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THE ROLE OF ISLAMIC FINANCING CONTRACTS IN PROMOTING SUSTAINABLE ECONOMIC DEVELOPMENT

Sani Yahaya
Department of Banking and Finance, Federal University Dutse, Jigawa, Nigeria
saniytm@yahoo.com

Akilu Aliyu Shinkafi
Zamfara State College of Education, Department of Islamic Studies, Maru, Zamfara, Nigeria
aliyuakilu1@gmail.com

Lawan Yusuf Saleh
Department of Banking and Finance, Federal University Dutse, Jigawa, Nigeria
malamigaya2@gmail.com

Muhammad Abdullahi
Department of Banking and Finance, Federal University Dutse, Jigawa, Nigeria
mmaigatari@gmail.com

Shuaibu Shehu Kura
Department of Banking and Finance, Federal University Dutse, Jigawa, Nigeria
kurashehu@gmail.com

Yusuf Haji-Othman
Center for Islamic Finance Education and Research, Sultan Abdul Halim
Mu’adzam Shah International Islamic University, Kedah, Malaysia
dryusufhajiothman@unishams.edu.my

Abstract

We explore the role of Islamic financing contracts in promoting sustainable economic development in Malaysia. The study is qualitative document research that employed physical document and online materials such as (published and unpublished articles, exploration, and use of available databases by the researchers to gather the data). We used the data synthesis approach rather than content analysis to analyse the data using themes, sub-themes, and tables. The findings of the study reveal that Islamic financing contracts play a significant role in promoting sustainable economic development. The result shows that Mudarabah, Murabahah, Musharakah, Ijarah, and Bay bi Thamin Ajil (BBA) are good for investment, entrepreneurship, and enterprises, corporate and private firms. The data also demonstrates that Qard al-Hassan and Ijarah significantly influence sustainable economic development by offering short-term loans, assisting farmers and businesses with their immediate requirements, and leasing agricultural equipment (such as tractors, land units, planters, and harvesting tools). Salam sales, however, significantly affect small and medium-sized farmers, breeders, fisheries, and poultry producers, as well as those who need agricultural financing and have the potential to provide irrigation, fertilizer, seeds, and market connections. We draw the conclusion that Islamic financing products could encourage the sustainable development of the economy.

Keywords: Islamic banking, Islamic financing, Islamic financing contracts, sustainable economic development

INTRODUCTION

It is impossible to understate the impact of Islamic banking contracts on the long-term growth and development of the global economy. It is believed that banks are the backbone of national economies. The financial sector is crucial to economic growth and raises a nation's prosperity (Idris & Lawal, 2013). However, the Muslim populace mostly rejected the interest-based services provided by modern financial institutions (Siddiqi, 2001). Islamic banking, which is based on the principles and ethics of Islamic law, has thus brought about revolutionary changes in traditional banks and financial organizations during the past few decades. Because of that, early experiments with Islamic banking took place in Malaysia in the mid-1940s, in Pakistan in the late 1950s, Mit Ghamr Savings Bank of Egypt in 1963, Nasr Social Bank of Dubai in 1971, Islamic Development Bank (IDB) in 1975, and Bank Islam Malaysia Berhad, the first full-fledged Islamic bank in Malaysia (Otiti, 2008). When the Muslim Pilgrims Saving Corporation was established in 1963, the concept of Islamic banking and finance in Malaysia started to take shape. It was eventually developed into *Tabung Haji*, which resulted in the establishment of Bank Islam Malaysia Berhad (BIMB) in 1983. According to Otiti (2008) this opens the door for the growth of Islamic banking and finance, which is receiving more professional and academic attention globally.

The year 1990s witnessed an increase and interest in Islamic financing contracts from nations that absorbed the system, and structures were put in place to handle trust funds, venture capital, and financial paper based on *Ijarah* (leasing), *Salam* (forwards), and *Murabahah* (markup) (Siddiqi, 2001). The most well-known Islamic financing contracts, according to (Ismail, 2010), (Ayub, 2009), and International Centre for Education in Islamic Finance (INCEIF, 2006), include *Mudarabah*, *Musharakah*, *Murabahah*, *Istisnah*, *Ijarah*, *Ijarah thummal Bay*, *Bay Bithaman Ajil*, *Bay Salam*, *Qard Hasan*, and *Sukuk*. The Islamic banking system has the capacity to promote sustainable economic development in general. Accordingly, Sarwer, Muhammad, and Ahmad (2013) argue that Islamic banking can support long-term economic growth, particularly when it comes to the dynamic relationship between finance and economic development. Similar to this, (Lamido, 2014) assumed that several Islamic financing contracts are beneficial for fostering long-term economic development. According to Mizanur-Rahman (2014), Islamic banks are a more effective means of fostering the GDP and sustained economic growth through entrepreneurship, agricultural development, job possibilities, and support for microeconomic institutions. Therefore, the main objective of this research is to explore the role of Islamic financing contracts in promoting sustainable economic development in Malaysia. To also highlight some Islamic financing contracts and their roles for achieving sustainable economic development in Malaysia.

LITERATURE REVIEW

Islamic social business economy and ethical economy have merit for long-term socioeconomic development and subjective well-being (Aydin, 2015). Similar to this, Daly and Frikha (2016) contend that Islamic banking and financial services have improved the real economy beyond factors of production and economic behaviour due to their business and moral ethics, fair wealth distribution, and socio-economic justice with the aim of enhancing fairness. Correspondingly, Abd Majid and Kassim (2015) exposed that Islamic banking and financial institutions (IBFIs) significantly contribute to the development and expansion of the Malaysian economy. In a similar vein, Imam and Kpodar (2016) discovered a favourable relationship between Islamic banking and economic development. Furthermore, Madni (2017) suggests the necessity of government participation and prospective policies to aid in the success of economic development through Islamic banks. Still, Jobarteh and Ergec (2017) found that there is unidirectional short and long run causality between Islamic finance development and economic growth. Earlier, Kahf (2007) discusses Islamic banks in relation to economic development. On the other hand, Sumarti et al. (2017) demonstrate that Islamic banking does not significantly contribute to economic development. However, Boukhatem and Ben Moussa (2018) discovered strong evidence that Islamic financial system supports the spurs of economic development in the MENA region. Recently, Mensi, Hammoudeh, Tiwari, and Al-Yahyaee (2020) demonstrated a favourable nonlinear link between the development of Islamic banking and economic growth.

In his work, Ghauri (2015) asserts that interest rate benchmarks cannot be used as a standard for pricing Islamic financial products and that they do not reflect actual economic growth. Nevertheless, (Soualhi, 2015) advocates for a less sophisticated approach to Islamic finance in order to reduce the possibility of convergence with mainstream finance. The author also emphasizes the need for a variety of Islamic financial products that focuses on separate Shari'ah contracts. On the other hand, Abdullah (2016) discovered that Islamic finance products included risk-free interest and transactions when analysing the economic features over legal practices. In a similar vein, Zarrouk, El Ghak, and Abu Al Haija (2017) discovered that the direction of causality runs from financial development to economic growth and that the reverse causality is not what drives this relationship; rather, the real gross domestic product (GDP) causes Islamic financial development with no reversal of the causal relationship. In addition, Caporale and Helmi (2018) demonstrate that there is a short-run causality between credit and GDP in nations without Islamic banking operations and a long-run causality in nations that operate Islamic banking. El Azzouzi and Hamiche (2018) found that the pure Islamic banking system has potential to support long-term socioeconomic development. Similarly, (Ben Mimoun, 2019) discovered a significant long-term relationship between the financing provided by Islamic banks and actual performance in the private sector. Recent research by Chazi, Mirzaei, Zantout, and Azad (2020) demonstrates that the Islamic banking sector's development is positively impacted by competitiveness, financial quality, and absolute and relative size.

Concerning sustainable socioeconomic development, Pratiwi (2016) found that Islamic banks have the potential to achieve sustainable socio-economic development by exploring rural areas. Thus, Islamic banking products such as *Musharakah* and *Mudarabah* have a positive correlation with financial performance and SMEs. Likewise, Gundogdu (2018) reveals that out of 17 sustainable development goals (SDGs), Islamic financing products has the potential to finance 11, which directly relates to Islamic economics and finance for successful SDGs program. Hanesti, Herianingrum, and Sukmana (2017) found that the Islamic financing system has the potential to respond to an existing disparity in the area of the economic development process, such as constancy with the SDGs, and equal distribution of income.

Finally yet importantly, given that some academics concentrate on legal concerns connected to Islamic finance and financial growth, Hasan, Maamor, and Abdullah (2018) discovered a strong connection between Islamic finance and financial development. In addition, Islamic finance and liquid liabilities have a enormous impact on how the economies of the OIC states are developing. In order to attain the highest level of economic development in the region, OIC nations must pay close attention to the supervisory, legal, and regulatory functions in Islamic finance. Other research on the legal and regulatory aspects imply that the stimulus regulation play a beneficial influence in the acceleration of Islamic banks financing, these studies include (Nastiti & Kasri, 2019) and (Hazzar, Alekseeva, & Mikheeva, 2018).

Most of the studies including those by Aydin (2015) and Daly and Frikha (2016) concentrate on Islamic moral economy, financing economics, business ethics, and Islamic social business economy rather than corroborating Islamic financing contract with the sustainable socio-economic development. Thus, we believed that this study filled a gap in the literature because; existing literature focus on Islamic financing development and economic development rather than sustainable economic development (Boukhatem & Ben Moussa, 2018; Sumarti et al., 2017); and (Mensi et al., 2020). However, some research that connected Islamic finance with legal and regulatory difficulties, Islamic financing products and financial development, and SDGs (Gundogdu, 2018; Pratiwi, 2016) in relation to Islamic finance (Hasan et al., 2018; Nastiti & Kasri, 2019). Therefore, we believed that there is little or no research that involve Islamic finance, Islamic financing products, and sustainable economic development, which supported the necessity to close the gap that led to the creation of the current study.

Concept of Islamic Banking

Profit and loss sharing (PLS) and the prohibition of interest are the two pillars of the Islamic banking system, which upholds the firmly established Islamic economic principles (Abdullahi, 2013). To put it another way, it alludes to banking activity that complies with Islamic Shari'ah and has a real-world application to the growth of the Islamic economy (Aburime, 2008). Islamic banking, as defined by Islam and Pramanik (2007), is a type of financial institution that its regulations, policies, and practices clearly adheres to the principles of Islamic law, which forbids the taking of interest on any of its transactions. Thus, Islamic banking is a smooth transaction that is devoid of gambling, shady businesses, and interest (Yahaya, Shinkafi, & Haji-Othman, 2017) and (Shinkafi & Ali, 2017). Islamic banks strictly abides by the norms of Shari'ah compliance (Aliyu, 2014). Islamic banking utilizes products, services, transactions, and financial instruments compliant with Shari'ah to advance economic development (Shinkafi & Ali, 2018).

The aforementioned definitions make it abundantly that Islamic banking is consistent with Islamic economics and ethical principles.

Concept of Economic Growth and Development

In the past, economic treatises did not distinguish between "growth" and "development," instead treating both equally. The distinction between "growth" and "development" was not made until the 1960s, when economists began to view "growth" and "development" as two separate concepts. Since many emerging countries' exceptional increases in national wealth did not translate into an overall rise in standard of living, the researchers argued that growth might be achieved without automatically accomplishing progress (Lamido, 2014). The term "development" was used to refer to social welfare, which included all changes aimed at achieving education, training, and development as well as adjustments to the social system of input, an increase in agricultural productivity, a rise in the production of material goods per person, and access to health care, the environment, freedom, and social justice. Thus, the contrast between economic growth and economic expansion refers to a quantitative rise in the nation's gross domestic product. While economic development takes into account qualitative elements connected to human wellbeing, economic opportunity, and human well-being (Lamido, 2014). As a result, economic development is seen as the qualitative improvement in the vast majority of people's wellbeing, whereas economic growth is seen as the quantitative rise in production (Mohammad, 2011). Therefore, economic opportunities, living standards, and training for human development are included in economic development, along with social and material welfare, social justice and freedom, agricultural development, entrepreneurship development, and economic well-being for the fulfillment of humanity.

Concept of Economic Development from an Islamic Perspective

Islam's view of economic development takes into account all facets of human endeavor, welfare, and concern for economic growth and development. The Islamic emphasis on human value, worship, morality, and progress is seen as the fruit of Allah's wisdom since it enables people to advance personally and as a society in terms of their minds, bodies, spirits, economies, and political systems (Bayu, Gunawan, & AbdulGhafar, 2012). Islamic finance, Islamic capital markets, Islamic insurance, and Islamic development are all included in Islamic economics (Hanesti et al., 2017). Thus, the realization of human wellbeing in this life and the next is referred to as economic development within the Islamic paradigm (Sadeq, 1987, 1991, 1993). A stable and ongoing improvement in both material and immaterial dimensions of human well-being is also seen in Islam as economic development (Sadeq, 1987). Therefore, development encompasses a range of activities that improve human welfare through the advancement, re-coordination, and reformation of the economic and social system as well as a spiritual uplift in accordance with the established norms of Islamic law (Sadeq, 1987, 1991). One might infer from the arguments above that Islamic economic development places a greater emphasis on achieving human welfare and well-being. Therefore, the primary objective of economic development in Islam should be the promotion of human welfare and well-being.

RESEARCH METHODOLOGY

To accomplish the planned objectives of this research, the document instrument was used in this study. Documents are materials created by an individual or group in written form or text as part of their routine practice (Mogalakwe, 2009). Similar to this, (Merriam, 2009) asserts that documents are readily accessible, ready-made collections of written, digital, visual, and physical elements that are pertinent to the desired research. Accordingly, Bailey (2008) explains that documentation is an analysis of records that include data on the phenomenon that is being studied. The importance of using documents in social science research is emphasized by (Mogalakwe, 2009) that this strategy shouldn't be underutilized and that researchers can use it with full confidence as a scientific method that demands strict adherence to study protocol. For this reason, the researchers combined and gathered the pertinent data that was readily available using both physical and internet papers. The authors' course of action is supported by Payne and Payne (2004) argument that the documentary method can be used to analyze, classify, synthesise, and evaluate both public and private materials by finding the physical sources of specific written documents. As a result, the primary focus of my research was on openly available papers like BNM reports and other pertinent documents. These relevant public sources comprised written works, periodicals, and the like that were available online and in library collections. "Researcher-generated documents" are the ones that the researcher used (Merriam, 1998, 2009). This implies that, regardless of the character and type of the study, any usable document that fits the relevance of the research can be prepared to accomplish the research's goal. We presented themes and subthemes as they evolved using tables, thematic analysis, and theoretical data explanations as our technique of data analysis.

RESULTS

Islamic Banking Contracts in Malaysia

The majority of investors and academics around the world view Islamic financial institutions as a workable substitute for traditional financial systems. This might be attributed to the finance contracts' distinctive features. In order to acquire their assets, Islamic banks use a variety of financing contracts, which (Aburime, 2008) divides into the four major categories of investment financing, trade financing, lending, and other financial services. Similar to other Islamic nations, Malaysia refers to these contracts as Shari'ah financing contracts and divides them into four categories: equity participation contracts (Mudarabah and Musharakah), deferred payment or non-participation contracts (*Murabahah*, *Istisnah*, *Ijarah*, *Bay Salam*, *Bay Inah*, and *Bay Mu'ajjal*), immediate payment contracts (*Bay al-Dayn*, *Bay al-Sarf*), and supporting contracts (*Waqaf*, *Wadiah*, *Wakalah*, *Hibah*, *Kafalah*, *Qardul-Hasan*, and *Ar-Rahnu*). Islamic banks in Malaysia also offer supporting or miscellaneous contracts such as *Ar-Rahnu, Kafalah, Tawarruq, Wadiah,* and *Wakalah*. The table below presents the Islamic financing contract categories (BNM, 2007, 2010, 2016a, 2017).

Table 1. Islamic Banking Contracts

Equity Participation Contracts	**Deferred Payment (Non-Participation)**	**Immediate Payment**	**Supporting Contracts (Miscellaneous)**
Musharakah	Ijarah	Bai Al-Dayn	Wakalah
Mudarabah	Murabahah	Bai Al- Sarf	Wadiah
	Istisnah		Tawarruq
	Bai al-Inah		
	Bai Salam		
	Bai Mu'ajjal		
	Ijarah Thummal Bay		

Source: (Ahmed, 2014); El-Hawary, Grais, and Iqbal (2007); www.bankislam.com.my

The table above lists the various types of Islamic finance contracts that Malaysian Islamic banks are currently providing. Equity participation agreements, such as Musharakah and Mudarabah, are less common in Malaysia. Malaysian Islamic banks place a greater emphasis on supporting contracts like *Tawarruq*, *Ar-Rahnu*, *Wadiah*, *Wakalah*, *Kafalah*, and *Qardul-Hasan* than they do on deferred payments like *Ijarah*, *Murabahah*, and *Istisnah*, as well as prompt payments like *Bay al-Dayn and Bay al-Sarf*. These instruments are categorized as transactional and financial intermediation contracts by (El-Hawary et al., 2007) who refer to them as the "Islamic financial system profile of contracts." They claim that these contracts represent various maturities and risk levels. Mustafa and Ibrahim (2013) define *Musharakah* and *Mudarabah* to be investment financing tools that should be based on a projected rate of return or negotiable rate after classifying Islamic financing contracts into four broad types.

Samad, Gardner, and Cook (2005) discovered that mudarabah (trust financing) and *Musharakah* (venture capital) are to be treated as equity financing contracts after looking at the financing records of Bank Islam Malaysia Berhad (BIMB) and the Bahrain Islamic Bank (BIB). The authors go on to say that the two most distinctive finance strategies among them are musharakah and mudarabah. El-Hawary et al. (2007) explain that transactional or deferred payment contracts, such *Murabahah*, *Bay' Salam*, or *Bay' Mua'ajal*, which are asset-backed financial claims comparable to those obtained in conventional banks, facilitate exchange, sales, and trade. (Mustafa, 2011) focuses on trade financing via letter of credit, *Murabahah* markup, *Ijarah* leasing, hire purchase, sell and buy-back, as well as services including money transfers, bill collection, and foreign exchange trading based on commissions or fees.

Development of Islamic Banking Contracts in Malaysia

Following the founding of the country's first full-fledged Islamic bank, known as Bank Islam Malaysia Berhad, the development of Islamic finance contracts in Malaysia started in 1983. (BIMB). The following table shows how Islamic financing contracts in Malaysia have evolved gradually since 1983:

Table 2. Development of Islamic Banking Contracts in Malaysia

S/No.	Year	Islamic Banking Contracts
1.	1983-1990	• Bai' al-Dayn Trade Finance • BBA Financing • Ijarah Financing • Mudarabah financing • Mudarabah Investment Account • Murabahah Letter of Credit • Murabahah Working Capital Financing miscellaneous • Musharakah Letter of Credit • Wadiah Current Account • Wadiah Savings Account • Wakala Letter of Credit
2.	1991-2000	• Ar-Rahn • Bai Inah Credit Card • Mudarabah Interbank Investment • Musharakah Financing • Sarf Forex
3.	2001-2005	• Bai al-Dayn • Bai Inah Commercial Credit Card • Bai Inah Negotiable Instrument of Deposit NID • Bai Inah Overdraft • Bai Inah personal Financing • Mudarabah ICDO • Musharakah • Wadiah Debit Card

4.	2006-2008	• Bai Inah Floating Rate • BBA Floating Rate • Commodity Murabahah Forward Rate Agreement • Commodity Murabahah Profit Rate Swap • Ijarah Rental Swap-i • Istisnah Floating Rate • Mudarabah Capital Protected Structured Investment • Mudarabah Savings Multiplier Deposit • Murabahah Floating Rate • Murabahah Floating Rate • Tawarruq Commodity Undertaking	Table 2…
5.	2008-Onwards	• Bai and Ijarah (Buy and Leaseback) • Istisnah convertible to Ijarah • Istisnah with parallel Istisnah • Murabahah with Novation Agreement • Musharakah Mutanaqisah • Tawarruq Business Financing • Tawarruq Personal Financing • Tawarruq Revolving Credit-I, etc. • Wakalah Deposit • Waqaf	

Source: Zin, Ishak, Kadir, and Latif (2011); Samat (2013); Ayub (2009) Aris et al. (2013)

Considering the aforementioned, it is evident that Malaysia has created well-known Islamic financial solutions with the ability to spur economic development. The following Islamic financing contract ideas are emphasized because they are thought to be the most pertinent ideas for Islamic financing goods that could lead to economic development in Malaysia. Although the scope of this study is restricted to specific Islamic financing contracts, this does not mean that no other contracts are available in Malaysia. The most pertinent Islamic financing contract models for attaining sustainable economic development in Malaysia were examined in the study.

***Mudarabah* (Partnership)**

A *mudarabah* is an Islamic finance arrangement in which one party, the capital owner, contributes the funds and the other, the agent running the firm, contributes the managerial skills necessary to carry out the desired transaction. *Mudarabah* refers to venture capital financing when the bank provides the money and the entrepreneur is responsible for the labor, management, and skill components. Both parties agree to share earnings and risks according to a prior arrangement (Aburime, 2008; Yahaya et al., 2017; Yahaya, Shinkafi, & Haji-Othman, 2020). With the establishment of Bank Islam Malaysia Berhad in 1983, *Murabahah* financing, *Murabahah* investment accounts, *Murabahah* letters of credit, and *Murabahah* working capital financing all had their start. *Mudarabah* Interbank Investment, a product of *Mudarabah*, was put into practice in the 1990s. The BNM offered the *Murabahah* ICDO between 2001 and 2005, and a few years later (2006–2008), other *Murabahah* products were also made available, including the Commodity *Murabahah* Forward Rate Agreement, Commodity *Murabahah* Profit Rate Swap, *Mudarabah* Capital Protected Structured Investment, and *Mudarabah* Savings Multiplier Deposit (Aleiro & Malami, 2014; Aris et al., 2013).

***Musharakah* (Joint Venture)**

Ayub claims that the definition of *musharakah* is a system of profit-and-loss sharing. It could come in the form of a long-term equity investment, a partnership (where the bank's portion is repaid over time by the company raising money), or another type of fixed asset finance that can be leased (Ayub, 2009). *Musharakah* gives Islamic banks the chance to partner with other organizations and form a joint venture in which both parties take part in the project's many components. In this sense, the pre-arranged option shares both profit and loss (Aburime, 2008; Yahaya et al., 2020). In Malaysia*, Musharakah* was made available between 1983 and 1990*.* The *musharakah* letter of credit was established between 1991 and 2000. Between 2001 and 2005, *Musharakah* financing received more attention, however, *Musharakah Mutanaqisah* was introduced as another Islamic financing strategy starting in 2008. The *Musharakah* finance agreement encourages business ventures and investment, furthering the goal of economic development (Mustafa, 2011; Samat, 2013; Yahaya et al., 2020).

***Ijarah* (Lease Financing)**

Ijarah refers to collecting rent and leasing an asset; so long as the asset is under lease, the lessor is the owner of the asset and bears all associated risk and reward (Mustafa, 2011; Samat, 2013). A financial institution buys the asset and leases it to a project developer at a predetermined rate as part of the *Ijarah* financing structure, which is comparable to a financial lease (Dzenga, 2015). Leasing is defined as "the bank purchases a necessity for a customer or client, leases it to him for a predetermined amount of time, and at the conclusion of that time, the lessee pays the remaining balance on the predetermined price and owns the item" (Aburime, 2008). Numerous Shari'ah financing options are provided by Malaysian Islamic banks using this concept of Islamic banking contract. *Ijarah* Rental Swap-i, *Bay* and *Ijarah* (Buy and Leaseback finance), Leasing-i (*Ijarah*), Mu'amalat Leasing (*Ijarah*), and *Ijarah* Term Financial-i are some of the Shari'ah financing options available (IJA TF-i). These facilities are run by several Islamic banks in Malaysia, including BIMB, BMMB, and SME Bank.

***Bay bi Thaman Ajil* (BBA)**

This kind of contract is viewed as a sale of goods based on sales with deferred payments. Islamic banks employ this method of financing for postponed payments and the purchase or sale of consumer goods. This financing method technically relies on purchasing and selling without charging interest. The Islamic bank purchases the goods or equipment the customers need, then sells them to the customer at a predetermined price (McMillen, 2012). The payment is postponed, and the consumer has the option of paying in agreed-upon instalments or all at once within a predetermined time frame (McMillen, 2012). *Murabahah Muajjal* is the name of an instrument that functions similarly to a *Murabahah* contract but on a deferred basis.

***Bay Salam* (Forward trade contract)**

Ayub (2009) *Bay Salam* is a type of financing that entails supplying money for the advance purchase of particular, predetermined commodities with prepayments. It is described as "a postponed delivery contract" by (Kaleem & Abdul Wajid, 2009), where delivery of the commodity takes place at a later time in exchange for an advanced price completely paid at the spot. In Malaysia, a type of contract known as *Bay Salam* is designed to meet the needs of small- and medium-scale farmers and producers in particular. This sort of financing is ideally suited to the demands of farmers and thus helps economic development when it comes to financing agricultural development, small and medium-scale farmers, and breeders, fishers, and poultry producers. Although *Bay Salam* can be fixed at a lower price than the cost of those goods provided immediately, the seller must take part in this fixed price. As a result, Islamic banks or other financial organizations may stand to profit from the difference between the two prices. The bank may decide to use a guarantee or collateral as security to ensure that the seller delivers the commodity. If the commodity is not delivered on time, the guarantor is responsible for delivering the exact amount of the commodity, even if that means buying it on the open market or charging the client back for the advance payment. If appropriately utilized by the users, this facility is beneficial for economic development.

***Wakalah* (Power of attorney or Agency assignment)**

According to the BNM's definition, a *Wakalah* contract is one in which one party, acting as the principal (*Muwakkil*), appoints another party, acting as the agent (*Wakil*), to carry out a specific duty on subjects that may be delegated, with or without the imposition of a charge (BNM, 2016a). In other terms, Wakalah refers to an agency contract in which a person or corporation appoints someone to represent them in a specific legal action, either with or without payment of a fee commission. When the primary lacks the knowledge, the time, or the resources to act alone, it entails acting on behalf of another person. This can be accomplished through a mutual agreement between the parties (principal and agent), and it can be terminated whenever the parties see fit (BNM, 2016b).

Due to the backing it receives from the two powerful full-fledged Malaysian Islamic banks, BIMB and BMMB, as well as several other Islamic banks in the nation, this product is related to and pertinent to this research. Wakalah Letter of Credit, Wakalah Deposit, Waheed Investment Account, Wafiyah Investment Account, Inward Letter of Credit-i, Outward Letter of Credit-i, Inward Bills for Collection-i, and Outward Bills for Collection-i are some of the Wakalah-related facilities (Wakalah).

Qard al-Hasan **(Benevolent, welfare, or no-cost loans)**

Qard al-Hasan constitutes a kind of loan whereby an individual borrower repays the principal amount without interest. In the Islamic banking system, it is a valid loan. The term "no-cost loans" refers to loans when "the bank sets aside a part of its funds to award to individuals who are desperately in need of it. These people include those who are customers, small-scale farmers, business owners, and producers, among others. Loans from Qard al-Hasan are offered out of compassion, without any interest or service fees, and are repaid when and if the borrower is able to do so (Aburime, 2008; Yahaya et al., 2020). In other terms, it refers to borrowing money without paying interest. Only the principal borrowed must be repaid in full by the borrower. Promoting social welfare, reducing poverty, and advancing economic development are some of its objectives (Aburime, 2008; Yahaya, Garba, & Shinkafi, 2019).

Short-term loans are offered by *Qard al-Hassan* using surplus funds accrued through designated savings accounts. Both state-owned Islamic banks and corporations are involved in this. The money in these *Qard al-Hassan* savings accounts is used to meet the immediate needs of people, businesses, and organizations that have already received loans from Islamic banks. Cash flow for the purchase of raw materials or the payment of labour may be included. Due to its capacity to address short-term financial demands affecting individuals, businesses, entrepreneurs, and enterprises, *Qard al-Hassan* is a crucial tool for economic development. Unquestionably, the availability of *Qard al-Hassan* contracts benefits the small, medium, or large entripreneurs and economic development of small towns and villages (Toutounchian, 2011).

***Bay' al-Mu'ajjal* (Credit sale)**

A contract known as a "*Bay al-Mu'ajjal*" between a seller and a buyer in which the seller sells specific goods the buyer finds interesting at a fixed price agreed upon in the future that is either allocated in the future or at a fixed future date in a lump sum or within a fixed period by installments (BNM, 2016b; INCEIF, 2006). As a result, this type of contract is crucial for economic development because; it may be used to finance domestic and import trade, and cater the needs of the agricultural sector, as well as current market demands.

***Istisnah* (Progressive Payments)**

According to (Ayub, 2009), *Istisnah* refers to contracting with a person (financial agency) to manufacture, build, and supply a good at a later date in exchange for a specific price paid on a regular basis. Customers pay the agency to produce the good under a contract with a manufacturer, covering both the cost of manufacturing and the profit margin. Similar to this, *Istisnah* is a term used by Ghanim (2011) as cited in Dzenga (2015) describe *Istisnah* as an Islamic financial instrument in which an Islamic bank hires a borrower to hire a contractor to deliver project assets. Construction is paid for in phases, and no installments are made until the asset it is active and successively. *Istisnah* is usually maintained during the construction phase of a project, and the structures commonly involve a sales contract and a hire purchase contract (McMillen, 2012). In Malaysia, *Istisnah* is offered by some Islamic banks such as BIMB and BMMB and its facilities include *Istisnah* Floating Rate; *Istisnah* convertible to *Ijarah*; *Istisnah* with parallel *Istisnah*; Project Financing/Bridging (*Istisnah*), and *Mu'amalat al-Istisnah* Project Financing-i (*Istisnah*).

The Role of Islamic Financing Contracts towards Economic Development

The prospective effects of Islamic finance contracts on economic development are discussed in this section for Malaysian Islamic banks. Table 3, which relates to Islamic banking in Malaysia, inclines nine different types of Islamic financing contracts along with their potential contributions to economic development. These Islamic financing contracts can be used to support aspects of economic development like investment, entrepreneurship, and agricultural development (Ayub, 2009; McMillen, 2012). Thus, Table 3 showed that *Qard al-Hasan*, *Bay bi thaman Ajil*, *Ijarah*, and *Istisnah* are the most practical Islamic financing contracts that address all the relevant economic development variables in the context of this study. These contracts are suitable for financing needs in all economic sectors, corporations, and private firms, as well as those of individuals. The second set of Malaysian contracts that have the potential to be helpful and advantageous to the three primary concern economic development variables of the study consists of *Musharakah*, *Wakalah*, and *Bay al-Mu'ajjal* finance contracts. Thirdly, *Mudarabah* may have an effect on the financial and business sectors, particularly with regard to trading strategies. Finally yet importantly, *Salam* sales are crucial to the agriculture sector and have the potential to support economic growth. The study was only permitted to examine four measures of economic development. The abbreviations AD, ED, HD, and investment stand for the economic development variables in the table. The terms include enterprise development (ED), human development (HD), and agriculture development (AD). While the (+) sign indicates positive impacts of the financing contract upon the variable, and (–) sign means the financing contract does not apply to the variable. See table 3 below:

Table 3. The Role of Islamic Financing Contracts towards Economic Development

Econ. Dev. Variables / Contracts	AD	ED	HD	Investment	Role of Islamic financing contract for Economic Development
Mudarabah	-	+	-	+	It has a positive impact on Profit and risk sharing in entrepreneurship and investment.
Musharakah	+	+	+	+	*Musharakah* financing contract promotes entrepreneurship and investment thereby supporting the cause of economic development.
Ijarah	+	+	+	+	This Islamic banking contract has an impact on entrepreneurship development, health, and education sectors. It is good for agriculture such as leasing Agri equipment, tractors, land units, planters, and harvesting tools.
Bay bi thaman Ajil	+	+	+	+	It has an impact on individual and corporate/private needs in Islamic banking in Malaysia.
Bay Salam	+	-	-	-	It has an impact on small and medium-scale farmers, breeders, fishers, poultry producers, financing agriculture, providing fertilizer, seeds, harvesting, market linkages, and irrigation.
Wakalah	+	+	-	+	It has implications on legal actions, individual and corporate needs on defined legal needs, and providing services on behalf of another person in cases where the principal lacks the expertise based on mutual agreement between the parties.
Qard al-Hasan	+	+	+	+	It has an impact on economic

Table 3…

					development by providing short-term loans, supporting the immediate needs of entrepreneurs. It also has a positive effect on the economic development of villages and small towns.
Bay al-Mu'ajjal	+	+	-	+	This contract has positive effect on financing the agricultural needs, import trade, domestic trade, and financing the existing necessities of the industry.
Istisnah	+	+	+	+	It implies infrastructure, the construction phase of a project, structures that involve a sales contract and a hire purchase contract. It has significance on small manufacturing businesses, dairy or Agri production, storage, or rural entrepreneurship development.

Source: Adapted from (Mohammad, 2011)

CONCLUSION

Recently, the realization of sustainable economic development has been connected with Islamic finance, an emerging sector in the modern financial industry. In this paper, we believe that Islamic finance has the ability to accomplish sustainable economic development through its financing contracts. Our findings show that Islamic financing contracts significantly contribute to Malaysia's sustainable economic development. A number of Islamic finance contracts, including *Mudarabah*, *Murabahah*, *Musharakah*, *Ijarah*, and *Bay bi Thaman Ajil* (BBA), are useful for corporate and private businesses, private investments by individuals and the public, microbusinesses, and enterprises. The data also demonstrates that *Qard al-Hassan* and *Ijarah*, by providing short-term loans, assist the immediate requirements of farmers and business people, play a key role in establishing sustainable economic development. Our study concludes that besides playing a significant role by Islamic financing contracts toward sustainable economic development; Islamic finance has a kind of linkage with sustainable economic development. The study recommended that additional research should be conducted in additional regions utilizing a quantitative methodology and statistical tools to further examine the empirical influence of the aforementioned products on long-term sustainable economic development. Our research shows that Islamic finance has some form of relationship with sustainable economic development, in addition to playing a vital role through Islamic financing contracts toward achieving the economic objective. Therefore, in light of the foregoing we recommend that the practitioners should ensure the continuity of these contract by making them more attractive with simplicity and incorporating the needs of the customers and other participant. To the policy makers, more concern and attention needed in the areas of investment and agricultural sector as they encourage sustainable economic development. Provision should be made to pave way for easy access and possible incentive to those engaged in these contracts and cushioning ground for possible loss should be provided.

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