indicated by obtaining an efficient allegation. This method is conducted to get an estimate of an efficient model. The panel data test method includes Chow test, Hausman Test and LM Test.

Results And Discussion

Results

This section will discuss the results of the framework that was compiled using the path analysis framework. However, the data will be processed using panel regression because it matches the type of data used in this study. Beta coefficients in the path analysis equation were obtained from standardized coefficients that have been calculated using panel data regression. For the first sub-structure, the beta coefficient is obtained using the Fix Effect Model while the second sub-structure uses the Random Effect Model. Therefore, the equation and path diagram formed are:

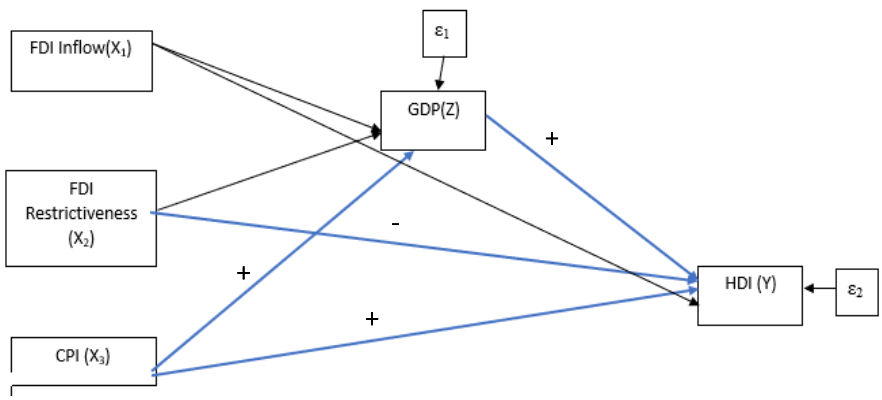

Figure 6 Path Diagram's Result

Notes:

: not significant : significant

With formula:

Z = 0,02017X1 + (-0,12526) X2 + 0,15951X3 + ε1

Y= 0,36013Z +(-0,03351) X1 + (-0,3278) X2 + 0,5172X3+ ε2

As the formulas are obtained by using panel regression. For the first substructure which the independent variables are FDI inflow, FDI restrictiveness index, and Corruption Perception Index (CPI) and the dependent variable is GDP as a proxy of economic growth, the result shows :

Table 1 First Substructure's Result

Variable	PLS	FEM	REM	β Coefficient
FDI inflow	1,0856 (0,0000)	0,0222 (-0,277)	0,0539 (-0,0083)	0,02017
FDI Restrictiveness Index	-0,3273 (-0,0741)	-0,0065 (-0,92)	-0,0196 (-0,7593)	-0,12526
CPI	0,860 (-0,0298)	0,948*** (0,0000)	0,8885 (0,0000)	0,15951
Chow Test				396.148234* (0,0000)
Hausman Test				100.877659* (0,0000)

Notes : *** Significant with alpha 1% **Significant with alpha 5%
*Significant with alpha 10% ( ) p-value

For the first substructure, Coefficients from FEM is found to be more reliable. The results of the Chow test and Hausman test support the use of FEM as the best model. The only significant variable is CPI. It has a positive relationship with economic growth.

While for the second substructure which the independent variables are GDP, FDI inflow, FDI restrictiveness, and CPI and the dependent variable is HDI has a following result:

Table 2 Second Substructure's Result

Variable	PLS	FEM	REM	β Coefficient
GDP	-0,01158 -0,2401	0,01801 -0,1793	0,01855* -0,0922	0,36013
FDI inflow	-0,00195	-0,00198	-0,0019	-0,03351

	-0,8608	-0,4372	-0,4551	
FDI Restrictiveness	0,01017	-0,0444	-0,04411***	-0,3277
	-0,5665	(0,000)	(0,000)	
CPI	0,02087	0,1596	0,15833***	0,5172
	-0,5878	(0,000)	(0,000)	
Chow Test				269,587895* (0,0000)
Hausman Test				1,764294 (0,779)

Notes : *** Significant with alpha 1% **Significant with alpha 5%
*Significant with alpha 10% ( ) p-value

In the second substructure, REM is found to be more reliable as the Chow test is significant while the Hausman test is not significant. Therefore, the β Coefficients are obtained from standardized REM results. FDI inflow is the only variable not significantly affect the human development index.

Robustness Test

To ensure the best model, the heteroscedasticity and multicollinearity test were conducted.

Table 3 Robustness Test

Variable	VIF	1/VIF	Panel EGLS
GDP	3,98	0,2512	-0,013942 (0,000)
FDI inflow	-3,96	0,2523	-0.001468 0.6885
FDI Restrictiveness	1,31	0,7624	0.017043 0.0264
CPI	1,31	0,763031	0.044658 0.0001
Durbin-Watson stat			0.015688

From the multicollinearity test, the mean VIF is below 5 or 10, means there is no multicollinearity. The variables are not correlated to one another However, the model is still experiencing symptoms of heteroscedasticity. However, according to Pindyck & Rubinfeld (1988)) if heteroscedasticity and autocorrelation occur in an equation model, it does not affect the validity of a model, meaning that the model is still biased and consistent, only the resulting estimator becomes inefficient.

Analysis

This section will be divided into two groups:

First Substructure:

- *FDI inflow and FDI Restrictiveness Index to Economic Growth (GDP)*

In the Fix Effect Model test, the FDI inflow and FDI Restrictiveness Index variables are not significant, if there is a change (increase / decrease) in the FDI inflow then it will not affect economic growth in the 9 OIC countries which are the object of research.

This result is different from the hypothesis that FDI influences economic growth. According to Wijeweera, et al (2010), FDI inflow provides a positive influence on economic growth in countries with highly skilled labor. They used a stochastic frontier model using panel data for 45 countries from 1997-2004.

FDI and economic growth have a bi-causality relationship if the economy is running optimally, taken place in Finland Denmark, Sweden and Norway. In Norway and Sweden, FDI influences economic growth by increasing productivity and increasing technology and knowledge transfer. However, in Denmark and Finland there is no two-way causality, this is because in Finland and Denmark the dominant company operates is distribution not manufacturing (Irandoust Manuchehr, 2001)

According to Iamsiraroj, (2016), that FDI has an influence on high economic growth by taking 124 countries in the 1971-2010 period. The more a country attracts FDI, the higher the economic growth in that country. This study finds empirical evidence that FDI has a greater positive impact in developing countries than in developed countries. Other determinants in this study are the number of workers, openness to trade and economic freedom. However, this study also found that the effect of FDI on economic growth was not seen in African countries and the Middle East and in the Asian and Australasian countries because FDI cannot be absorbed properly by the host country and the macroeconomic climate is also an investment climate that is not appropriate.

The difference in the results of this study with previous studies due to differences in conditions and several factors have been submitted by previous studies has a positive impact on the manufacturing sector but is still ambiguous on the services sector (Alfaro, 2003; Wijeweera et al., 2010). In this regard, the 9 OIC countries have different economic main sectors. In Indonesia, Jordan, Malaysia and Turkey, manufacturing sector is among the three leading economic sectors of the country. However, other countries namely Egypt, Morocco and Kyrgyzstan still rely on agriculture as the main economic sector. While Tunisia and Kazakhstan rely on the gas and oil and mining sectors. FDI will be optimally absorbed if the majority of companies are in manufacturing sector (Manuchehr, 2001). The effect of FDI on economic growth will also occur if the transfer of technology and the absorption of human resources are carried out maximally (Liu, 2008).

- *Corruption Perception Index to Economic Growth*

In the Fixed Effect Model test, the Corruption Perception Index variable is significantly positive at the 1 percent real level of economic growth in 9 OKI countries which are the object of research. If the nominal CPI increases 1 percent in a certain period, it will increase economic growth in 9 OIC countries by 0,15951 percent. However, if there is a CPI decrease of 1 percent in a given year, this will affect the decline in economic growth in 9 OIC countries by 0,15951 percent in the same year (ceteris paribus).

These results are in accordance with previous studies, an increase in corruption in a country causes a decline in economic growth. Corruption can increase economic inefficiency, reduce political stability, which leads to a decline in economic growth (Akçay, 2006; Iamsiraroj, 2016; Mo, 2001; Reiter & Steensma, 2010; Shleifer & Vishny, 1993).

Second substructure

- *FDI inflow to human development*

In the REM test, the FDI inflow variable is not significant at the 1 percent, 5 percent, or 10 percent level. That is, if there is a change (increase / decrease) in the inflow of FDI categorized into the FDI variable, then it will not affect human development in the 9 OIC countries which are the object of research. To sum up, FDI inflow does not have a direct effect to Human Development, as it is not a significant variable.

These results are contrary with research by Lehnert et al., (2013), Noorbakhsh et al. (2001) and Reiter & Steensma (2010). However, Reiter & Steensma (2010) has provided an explanation that FDI might not have an effect on what human development if the level of restrictiveness of a country is still high so that it inhibits FDI.

According to Lehnert et al., (2013), with 175 countries as research objects during the 2007-2017 period, FDI was able to improve the welfare of host countries, including education, health and standards of living. Lehnert stressed that the effect of FDI is specific to directly seeing each component (HDI, Life expectancy, education, GDP, and knowledge index) and is strongly influenced by the role of government. By looking specifically at each component of human development, it is possible to see things that are not visible if measurements are taken in aggregate measurements.

However, the results of this study are also in line with other empirical findings. According to Hussain, et al (2010), that FDI is not a major factor in increasing human development. However, the international competitive environment together with foreign direct investment can play a fundamental role in economic development of Pakistan.

In all, the positive impact of FDI on human development depends on the condition of openness trade, political stability, and very much depends on the country's policy (Sharma & Gani, 2004). Some OIC countries still face the problem of political instability and the investment climate, this makes the absorption of FDI is less than optimal.

- *Corruption Perception Index to human development*

The Corruption Perception Index variable is significantly positive at the 1 percent real level of human development in 9 OKI countries which are the object of research. If the nominal CPI increases 1 percent in a certain period, it will increase human development in 9 OIC countries by 0,5172 percent. However, if there is a CPI decrease of 1 percent in a given year, this will affect the decline in human development in 9 OIC countries by 0,5172 percent in the same year (ceteris paribus).

Due to the higher CPI means the perception of corruption in a country is reduced. It can be said, that the better the condition of the country without corruption, the better the development of human development in the country. This finding is in line with other previous researches. Corruption reduces government efficiency in running businesses to improve human development and can cut budget allocations that affect human development (Akçay, 2006; Iamsiraroj, 2016; Reiter & Steensma, 2010; Rose-Ackerman, 2013; Shleifer & Vishny, 1993).

- *FDI Restrictiveness Index to Human Development*

In the Random Effect Model test, the FDI Restrictiveness Index variable is significantly negative at the 10 percent real level of human development in 9 OKI countries which are the object of research. If the nominal FDI Restrictiveness Index increases 1 percent in a certain period, it will decrease human development in 9 OIC countries by -0,3277 percent. However, if there is a FDI Restrictiveness Index decrease of 1 percent in a given year, this will affect the increase in human development in 9 OIC countries by -0,3277 percent in the same year (ceteris paribus).

The FDI restrictiveness index explains the policies taken by the state regarding state openness to FDI inflow. The discussion of the FDI restrictiveness index is closely related to economic openness in a country. The results show that the FDI restrictiveness index is significantly negative for human development. The increasing FDI restrictiveness index leads to the decreasing of a country's human development. These results are in line with Reiter & Steensma (2010)

Trade openness and enforcing fewer restrictions can help improve human development through the income channel. Therefore, higher restriction will decrease the human development. Similar results were also found in Shepherd & Pasadilla (2011) ,the high restrictive policy environment gave a negative correlation to human development. These results are in line with the statement "more restrictive policies result in higher services prices of basic goods and services for consumers" .

At the time of the Prophet Muhammad, the prophet supported economic openness. This can be seen from the absence of trading restrictions on the market. The prophet kept the market running according to Islamic law. However, no market boundaries were made directly, the market mechanism was allowed to run as it is (Sukamto, 2012).

- *Gross Domestic Product to Human Development*

In the Random Effect Model test, the GDP variable is significant at 10 percent affect human development in the 9 OIC countries which are the object of research. If the nominal GDP increases 1 percent in a certain period, it will increase human development in 9 OIC countries by 0,36013 percent. However, if there is a GDP decrease of 1 percent in a given year, this will affect the declining in human development in 9 OIC countries by 0,36013 percent in the same year (ceteris paribus).

This result states that economic growth has a positive effect on human development in 9 OIC countries. These results are accordance with previous research that economic growth has a positive correlation with human development (Elistia & Syahzuni, 2018; Ghosh, 2006; Maqin, 2017; Ranis et al., 2000)

However, this empirical result is inversely proportional to Ul Haq (1995) research, which states that economic growth has no effect on human development. Even so, the quality of income distribution can have an effect.

The influence of economic growth on human development is explained in more detail by Ghosh (2006); the effect of economic growth on human development can occur if it is supported by the government, which from the beginning gave attention to human development. The object of study is 15 major Indians states during 1981-200, the results found that there was a strong relationship between economic growth and human development. There are two cycles that occur: vicious circle (low economic growth and low human development) and virtuous growth (high economic growth and high human development). Virtuous circles can be achieved if the government focuses on increasing human development by allocating resources to the social sector such as education, health services, sanitation, and drinking. The states that have succeeded in achieving virtuous circles have implemented policies that have focused on human development from the start.

According to Ranis et al. (2000), using cross country of 75 developing countries from 1960-1992. Economic growth and human development have mutual relationships that build each other up, high economic growth becomes an increase in human development, vice versa. Meanwhile, the low level of human development also makes economic growth low. Achieving economic growth for human development needs to be accompanied by policies that support. It cannot be denied that economic growth is one of the important things, but to achieve an increase in human development, an increase in human development needs to be targeted from the start.

As per, human development as a major achievement has been the goal of OIC since its inception. This was followed up by the 10-year OIC Program of Actions, one of which discussed development issues. In point III development issues are discussed in more detail about the targets of achieving higher education, science, and technology. OIC members have seriously made human development as a national achievement.

Conclusion

In the first structure where economic growth becomes the dependent variable, the variable that has a significant effect is the Corruption Perception Index. Whereas FDI inflow and FDI restrictiveness index have no significant effect. Meanwhile, in the second structure where the Human Development Index becomes the dependent variable, the influential variables are economic growth (GDP), corruption, and FDI Restrictiveness. FDI inflow is not significant, so it is not a major factor in human development. Therefore, in 9 OIC countries we can conclude FDI inflow has no direct or indirect effect on human development, while the FDI restrictiveness index has a direct effect on human development. On the other side, corruption has a direct negative effect on human development and also an indirect influence through economic growth on human development

Based on this research, there are several recommendations: for the government, it is better to optimize the economic, political and investment climate of a country before pursuing the inflow of FDI so that FDI can be optimally absorbed. Corruption still needs to be one of the main concerns of the country because it has been proven to have a negative impact on economic growth and human development. To enlarging the scope of this research, the further research is expected to be able to use other indicators that are able to describe the country's investment climate in more detail. In order to capture the influence of foreign direct investment more comprehensively, research needs to be conducted with the scope of state firms.

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