

DEVELOPING *QARD* FINANCING AS SOCIALLY
RESPONSIBLE INSTRUMENT: A STUDY OF
SELECTED ISLAMIC BANKS

BY

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ABSTRACT

Islamic banks seek to achieve multiple goals, including increasing economic growth towards a better and just society. The study identifies several problems related to *Qard* financing in Islamic banks, including the lack of financing for SMEs, risk concerns, limited use of financing sources, and insufficient transparency in data on the implementation and impact of *Qard* as a socially responsible instrument. This research aims to develop *Qard* as a socially responsible instrument in the selected Islamic banks in Organisation of Islamic Cooperation (OIC) countries. By utilizing a qualitative methodology, the study adopts multiple approaches to achieve its objectives. It employs an analytical approach to analyse and compare annual financial and social responsibility reports issued by the selected Islamic banks in OIC countries. The researcher also interviews experts to verify the observations and ensure the research analysis remains firmly tied to industry practices. As a result of the study, there are five models in *Qard* financing in the selected Islamic Banks. The significant findings reveal that Islamic banks employ various funding sources, encompassing *Qard al-Hasan* accounts initiated by customers, portions of current accounts (demand deposits), shareholders' profits, and non-permissible earnings for disposal, which do not align with Sharī'ah principles. Among the most pressing challenges identified are the scarcity of financing sources and the correlated credit risks. Moreover, the financing purposes are to disburse to four main categories for those needing medical treatment, education and marriage, and commercial financing for customers with extended outstanding obligations to repay their late instalments, called the overdrawn account, and disburse to the SME and employees. The researcher develops *Qard* financing, with the purpose name *Qard Taysir* Financing. It also addresses financing sources and hedging of the repayment risks, moving to the disbursement mechanism, and concludes with the purposes for which the finances should be granted. The *Qard Taysir* financing model has been designed to provide financing sources for microenterprises, commercial and *Ighathah* (Relief) purposes, and to address the operating costs and risk of default of *Qard Taysir* Financing through guarantees and repayment sources for defaulted *Qard*. The mechanism of the *Qard Taysir* financing model involves the establishment of a *Qard Taysir* Financing Fund and funding sources of operating costs, as well as a mechanism for disbursement. Furthermore, the *Qard Taysir* Financing model has been developed to align with *Maqāsid al-Sharī'ah* and includes a transparency report to ensure stakeholders are fully informed. Overall, the *Qard Taysir* financing model represents an innovative approach to Islamic finance, providing greater flexibility and risk management.

خلاصة البحث

تسعى المصارف الإسلامية إلى تحقيق أهداف متعددة، بما في ذلك زيادة النمو الاقتصادي نحو مجتمع أفضل وعادل. تحدد الدراسة العديد من المشكلات المتعلقة بتمويل القرض في المصارف الإسلامية، بما في ذلك ضعف وجود مثل هذا التمويل للمشاريع الصغيرة، والمخاوف المتعلقة بالمخاطر، والاستخدام المحدود لمصادر التمويل، وعدم كفاية الشفافية في البيانات المتعلقة بتنفيذ وتأثير القرض كأداة مسؤولة اجتماعيًا. تهدف هذه الدراسة إلى تطوير القرض في المصارف الإسلامية كأداة مسؤولة اجتماعيًا في الدول الأعضاء المختارة بمنظمة التعاون الإسلامي. من خلال استخدام المنهج النوعي؛ تعتمد الدراسة أساليب متعددة لتحقيق أهدافها، حيث تستخدم المنهج التحليلي والمنهج المقارن من خلال تحليل التقارير المالية وتقارير المسؤولية الاجتماعية السنوية الصادرة من المصارف الإسلامية التي تم اختيارها في الدراسة، ومقارنة بعضها مع بعض، وسيقوم الباحث أيضاً بإجراء مقابلات مع الخبراء للتحقق من النتائج وضمان أن يظل البحث مرتبطاً ارتباطاً وثيقاً بممارسات الصناعة. نتج عن الدراسة بأن هناك خمسة نماذج لتمويل القرض الحسن في البنوك الإسلامية محل الدراسة. من أهم النتائج أن البنوك تستخدم مصادر رئيسية لتمويل القرض الحسن من أهمها: حساب القرض الحسن المدعوم من العملاء، وجزء من الحساب الجاري (تحت الطلب)، ومن أرباح المساهمين، والإيرادات المجنبة للتخلص منها غير المتوافقة مع الشريعة. أما أبرز التحديات فكانت شحة مصادر التمويل، وأبرز المخاطر كانت مخاطر التمويل والتي هي مخاطر عدم السداد. أما بالنسبة لغرض التمويل فيتم صرفه لأربع فئات رئيسية والتي هي للمحتاجين؛ للعلاج والتعليم والزواج، وتجاري؛ لعملاء البنك الموثوقين لتسديد أقساطهم المتأخرة، كما يتم صرفه لأصحاب المشاريع الصغيرة، وكذلك للموظفين. وقد عمل الباحث على تطوير نموذج تمويل القرض الحسن ابتداءً بتعديل الاسم إلى تمويل قرض تيسير، كما يتناول مصادر التمويل والتحوط من المخاطر، مروراً بآلية صرف التمويل والتي تتضمن إنشاء صندوق تمويل قرض تيسير، وانتهاءً بالأغراض التي ينبغي منح التمويل لها والتي تتضمن ثلاث فئات رئيسية؛ للمشاريع الصغرى، والأغراض التجارية، والإغاثية. كما تم معالجة التكاليف التشغيلية ومخاطر التعثر في تمويل القرض تيسير من خلال الضمانات ومصادر سداد القرض المتعثر. علاوة على ذلك، تم تطوير نموذج تمويل قرض تيسير ليتوافق مع مقاصد الشريعة ويتضمن تقرير شفافية لضمان اطلاع أصحاب المصلحة بشكل كامل.

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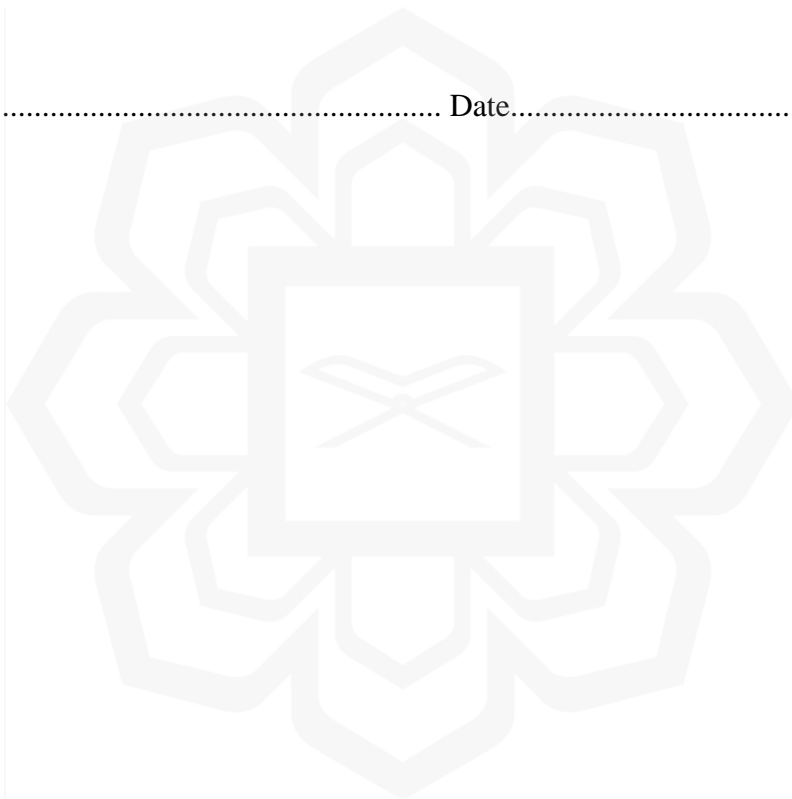
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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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﴿مَنْ ذَا الَّذِي يُقْرِضُ اللَّهَ قَرْضًا حَسَنًا فَيُضْعِفُهُ لَهُ وَ لَهُ أَجْرٌ كَرِيمٌ ﴿١١﴾﴾

[الحديد: ١١]

“Who is it that would loan Allâh a goodly loan so He will multiply it for him and he will have a noble reward?”

(The Qur’an, al-Hadid: 11)



DEDICATION

The researcher dedicates this humble research to his parents, wife, children, and brothers, especially Abdullrazzaq. The researcher also dedicates this thesis to those who would loan Allâh a *Qard* without injury to the recipient, without reminding him that he has done him a favour.



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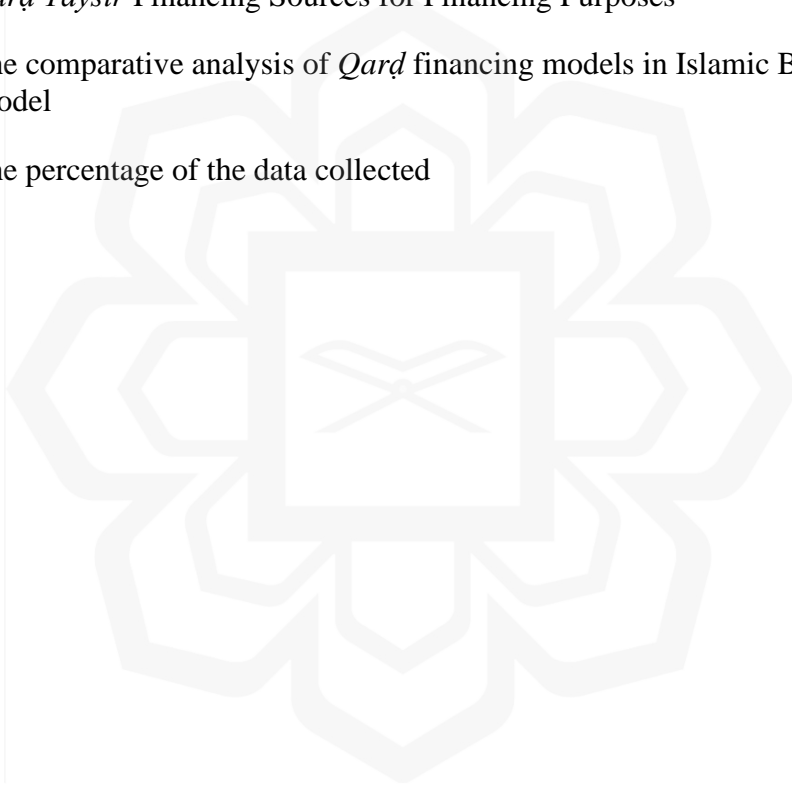
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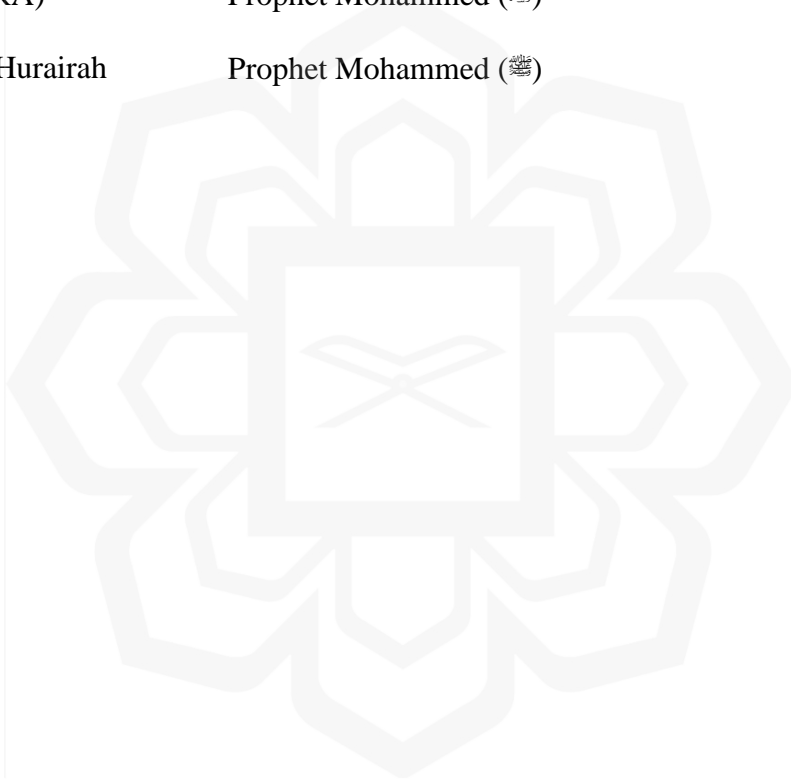
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ABBREVIATIONS

AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
BAJ	Bank Aljazira
BB	AL-Baraka Bank
CMA	Capital Market Authority
CSR	Corporate Social responsibility
ICD	Islamic Corporation for the Development of the Private Sector
IFI	Islamic Finance Industry
IFIs	Islamic Financial Institutions
IFSB	Islamic Financial Services Board
IRTI	Islamic Research and Training Institute
IsDB	Islamic Development Bank
ISRA	International Shari'ah Research Academy for Islamic Finance
JIB	Jordan Islamic Bank
KFHM	Kuwait Finance House (Malaysia) Bhd
NGOs	Non-governmental organization
OIC	Organisation of Islamic Cooperation
QaTF	<i>Qard Taysir</i> Financing
QHF	<i>Qard al-Hasan</i> Financing
SIB	Saba Islamic Bank
SMEs	Small and medium-sized enterprises

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The rapid growth of the Islamic financial system, characterized by its adherence to Shari‘ah principles, offers a unique array of profit and non-profit financial transactions. This system has grown significantly, with total assets reaching US\$ 2.88 trillion between 2012 and 2019. Among the five sectors of Islamic finance, Islamic banking dominates with 69% of the assets, amounting to US\$ 1,993 billion in 2019. The number of Islamic banks, including Islamic windows, was 526, with total assets of around US\$ 2 trillion and an annual growth rate of 14% in 2019 (ICD and REFINITIV, 2020). This data underscores the substantial and growing influence of Islamic banking within the global financial system, emphasizing the importance of understanding its various instruments and their implications.

Qard, a benevolent loan, stands out not only as a financing tool within Islamic banking but also as a practice deeply rooted in Islamic tradition and religious texts. Its significance is highlighted in various *Hadiths*, where it is portrayed as a commendable act deserving divine reward. This integration of religious and financial principles exemplifies the unique nature of Islamic finance, where ethical and moral considerations are paramount.

The rules governing *Qard* stipulate that these loans must be interest-free, as reinforced by the resolution N° 10 (10/2) of The Council of the Islamic Fiqh Academy (1985), which categorically prohibits any form of usury. The decision stipulated the following concerning transactions with banks dealing with interest and transactions with Islamic banks, “Any increase or interest on a debt which has matured, in return for an extension of the maturity date, in case the borrower is unable to pay and the increase (or interest) on the loan at the inception of its agreement, are both forms of usury which are prohibited under Shari‘ah”. This regulation ensures that *Qard* remains a tool for social welfare, promoting financial inclusion and support for those in need without the burden of interest.

The examination of *Qard* is crucial to understanding the broader framework of Islamic financial instruments. Unlike obligatory tools such as *Zakāt* and *khums*, *Qard*

al-Ḥasan is voluntary, akin to *Waqf* and *infāq*. (Sadr, 2014). This voluntary highlights the ethical dimension of Islamic finance, where community welfare and mutual support are central tenets.

The Organisation of Islamic Cooperation countries (OIC) is the second-largest organisation after the United Nations, with a membership of 57 states spread over four continents. The OIC was established upon a decision of the historical summit which took place in Rabat, the Kingdom of Morocco on 12th Rajab 1389 Hijra (25 September 1969) following the criminal arson of Al-Aqsa Mosque in occupied Jerusalem. The OIC is the collective voice of the Muslim world. It endeavours to enhance and strengthen the bond of unity and solidarity among the Muslim peoples and countries and protect their interests through the first OIC Charter which was adopted by the 3rd International Conference of Foreign Ministers (ICFM) Session held in 1972. The Charter laid down the objectives and principles of the organisation and fundamental purposes to strengthen the solidarity and cooperation among the countries. The OIC has specialised, subsidiary, and affiliated organs that support the Islamic financial industry and plays a vital role in boosting cooperation in various fields among the OIC countries, such as Islamic Development Bank (IsDB), Islamic Solidarity Fund and its *Waqf* (ISF), International Islamic Fiqh Academy (IIFA) and the General Council for Islamic Banks and Financial Institutions (CIBAFI) respectively (OIC, 2008) and (OIC, 2020). Poverty in the member countries of the OIC has reached almost 25 per cent of the global poverty index, and 40 per cent of these populations live within the poverty line of US\$ 1.25 a day or less (IsDB, 2014) (IIRT and IICPSD, 2017).

According to ICD and REFINITIV (2020), the total of *Qard al-Ḥasan* funds disbursed by Islamic Financial Institutions reached US\$ 129 million in 2019. The percentage of *Qard al-Ḥasan* financing was 0.1% of types of Sharī'ah-compliant Contract in 2018 (IFSB, 2021a).¹ *Qard al-Ḥasan* is still used by many Islamic banks in the OIC. Although *Qard al-Ḥasan* is one of the most important products in Islamic social responsibility, it contradicts the common banking practices of profit maximisation. Islamic banks use *Qard al-Ḥasan* to facilitate personal financing such as health, education, housing, and marriage loans (Jordan Islamic Bank, 2019b). However, many scholars believe that the *Qard al-Ḥasan* mechanism should be designed to empower socio-economic development projects and provide financial service facilities

¹ - Estimated based on aggregated data from 14 countries.

to the needy. This product can also provide job opportunities to these communities and help them exit poverty (Abu Mounes, 2019) and (K. Khan & Nor Saeran, 2017).

Islamic banks in OIC countries have been using *Qard*, such as Saba Islamic Bank (SIB) in Yemen, Bank Aljazira (BAJ) in Saudi Arabia, Albaraka Bank (BB) in Algeria, Jordan Islamic Bank (JIB) in Jordan, and Kuwait Finance House (Malaysia) (KFH). They have been using different models with different financing sources to contribute to the *Qard* fund, such as current account (Depositors' Fund), Zakât, shareholders' fund, and *Qard al-Hasan* account (Hiba & Ibtasam, 2018), (The Ministry of Religious Affairs and *Waqf*, 2004), (Saba Islamic Bank, 2017), (Kuwait Finance House (Malaysia), 2019), (Jordan Islamic Bank, 2020a) (Bank AlJazira, 2019) and (Al Baraka Banking Group, 2019).

Corporate social responsibility (CSR) is an essential and globally established practice. CSR is a dramatic field of discussion in contemporary business. It is practised by public organisations, non-governmental organisations (NGOs), and even intergovernmental organisations like the International Labour Organisation, the United Nations, and the Islamic Development Bank (IsDB). CSR is defined as “the voluntary integration of economic, social and environmental objectives in the relationship with company stakeholder network” (Perrini et al., 2006).

Social solidarity and ethics in Islamic financial transactions could be seen through *Qard al-Hasan* financing products (Almagribi, 2004). *Qard al-Hasan* is considered one of the most essential socially responsible Islamic products for Islamic banks. It is provided to people in need of personal financing as well as to develop Small and Medium Size Enterprises (SMEs) as part of Islamic Banks' social responsibility. This study will focus on *Qard* financing, which is one of the Islamic social products.

Accessing financing is a challenge facing communities, particularly in the OIC countries. Therefore, many Islamic banks have been practising *Qard* as a product, while other banks have not yet introduced it. The *Qard* development model is particularly relevant to Islamic banks to finance the community in OIC countries.

1.2 STATEMENT OF THE PROBLEM

In today's banking system, **many banks' clients are not able to access their financing needs because of the complex requirements such as guarantees as well as the issues**

related to profit margin imposed across financial products such as *Murābaḥah* in the case of Islamic Banks. On the other hand, some Islamic banks offer products such as *Qarḍ* (interest-free loans). **These products are often not meeting the needs of the applicants.**

It is observed that despite the existence of *Qarḍ* financing in many Islamic banks, some of them **do not offer *Qarḍ* for enterprise financing activities²** to contribute to poverty alleviation or the improvement and empowerment of societies. For example, some Islamic banks finance education, marriage, and treatment. However, **they cannot finance the enterprises because of the underlying risk³.** Another problem is that **Islamic banks have sources for *Qarḍ* financing, but they cannot use them to contribute to solving real social problems.** Furthermore, it can be specified that there is a **lack of transparency⁴** in the data on the implementation of *Qarḍ* financing and its impact as a socially responsible instrument. In addition, ***Qarḍ* financing has not been adequately addressed in the previous study⁵.** As a result, it is evident that profit-based financing products remain out of reach for many personal and enterprise customers. This can be attributed to several factors, including high cost, stringent eligibility criteria, and complex risk-sharing mechanisms. Furthermore, the nature of Islamic banks as business entities that need to maintain profitability and competitiveness influences the availability and accessibility of these products. On the other hand, *Qarḍ*, which does not require the payment of profits, has a limited presence due to risk aversion and lack of transparency. Additionally, Islamic banks face regulatory and operational constraints that restrict the use of customer funds placed under *Murābaḥah* contracts for *Qarḍ*. These factors collectively contribute to the limited offering of such interest-free loans. There is a gap to be filled in terms of finding the value of *Qarḍ* financing and developing it to be a socially responsible instrument for Islamic banks in OIC countries through revisiting and expanding its sources, risk management, the disbursement of the instrument, and measures to ensure it has achieved its purpose as a socially responsible instrument of the Islamic Banks.

This study attempts to fill this gap by studying the Sharī'ah and social responsibility perspectives, eliciting the principles from the practices and challenges

² - Four of the selected Islamic banks do not offer *Qarḍ al-Ḥasan* for SME.

³ - All the experts in the interviews responded that the risks of *Qarḍ al-Ḥasan* are credit risks.

⁴ - The average percentage of the data collected that comes from the documents in the selected Islamic banks are 36%.

⁵ - Previous study means in the literature review in this study.

and risk exposures of *Qard*, and eliciting the expert's opinions on the suitability and developing the various financing models of *Qard* as a socially responsible instrument in OIC countries. The study will investigate how Islamic banks could develop *Qard* financing as a socially responsible instrument in OIC countries. This study will demonstrate a case for *Qard* that can be developed by Islamic banks for financing the community of Islamic countries.

1.3 RESEARCH OBJECTIVES

The main objective of this research is to develop *Qard* financing as a socially responsible instrument for Islamic banks. Consequently, the specific objectives of the research are:

1. To examine the theoretical constructs of social responsibility from the Shari'ah perspective in developing the *Qard* financing.
2. To elicit the principles from practices of *Qard* financing for the selected Islamic banks in OIC countries.
3. To determine the challenges and risks exposures of *Qard* financing in the selected Islamic banks in OIC countries.
4. To elicit the experts' opinions of the suitability of *Qard* financing as a socially responsible instrument for the selected Islamic banks in OIC countries.
5. To develop the *Qard* financing conceptual model for the selected Islamic banks in OIC countries.

1.4 RESEARCH QUESTIONS

To achieve and address the challenges and develop *Qard* financing, the following research questions are proposed:

1. What are the theoretical constructs of social responsibility from the Shari'ah perspective in developing a *Qard* financing?
2. What are the principles of the practices of *Qard* financing for the selected Islamic banks in OIC countries?
3. What are the challenges and risks exposures of *Qard* financing in the selected Islamic banks in OIC countries?

4. What are the experts' opinions of the suitability of *Qard* financing as a socially responsible instrument for the selected Islamic banks in OIC countries?
5. How to develop the *Qard* financing conceptual model for Islamic banks in OIC countries?

1.5 SIGNIFICANCE OF THE STUDY

This research addresses a gap in the literature on *Qard* financing within OIC countries, offering both theoretical and practical advancements.

Theoretically, it proposes the *Qard* financing to Islamic banks of OIC countries, aiming to serve as a pivotal reference for a wide range of stakeholders, including researchers, academicians, and practitioners in the field of Islamic finance.

Practically, the study develops a *Qard* financing designed to significantly enhance socio-economic development in OIC countries. This financing not only provides Islamic banks with innovative tools for *Qard* financing but also equips non-governmental organisations (NGOs) and development agencies with practical strategies to support vulnerable populations, thereby promoting sustainable economic growth and alleviating poverty.

The proposed model is distinguished by its adaptability, making it suitable for implementation across various Islamic financial institutions and socioeconomic settings within the OIC. By improving access to finance through *Qard* financing, this study has the potential to empower poor people, fostering greater societal resilience and economic stability in the OIC countries.

1.6 LIMITATIONS AND SCOPE OF THE STUDY

Identifying the limitations of *Qard* financing is crucial to determine its scope of application. The research focuses on *Qard* financing. Furthermore, to map the advancements and strengths of *Qard* financing practices, the research examines the years 2010 to 2019, with a brief comparison to other studies and practices conducted in the same area. The study encompasses OIC countries, with five countries selected: Yemen, Saudi Arabia, Algeria, Jordan, and Malaysia, focusing on commercial banks. They are chosen for four reasons.

First, they were selected based on the availability and transparency of *Qarḍ* financing information in their reports. Second, every bank employs a different model toward *Qarḍ* financing, and they are in different regions, providing a broader scope for analysis. Third, some Islamic banks are part of larger banking groups, which can be advantageous. If specific data cannot be obtained directly from an individual bank, it may be accessible through the group bank reports. Additionally, the selected Islamic banks have diverse cultural backgrounds, and some possess more extensive experience in Islamic finance compared to others. Furthermore, most of these selected Islamic banks offer *Qarḍ* financing with the highest percentage in their respective countries. Lastly, some of the selected Islamic banks and countries are known for their strong commitment to social responsibility and *Qarḍ* financing, while others have a relatively lower profile in these areas.

1.7 STRUCTURE OF THE THESIS

This thesis, titled *Developing Qarḍ Financing as a Socially Responsible Instrument: A Study of Selected Islamic Banks*, is organized into seven chapters, each designed to explore the research topic systematically.

The first chapter, Introduction, lays the groundwork for the study by providing a background of *Qarḍ* financing within Islamic banking, particularly in OIC countries. It clearly articulates the problem the research seeks to address, outlines the research objectives, and frames the research questions that will guide the investigation.

In Chapter Two, Literature Review, the thesis discusses the existing body of knowledge on Islamic banking and *Qarḍ*, with a particular focus on *Qarḍ*. This chapter explores the concept of *Qarḍ* as a socially responsible financial instrument, the differences between *Qarḍ* and *Qarḍ al-Ḥasan*, and the theoretical foundations supporting their application. The chapter concludes by identifying the gaps in the current literature that this study aims to fill.

Chapter Three, Research Methodology, outlines the methodological framework of the study. It details the research design, data collection methods, which include semi-structured interviews and document analysis, and the approach to data analysis. This chapter also discusses the sample selection and the tools used to ensure the research is conducted rigorously and transparently.

Chapter Four, Practices of *Qarḍ* financing in Selected Islamic Banks, presents the findings from the document analysis. This chapter examines how *Qarḍ* financing is practised in various countries, providing insights into the management and operationalization of this financing instrument within the selected Islamic banks.

Chapter Five, Findings of Interview Analysis, discusses the qualitative data obtained from interviews. It covers key aspects of *Qarḍ* financing, including fund management, funding sources, repayment challenges, and financing disbursement mechanisms, offering a comprehensive view of how these processes function in practice.

Chapter Six, *Qarḍ* Financing: Proposed Model, focuses on proposing a proposed model for *Qarḍ* financing based on the research findings. It compares this model with existing ones and evaluates its alignment with Islamic principles, particularly the *Maqāṣid Al-Sharī'ah*, to ensure it meets social responsibility objectives within Islamic finance.

The final chapter, Conclusions and Recommendations, synthesizes the research findings, discussing their broader implications for the field of Islamic banking. It also acknowledges the study's limitations, offers suggestions for future research, and provides practical recommendations aimed at enhancing the effectiveness and social impact of *Qarḍ* financing in Islamic banks.

1.8 CONCLUSION

This chapter, serving as the introduction to the research titled "**Developing *Qarḍ* Financing as Socially Responsible Instrument: A Study of Selected Islamic Banks,**" has laid a sturdy foundation for the subsequent exploration.

Firstly, the chapter commenced by presenting the background of the study, setting the stage by highlighting the growing prominence of socially responsible financial practices within the Islamic finance landscape. The focus on Islamic Cooperation Countries (OIC) established the geographical context, underscoring the relevance of examining the practices of Islamic banks within this specific region.

Secondly, the statement of the problem succinctly encapsulated the research gap and the underlying motivation for the study. This led to the research objectives and questions, providing a clear roadmap for the study's trajectory. The chapter emphasized

the significance of the research, underscoring the potential impact on both the Islamic finance industry and broader societal welfare.

Finally, the chapter's delineation of the thesis structure provided a preview of the journey ahead, indicating the chapters to come and the logical progression of the study's exploration. The research will develop a *Qard* financing as a social responsibility instrument for Islamic banks in OIC countries and discuss the findings and associated recommendations. It will also include references and attachments.



CHAPTER TWO

INTEGRATED LITERATURE REVIEW ON QARD AND ISLAMIC BANKING IN OIC COUNTRIES

2.1 INTRODUCTION

Chapter Two of this thesis aims to provide a literature review that underscores the potential and challenges of developing *Qard* financing as a socially responsible instrument within selected Islamic banks. The focus of this chapter is twofold: to contextualise the role of Islamic banks in various Organisation of Islamic Cooperation (OIC) countries and to explore *Qard* financing, particularly *Qard al-Hasan*, and its implications for social responsibility within the Islamic banking sector.

This chapter overviews Islamic banks in specific OIC countries, including Yemen, Saudi Arabia, Jordan, Algeria, and Malaysia. Subsequently, an exploration of *Qard* is provided, elucidating its definition, essential pillars (*arkan*), conditions, types, and the concept of reward and excess benefit associated with *Qard*. This foundational understanding sets the stage for a more focused discussion on *Qard*. Here, the Sharī'ah perspective on *Qard al-Hasan* is explored alongside its definition and legality. The discussion extends to the various types of *Qard al-Hasan* based on usage, as well as the challenges, risks, and potential financing sources, including innovative avenues like fintech. Additionally, the role of *Qard al-Hasan* in supporting SMEs and its broader societal impact are analyzed.

The concept of social responsibility within Islamic banking is then explained, and its scope is defined, and the different types of social responsibility activities undertaken by Islamic banks are identified. This section provides a broader context for understanding how socially responsible *Qard* can be implemented effectively. The theoretical underpinnings of socially responsible *Qard* are presented with a focus on the Islamic concept of *falah* (success) and how it can be achieved through distributive justice. This theoretical framework supports the argument for the necessity of socially responsible financial practices within Islamic banking.

The chapter concludes with a summary of the literature reviewed, identifying the gaps in current research and practice, which the subsequent chapters of this thesis aim

to address. By systematically exploring these themes, this literature review sets a solid foundation for the ensuing analysis and discussions on developing *Qard* financing as a socially responsible instrument in the selected Islamic banks.

2.2 ISLAMIC BANKS IN OIC COUNTRIES

The foundation of Islamic finance dates back to the beginning of the emergence of Islam 1,400 years ago. During the early years of Islam, some banking activities existed that were similar to current banking transactions. One of the most famous personalities in Islam, the Prophet Mohammed (SAW), accepted deposits from Arab people as *Wadī'ah (Amanah)*. Furthermore, Prophet Mohammed (SAW) also used a *Muḍārabah* contract and acted as an agent to invest Khadijah's capital. Another prominent figure was Al-Zubair bin Al-Awam, who accepted deposits from individuals such as Salaf (*Qard*), subsequently investing in them. At the time of his death, his debts amounted to 2.2 million Dirham, as counted by his son Abdullah (Al-Gharib, 1996; Ibn Hisham, 1955).

The inception of Islamic banking can be traced back to the twentieth century, a period marked by the emergence of liberation movements that imbued Islamic thought with a distinctive form within the Islamic world. The development of a distinct Islamic banking system can be understood through two significant stages: the foundation stage and the propagation stage.

The foundation stage, spanning from 1965 to 1976, witnessed remarkable advancements in both theory and practice. Notably, conferences convened by the Islamic Research Academy in Al-Azhar Al-Sharif played a crucial role during this period. Numerous scholars, including Mohammad Baqir Al-Sadr in Iraq, Mohammed Najat Allah Siddiqi in India, and Ahmed Al-Najjar in Egypt, produced seminal studies advocating for non-interest-based banking practices. Concurrently, the establishment of Nasser Social Bank in Egypt in 1971 and the subsequent proposal for an Islamic banking system by an Egyptian expert in 1972 marked significant milestones. The agreement for the establishment of the Islamic Development Bank in 1974 and the Islamic Dubai Bank in 1975 further underscored the momentum of Islamic banking initiatives. The foundation stage culminated with the convening of the first conference on Islamic Economics in 1976 (Al-Gharib, 1996). Notably, an earlier attempt to establish an Islamic bank was made in 1963, when Ahmed Al-Najjar initiated local

savings centres in al-Mitghamr, Egypt. However, this endeavour ceased to operate as an Islamic project in 1967 (Al-Najjar, 1993).

The propagation stage, commencing in 1977 and continuing to the present, witnessed a significant proliferation of Islamic banks worldwide. According to the Islamic Finance Development Report, global Islamic finance assets are distributed across five sectors, with Islamic banking comprising 69% of the total assets, amounting to US\$ 1,993 billion in 2019. The number of institutions engaged in Islamic banking reached 526 across 74 countries in 2019, reflecting the widespread adoption of Islamic financial principles. Currently, over 1500 Islamic financial institutions are operating across 80 countries. Notably, the world's 100 largest Islamic banks demonstrated an average asset growth rate of 13%, as reported by the Asian Banker Research Group (ICD and REFINITIV, 2020). Figure 1 visually represents the distribution of global Islamic finance assets in 2019.

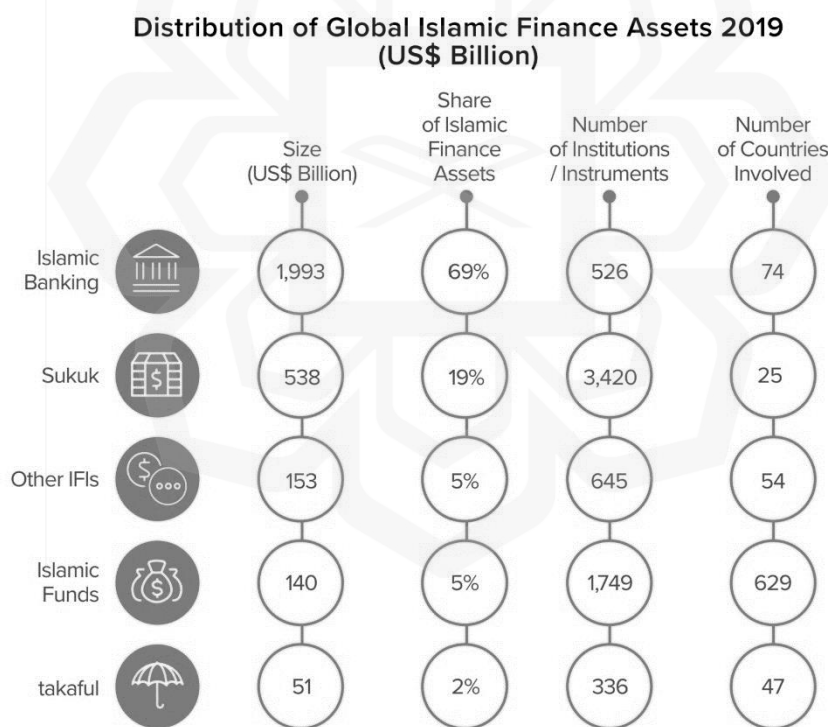


Figure 1 The distribution of global Islamic Finance assets in 2019

Source: ICD & REFINITIV

According to the Islamic Finance Development Report, the Islamic finance industry experienced double-digit growth of 14% in 2019, with a total of 1,526 Islamic financial institutions. The total assets of Islamic finance witnessed significant growth,

reaching US\$2.88 trillion compared to US\$1.75 trillion in 2012 (ICD and REFINITIV, 2020). Figures 2 and 3 summarize the growth in Islamic finance assets between 2012 and 2019.

GLOBAL ISLAMIC FINANCE LANDSCAPE

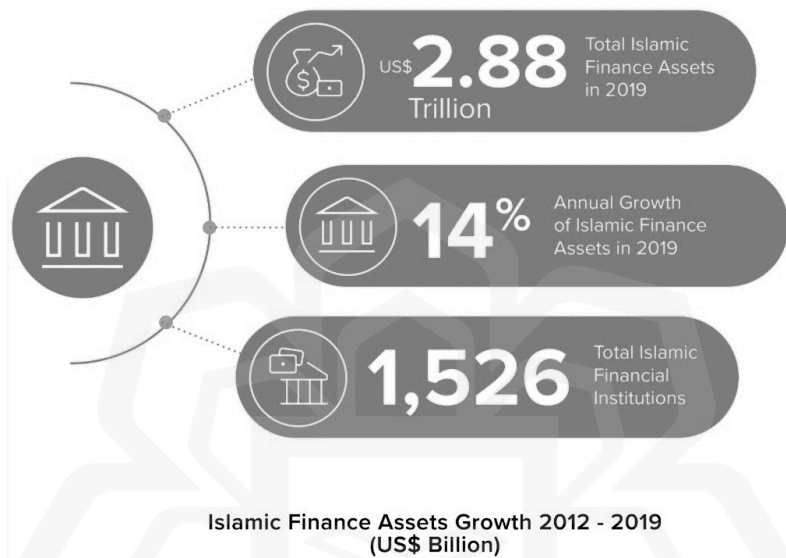


Figure 2 Islamic Finance assets growth between 2012 – 2019
Source: ICD & REFINITIV

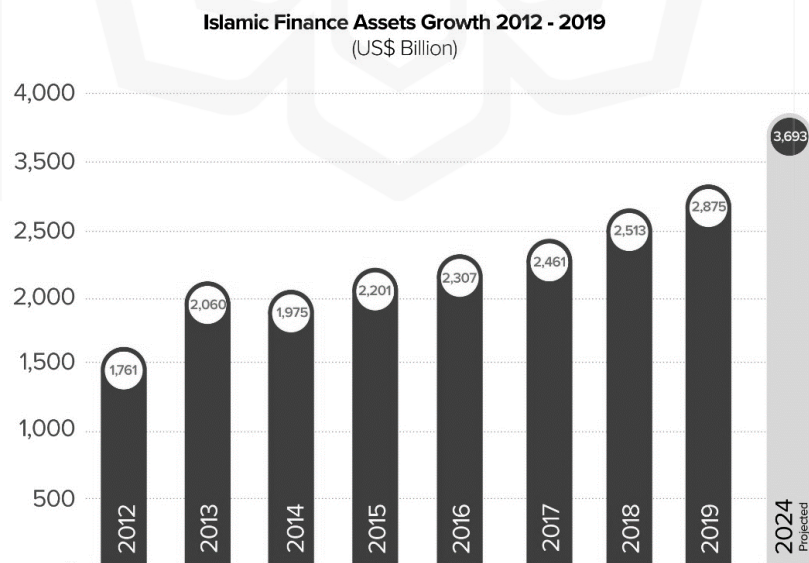


Figure 3 Islamic Finance assets growth between 2012 – 2019

Source: ICD & REFINITIV

It can be observed from Graph 6 that in 2019, the distribution of global Islamic Finance assets was divided into five sectors: 69% in Islamic banking, totaling US\$ 1,993 billion; 19% in sukūk, amounting to US\$ 538 billion; 5% in Islamic funds, with US\$ 140 billion; 2% in Takaful, totaling US\$ 51 billion; and 5% in other Islamic finance institutions, amounting to US\$ 153 billion (ICD and REFINITIV, 2020). Figure 4 summarizes the distribution of global Islamic Finance assets in 2019.

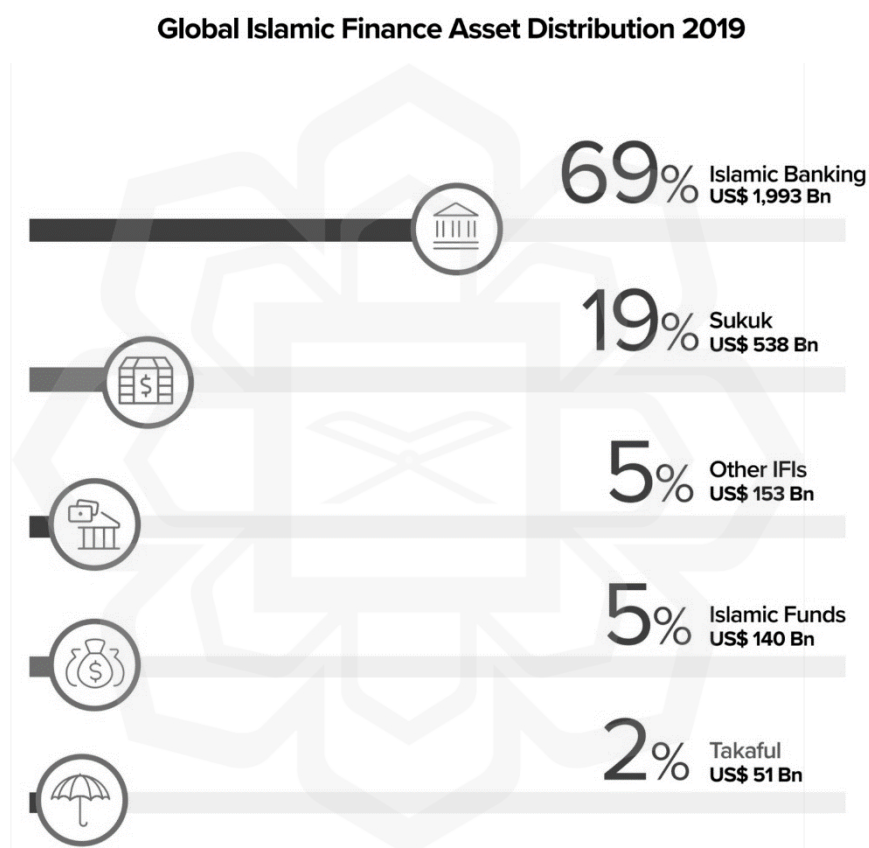


Figure 4 Global Islamic Finance assets distribution in 2019
Source: ICD & REFINITIV

The top countries in Islamic finance assets were Iran, with US\$ 698 billion; Saudi Arabia, with US\$ 629 billion; and Malaysia, with US\$ 570 billion. Together, they accounted for 66% of the market share of global Islamic finance assets. Following them were the United Arab Emirates with US\$ 234 billion, Qatar with US\$ 144 billion, Kuwait with US\$ 132 billion, Indonesia with US\$ 99 billion, Bahrain with US\$ 96 billion, Turkey with US\$ 63 billion, and Bangladesh with US\$ 45 billion in total assets.

Notably, Morocco, Tajikistan, and Nigeria emerged as the fastest-growing markets in Islamic finance assets (ICD and REFINITIV, 2020). Figure 10 summarizes the top countries in terms of Islamic finance assets, including Windows, in 2019.

The countries with the highest ratios of Islamic finance assets to gross domestic product (GDP) assets in 2019 were Bahrain at 124%, Malaysia at 53%, Iran at 47%, Kuwait at 43%, and Qatar at 40% (ICD and REFINITIV, 2020). Figure 5 analyzes the highest these countries' Islamic finance assets to GDP finance assets ratios in 2019.

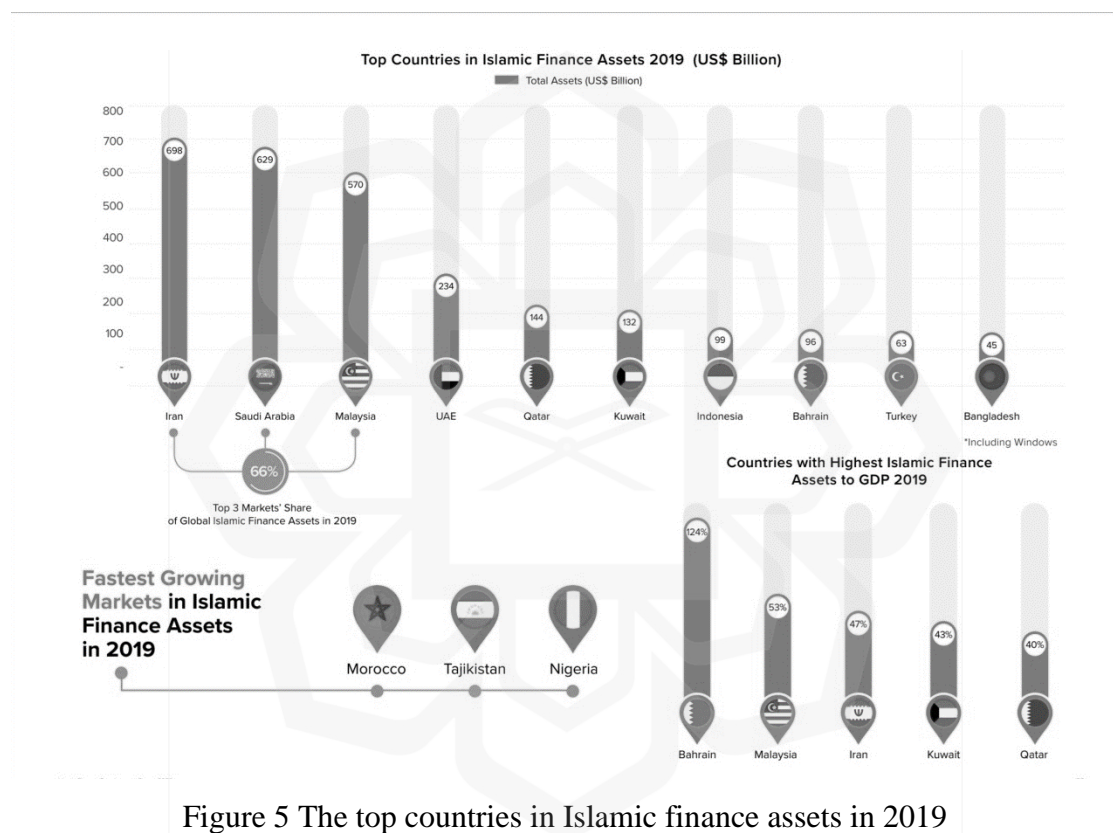


Figure 5 The top countries in Islamic finance assets in 2019

Source: ICD & REFINITIV

The total number of Islamic banks in 2019 was 526, including Islamic windows, with around USD 2 trillion in total assets. The annual growth rate of Islamic banking assets in 2019 was 14%. Morocco was the fastest-growing market in Islamic banking assets. The share of Islamic banking assets in global assets was 6%.⁶ The number of Islamic banks by type included 428 commercial Islamic banks, 57 investment banks,

⁶ - In 50 countries that reported Islamic Banking assets.

22 wholesale banks, and 19 specialized Islamic banks (ICD and REFINITIV, 2020). Figure 6 summarizes the growth of Islamic banking assets between 2012 and 2019.

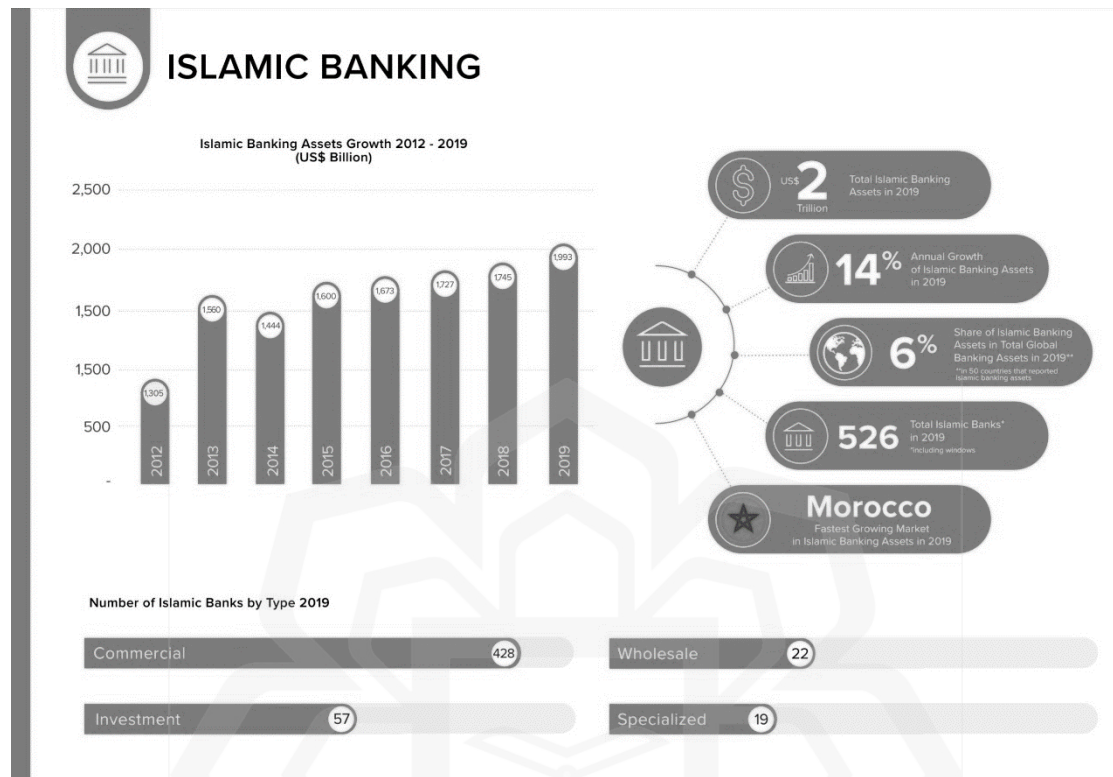


Figure 6 Islamic Banking assets growth between 2012 – 2019

Source: ICD & REFINITIV

In 2019, the top countries in Islamic banking assets were Iran (USD 641 billion), Saudi Arabia (USD 477 billion), and Malaysia (USD 297 billion). The number of Islamic banks in these countries was 41, 16, and 36, respectively, including Islamic windows. These countries accounted for 63% of the market share of global Islamic banking assets. Other significant countries were the United Arab Emirates (USD 194 billion), Kuwait (USD 125 billion), Qatar (USD 123 billion), Bahrain (USD 87 billion), Turkey (USD 49 billion), Bangladesh (USD 41 billion), and Indonesia (USD 38 billion), with a total number of Islamic banks of 24, 7, 6, 33, 6, 25, and 388, respectively (ICD and REFINITIV, 2020). Figure 7 summarizes the top countries in terms of Islamic banking assets and their respective Bank counts, including Windows, for 2019.

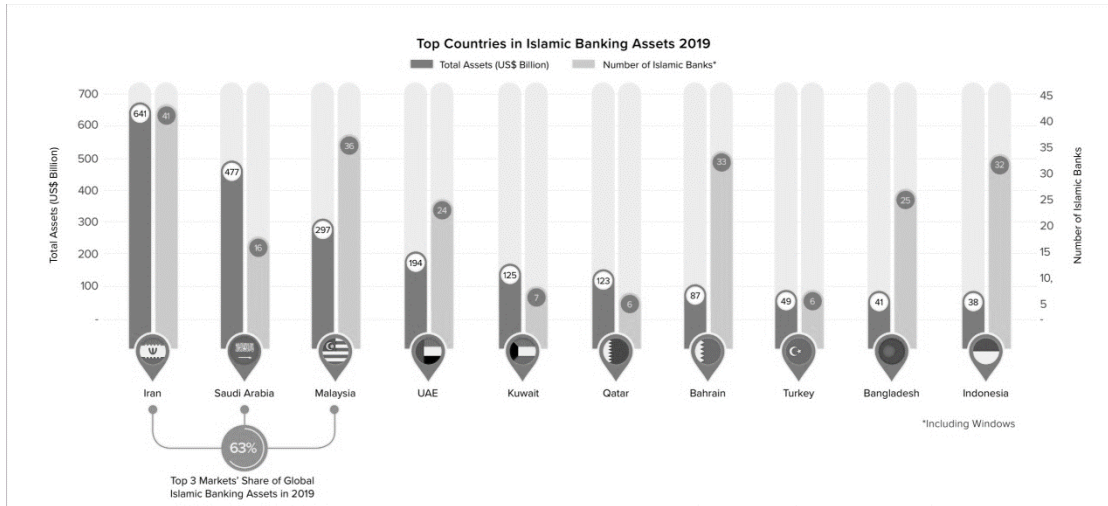


Figure 7 The top countries in Islamic banking assets and Bank counts, including windows in 2019

Source: ICD & REFINITIV

The countries with the highest share of Islamic banking assets compared to total banking assets in 2019 were Iran and Sudan, both with 100% and Saudi Arabia with 63%. Brunei and Kuwait followed these, with 57% and 49%, respectively (ICD and REFINITIV, 2020). Figure 8 illustrates the countries with the highest proportion of Islamic banking assets in 2019.

Countries with Highest Share of Islamic Banking to Total Banking Assets 2019

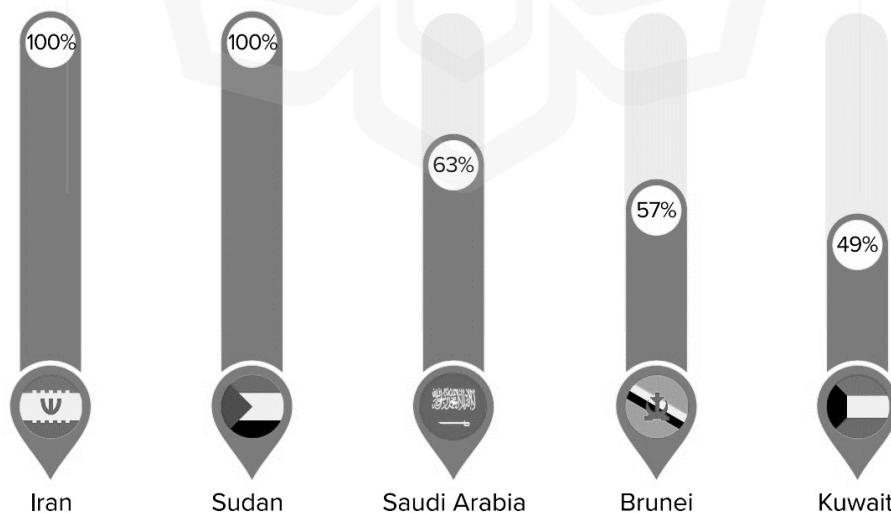


Figure 8 The highest countries with a share of Islamic Banking assets to total Banking assets in 2019

Source: ICD & REFINITIV

The countries with the highest shares of Islamic Banking Assets relative to their gross domestic product (GDP) in 2019 were Bahrain with 111%, Iran with 79%, and then Kuwait, Qatar, and the United Arab Emirates with 37%, 31%, and 24%, respectively (ICD and REFINITIV, 2020). Figure 9 summarises the countries with the highest Islamic Banking asset shares as a percentage of GDP in 2019.

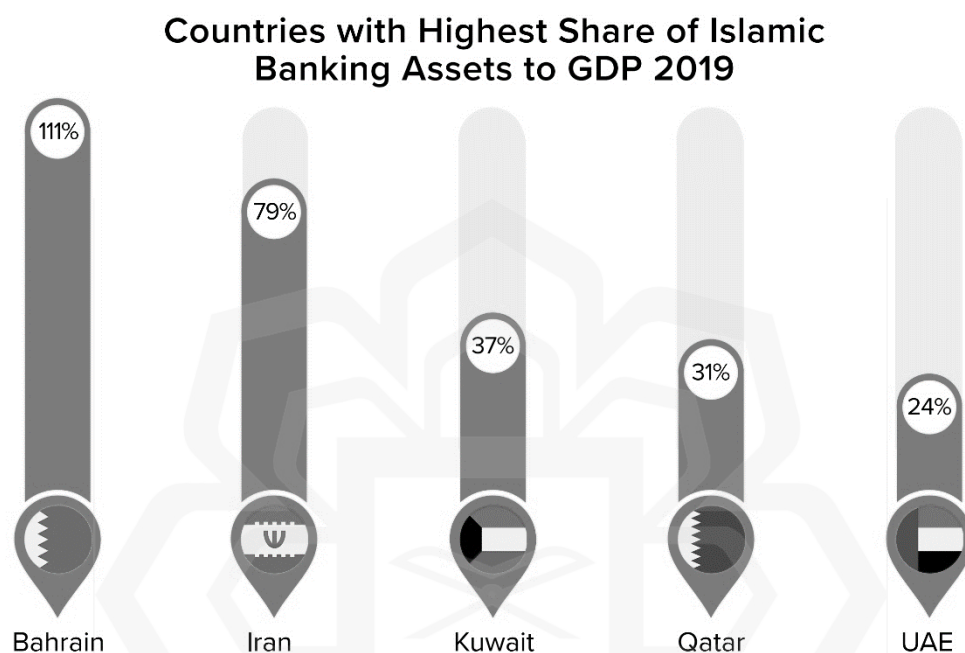


Figure 9 The highest countries with a share of Islamic Banking assets to GDP in 2019
Source: ICD & REFINITIV

The Islamic finance industry exhibited significant growth and diversification. The distribution of global Islamic finance assets indicated a substantial presence in several regions, with Islamic banking assets experiencing considerable growth. These trends illustrate the growing importance of Islamic finance in the global financial landscape and its increasing contribution to national economies. This part provides an overview of Islamic banks selected from OIC countries: Saba Islamic Bank in Yemen, Bank Aljazira in Saudi Arabia, Albaraka Bank in Algeria, Jordan Islamic Bank in Jordan, and Kuwait Finance House (Malaysia) in Malaysia.

2.2.1 Islamic Banks in Yemen

It can be observed that the establishment of Islamic banks in Yemen occurred in three stages. The first stage, in 1983, failed due to the rejection of the draft law for establishing the Yemeni Islamic Bank for Investment and Finance. The second stage, in 1987, also failed. However, the third stage, 1996, was successful, resulting in the enactment of the Islamic Bank Law (Saba Islamic Bank, 2021b).

Islamic banks have since experienced significant expansion in Yemen. They began operating after introducing Islamic Banking Law No. 21 in 1996, later amended by Law No. 16 in 2009 (Central Bank of Yemen, 2009). Currently, Yemen has five Islamic banks: the Islamic Bank of Yemen for Finance and Investment (IBY), Tadhamon Bank (TB), Saba Islamic Bank (SIB), Shamil Bank of Yemen and Bahrain (SBYB), and Al-Kuraimi Islamic Bank. (SBYB), and Al-Kuraimi Islamic Bank.

2.2.1.1 *Saba Islamic Bank*

Saba Islamic Bank was established by the Central Bank of Yemen's permit No. 311, issued on April 2, 1997. The bank owns 20 branches spread throughout the Republic of Yemen and two foreign branches in the Republic of Djibouti. The bank also has 700 employees. Among the principal foreign shareholders of the bank are the Islamic Development Bank - Jeddah and Dubai Islamic Bank. number of shareholders is 7,000 (Saba Islamic Bank, 2017, 2021a).

The capital of Saba Islamic Bank started with 2.5 billion Yemeni rials (YER). It was then increased in several stages: the first stage was in 2006, when the increase amounted to 6 billion Yemeni rials (YER). In 2008, there was a second increase in the bank's capital of 10 billion YER. Table 1 summarizes the ownership percentage of Saba Islamic Bank shareholders (Saba Islamic Bank, 2014).

Table 1 Shareholders of Saba Islamic Bank

Shareholders	Interest in equity %
Local Shareholders	80%
Foreign Shareholders	20%

Source: Author's illustration

Saba Islamic Bank holds significant investments in its associates across Yemen and Bahrain. The bank has a 30% equity stake in Islamic Insurance in Yemen, with a corresponding investment value of 274,722,000 YER. Additionally, the bank has a 32.66% equity stake in Investrade Company, a Bahrain-based entity, with an investment totalling 1,533,253,000 YER. These investments reflect the bank's strategic positioning in the Islamic finance sector and its commitment to fostering partnerships in its operating regions. (Saba Islamic Bank, 2017). Table 2 summarizes the investment in associates of Saba Islamic Bank.

Table 2 Investment in associates of Saba Islamic Bank

Name	Interest in equity %	The amount	Country
Islamic Insurance	30%	274,722,000	Yemen
Investrade Company	32.66%	1,533,253,000	Bahrain

Source: Author's illustration

Saba Islamic Bank holds a Shari'ah Supervisory Board. These members are jurists specialising in financial and economic transactions, with educational qualifications and over 30 years of experience. They are known for their good reputation in the field of compliance with the provisions of Islamic Shari'ah. One of the members of the Shari'ah Supervisory Board serves as the Shari'ah Controller (Saba Islamic Bank, 2017, 2021c).

2.2.2 Islamic Banks in Saudi Arabia

In the Kingdom of Saudi Arabia, there is no specific law relating to Islamic banks, as is the case in most Organisation of Islamic Cooperation (OIC) countries. However, in 2020, the Saudi Arabian Monetary Authority (SAMA) (now Saudi Central Bank) issued a Shari'ah governance framework for local banks operating in the Kingdom. It outlines the responsibilities and tasks of the board of directors, executive management, and Shari'ah committees. It also addresses Islamic windows, operations, and procedures for Islamic development products (Saudi Central Bank, 2020).

According to the Islamic finance development report, Saudi Arabia was the second-highest country in Islamic finance and Islamic banking assets, with US\$629 billion and US\$477 billion respectively. Saudi Arabia, with 63%, had the third-highest share of

Islamic banking assets relative to total banking assets in 2019 (ICD and REFINITIV, 2020).

The Saudi Arabian Monetary Authority has licensed both local banks and foreign investment banks. Among the local banks, four are fully-fledged Islamic banks: Bank Albilad, Alinma Bank, Al Rajhi Bank, and Bank Aljazira (Saudi Central Bank, 2021). The number of domestic branch offices for all Islamic banks was 831, with 8,358 ATMs. The total assets amounted to SAR 813,534.5 million, with total financing of SAR 566,312.9 million at the end of 2020 (IFSB, 2021b).

2.2.2.1 Bank Aljazira

Bank Aljazira was established as a Joint Stock Company in Saudi Arabia and formed under Royal Decree No. 46/M on the 21st of June, 1975. Bank Aljazira started its operations on the 9th of October, 1976, with the takeover of the National Bank of Pakistan's (NBP) branches in the Kingdom of Saudi Arabia. In 1992, Bank Aljazira began a restructuring process with subsequent increases in its capital, which came entirely from Saudi shareholders, significantly reducing NBP's shareholding between 1992 and 1994.

In 1998, Bank Aljazira's Board of Directors decided to convert the bank from conventional banking to Shari'ah-compliant banking. In 2002, the bank converted all its branches to comply with Shari'ah rules and principles. Bank Aljazira achieved its complete conversion to a Shari'ah-compliant bank and simultaneously increased its capital to SAR 3 billion, which came entirely from the bank's profits in 2007.

In 2017 and 2018, the Capital Market Authority (CMA) issued resolutions approving Bank Aljazira's requests to increase its capital to SAR 5.2 billion in 2017 and SAR 8.2 billion in 2018. Figure 10 summarises Bank Aljazira's capital increase from 2007 to 2018 (Bank Aljazira, 2021c, 2021b).

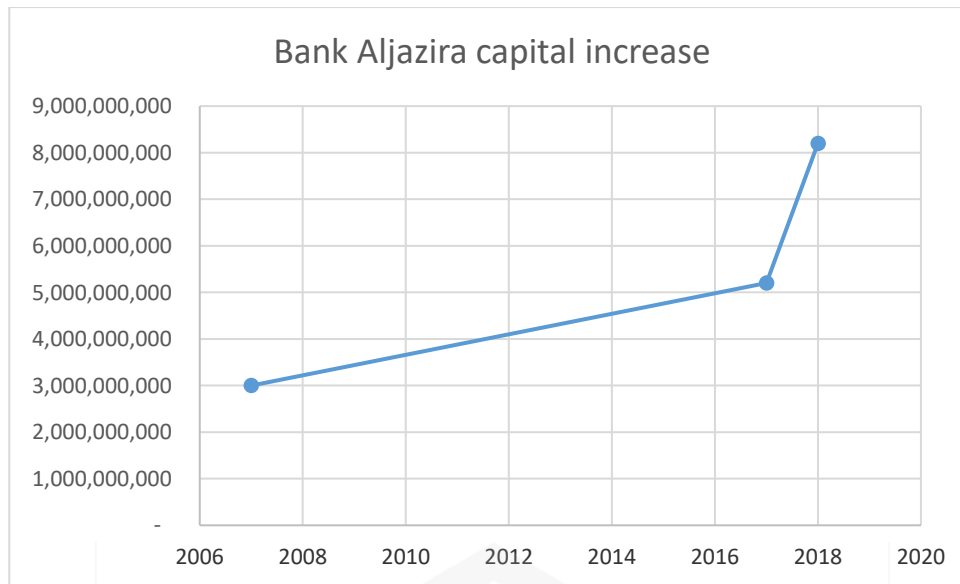


Figure 10 Bank Aljazira capital increase 2007 to 2018

Source: Author’s illustration

The table provides lists of four subsidiaries of Bank Aljazira: Al Jazira Capital, Aman Development and Real Estate Investment Company, Aman Insurance Agency Company, and AlJazira Securities Limited. All subsidiaries are incorporated in Saudi Arabia and operate in the same country, except Aman Insurance Agency Company, which is incorporated in the Cayman Islands and operates in Saudi Arabia.

The share capital of the subsidiaries is also provided in the table. Al Jazira Capital has a share capital of SAR 500 million, Aman Development and Real Estate Investment Company has a share capital of SAR 1 million, Aman Insurance Agency Company has a share capital of SAR 500 thousand, and AlJazira Securities Limited has an authorized capital of USD 50,000 and a paid-up capital of USD 100.

Overall, it is also worth noting that all of the subsidiaries are 100% owned by Bank Aljazira, which means that the bank wholly owns and controls these subsidiaries. This is likely to indicate that the bank is looking to expand its operations and services through these subsidiaries, potentially in different financial industry sectors. Table 3 summarizes the subsidiaries of Bank Aljazira.

Table 3 Subsidiaries of Bank Aljazira⁷

Subsidiaries	Country of Incorporation	Country of Operation	Share Capital	Ownership

⁷ - The information is taken by (Bank Aljazira, 2020c, 2021g).

Al Jazira Capital	Saudi Arabia	Saudi Arabia	SAR 500 million	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Saudi Arabia	SAR 1 million	100%
Aman Insurance Agency Company	Cayman Islands	Saudi Arabia	SAR 500 thousand	100%
AlJazira Securities Limited	Saudi Arabia	Saudi Arabia	Authorized Capital: USD 50,000, paid up Capital: USD100	100%

The table provides lists of associate companies of Bank Aljazira, which is Aljazira Takaful Ta'awuni Company. The company is incorporated in Saudi Arabia and operates in the same country. The nature of the company's business is not specified. The share capital of the company is SAR 350 million. The company's ownership is 35%, meaning that Bank Aljazira owns 35% of the company, and other shareholders own the remaining 65%. Table 4 summarizes the associate companies of Bank Aljazira.

Table 4 Associate Companies of Bank Aljazira⁸

Associate Companies	Country of Incorporation	Country of Operation	Share Capital	Ownership
Aljazira Takaful Ta'awuni Company	Saudi Arabia	Saudi Arabia	SAR 350 million	35%

To ensure compliance with Islamic law, Bank Aljazira (BAJ) created a Sharī'ah department within its organization and assembled a Sharī'ah Advisory Board (SAB) comprised of several Islamic banking experts. The SAB is responsible for reviewing, overseeing, and approving the bank's operations and promoting adherence to Sharī'ah principles throughout the workplace. The SAB includes Sheikh Abdulla Bin Suleiman Al-Mane'e as the SAB Chairman, Dr Abdulla Bin Mohammed Al-Mutlaq as the Vice Chairman, Dr Fahad Al-Elayan as the SAB Rapporteur, with the memberships of Dr Mohammed Ali El-Gari, and Dr. Abdulsatar Abu-Ghuddah (Bank AlJazira, 2020b, 2021c, 2021d).

⁸ - The information is taken by (Bank AlJazira, 2020c, 2021a).

2.2.3 Islamic Banks in Jordan

The Central Bank of Jordan (CBJ) has licensed both local and foreign banks. Among the local banks are three fully-fledged Islamic banks: Jordan Islamic Bank, International Arab Islamic Bank, and Safwa Islamic Bank. Additionally, there is one fully-fledged Islamic foreign bank, Al Rajhi Bank. The number of domestic branches and offices in Jordanian Islamic banks was 201, with 499 ATMs. The total assets of Islamic banks in Jordan were 9,803.5 million Jordanian dinars, with total financing of 7,472.9 million Jordanian dinars at the end of 2020 (Central Bank of Jordan, 2020; IFSB, 2021b). Table 5 summarizes Islamic Banks in Jordan and their crucial information.

Table 5 Islamic Banks in Jordan

Islamic Banks	Date of Establishment	Number of Branches	Number of Offices	Local / Foreign
Jordan Islamic Bank	1997	83	25	Local
International Arabic Islamic Bank	1997	45	-	Local
Safwa Islamic Bank	2010	38	-	Local
Al Rajhi Bank	2011	10	-	Foreign

Source: Central Bank of Jordan

2.2.3.1 Jordan Islamic Bank

In 1978, Jordan Islamic Bank was established as a public shareholding limited company and started offering all types of investment, financing, and banking services in compliance with Sharī'ah, under Jordan Islamic Bank's Special Law. The first branch of Jordan Islamic Bank opened on 22nd September 1979.

The bank's initial capital was JD 2 million, but it later reached JD 4 million. In 2010, the bank's capital was further increased to JD 200 million.

The bank offers its banking, financing, and investment services through 83 branches and 25 offices at various locations in the country, including a Bonded office. The bank has 278 ATMs across the country and employs 2,434 staff. The number of client accounts reached 1,080,000 (Jordan Islamic Bank, 2020b, 2021a, 2021b).

The table below provides lists of the top shareholders of Jordan Islamic Bank. The largest shareholder is AL-Baraka Banking Group, which is based in Bahrain and holds 66.005% of the bank's capital. The second largest shareholder is Social Security Corporation, a Jordanian organization, which holds 5.819% of the bank's capital. The other shareholders are individuals; Hussein bin Mohsen bin Hussein Al Harthy, a Saudi Arabian national, holds 2.117% of the bank's capital. Hani Masoud Darwish Ahmed, a Jordan national, holds 1.327% of the bank's capital and Hajj Fund, a Jordanian organization, holds 1.268% of the bank's capital.

It is worth noting that AL-Baraka Banking Group, the largest shareholder, holds a significant portion of the bank's capital, meaning they have a significant degree of control over the bank's operations. Also, The Social Security Corporation, Hajj Fund and individuals make up a small percentage of the bank's capital, meaning they have limited control over the bank's operations.

Overall, the table provides an overview of the major shareholders of Jordan Islamic Bank, including their nationalities and the percentage of the bank's capital they hold. These shareholders likely have a significant influence over the bank's operations and strategic direction. Table 6 summarizes shareholders of Jordan Islamic Bank, 1% and more.

Table 6 Shareholders of Jordan Islamic Bank⁹

Shareholder Name	Nationality	Share of capital
Albaraka Banking Group	Bahrain	66.005%
Social Security Corporation	Jordan	5.819%
Hussein bin Mohsen bin Hussein Al Harthy	Saudi Arabia	2.117%
Hani Masoud Darwish Ahmed	Jordan	1.327%
Hajj Fund	Jordan	1.268%

Source: Author's illustration

The table below shows the percentage of foreign and local shareholders of Jordan Islamic Bank. According to the table, foreign shareholders make up 68.122% of the bank's shareholders, while local shareholders make up 8.414% of the bank's

⁹ - The information by Jordan Islamic Bank (2020b).

shareholders. This indicates that most of the bank's shareholders are foreign, and only a tiny percentage are local.

This information suggests that the bank may have a higher degree of foreign ownership, affecting its operations and strategic direction. For example, foreign shareholders may have different priorities and goals than local shareholders. They may be more interested in the bank's performance and profitability than in its social and economic impact on the local community. It is also important to note that the remaining 23.464% shares could be held by other local and foreign individuals or institutions not specified in the table.

Overall, the table provides an overview of the proportion of foreign and local shareholders of Jordan Islamic Bank. It suggests that the majority of the bank's shareholders are foreign, which may have implications for the bank's operations and strategic direction. Table 7 and Figure 11 summarize the percentage of Jordan Islamic Bank shareholders, local and foreign.

Table 7 The percentage of Jordan Islamic Bank shareholders, local and foreign¹⁰

Local/Foreign Shareholders	The percentage of shareholders
Foreign shareholders	68.122%
Local shareholders	8.414%

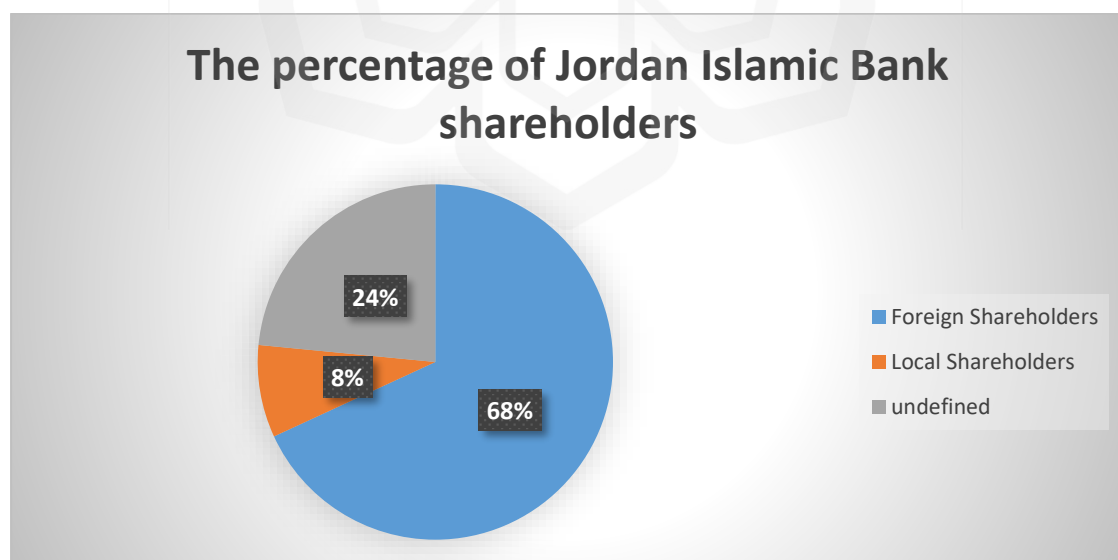


Figure 11 The percentage of Jordan Islamic Bank shareholders, local and foreign

¹⁰ - The information is taken by (Jordan Islamic Bank, 2020b).

The total assets reached around JD 5,427 million, including off-balance sheet items in 2020, compared to JD 4,970 million, including off-balance sheet items, in 2019. The total assets were JD 2,858 million at the end of 2010. (Jordan Islamic Bank, 2020b).

Figure 12 summarizes the total assets of Jordan Islamic Bank from 2011 to 2019.



Figure 12 Total assets of Jordan Islamic Bank from 2011 to 2019

Source: Jordan Islamic Bank

Jordan Islamic Bank has a three-member team of the Sharī'ah Supervisory Board (Jordan Islamic Bank, 2020b, 2021c). It plays a crucial role in ensuring that the bank's operations adhere to Islamic principles and guidelines.

2.2.4 Islamic Banks in Algeria

Algeria has two Islamic banks, AL-Baraka Bank and Al Salam Bank, along with two Islamic banking windows, Algerian Gulf Bank (AGB) and Trust Bank. The number of Islamic bank branches in Algeria increased from 20 in 2007 to 50 in 2019. The total assets of Islamic banks in Algeria in 2019 were US\$1 billion, representing 2% of the market share. (IRTI, 2021). Table 8 and Figures 13 and 14 summarize the growth of Islamic banks in Algeria, showing the increase in the number of branches from 2007 to 2019 and detailing the total assets and market share in 2019.

Table 8 Islamic Banks in Algeria

Algerian Islamic Banks	Type
AL-Baraka Bank	Full-fledged
Al Salam Bank	Full-fledged

Algerian Gulf Bank (AGB)	Window
Trust Bank	Window

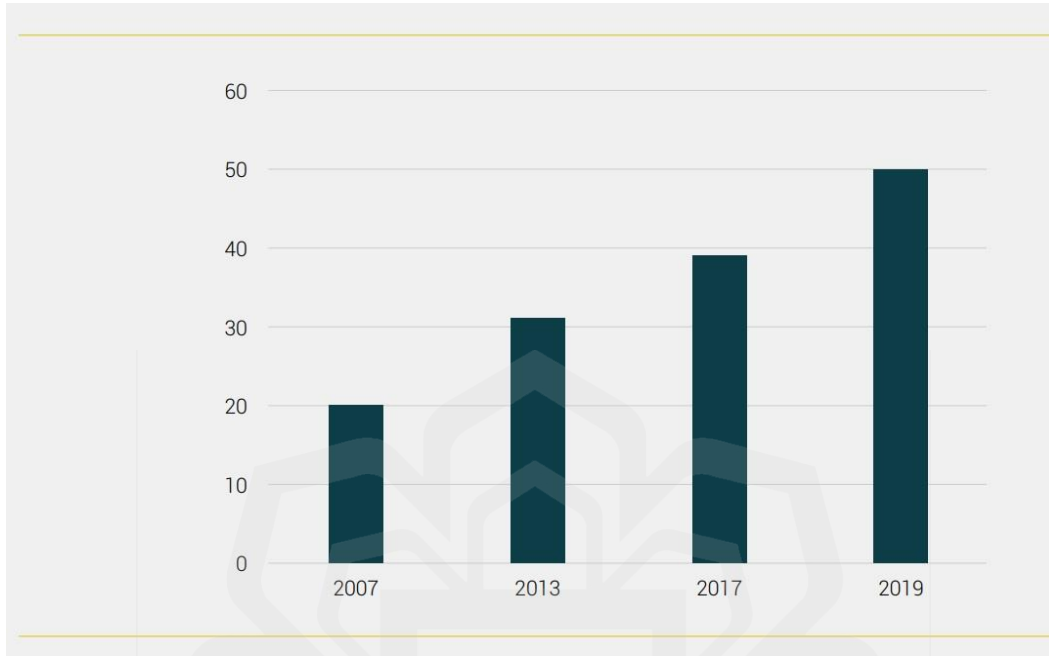


Figure 13 Growth of the number of Islamic bank branches in Algeria between 2007 and 2019

Source: IRTI



Figure 14 Key of Algerian Islamic Banking in 2019

Source: IRTI

2.2.4.1 AL-Baraka Bank in Algeria

AL-Baraka Bank of Algeria is a member of the AL-Baraka Banking Group. It is the first bank with mixed capital (both public and private), established on 20th May 1991 with a capital of 500,000,000 Algerian Dinar (DZD). It began its operations in September 1991 under the framework of Law No. 11-03 of 26th September 2003 and operates under a commercial banking license issued by the Bank of Algeria. The bank has 31 branches. It has the right to engage in all banking operations, including financing and investments, following the principles of Islamic Sharia. (Al Baraka Banking Group, 2020; Al Barakah Bank, 2016, 2021a).

AL-Baraka Bank of Algeria has two shareholders: AL-Baraka Banking Group (Bahrain) and the Bank for Agriculture and Rural Development (Algeria), with 55.90% and 44.10% ownership, respectively. The capital has increased several times: the first stage was in 2006, with an increase of 2.5 billion DZD. In 2009, there was a second capital increase to 10 billion DZD. The third increase occurred in 2017, bringing the capital to 15 billion DZD, approximately 20% of the AL-Baraka Banking Group's capital. The bank also has 31 branches distributed throughout Algeria. The total assets of the bank at the end of 2020 were DZD 262.2 billion, approximately USD 1.99 billion, constituting around 7% of the AL-Baraka Banking Group's assets (Al Baraka Banking Group, 2020; Al Barakah Bank, 2016, 2021a).

AL-Baraka Bank of Algeria uses several financing formulas, including Ijārah, Murābahah, Mushārahah, Istiṣnā', and Salam (Al Barakah Bank, 2021c). The total financing and deposits of AL-Baraka Bank increased between 2012 and 2017 (IRTI, 2021). Table 9 and Figures 15 to 19 summarize AL-Baraka Bank's capital, shareholder assets, and financing and deposit figures for AL-Baraka Bank of Algeria.

Table 9 AL-Baraka Bank's capital increase

AL-Baraka Bank's Capital	
Years	Amount
1991	500,000,000
2006	2,500,000,000
2009	10,000,000,000
2017	15,000,000,000

Source: Author's illustration

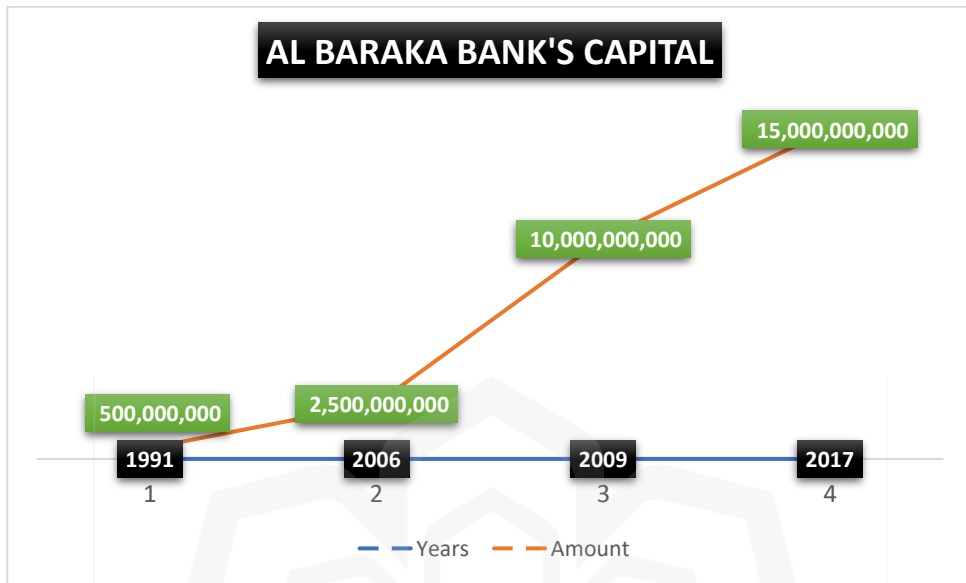


Figure 15 AL-Baraka Bank's capital

Source: Author's illustration

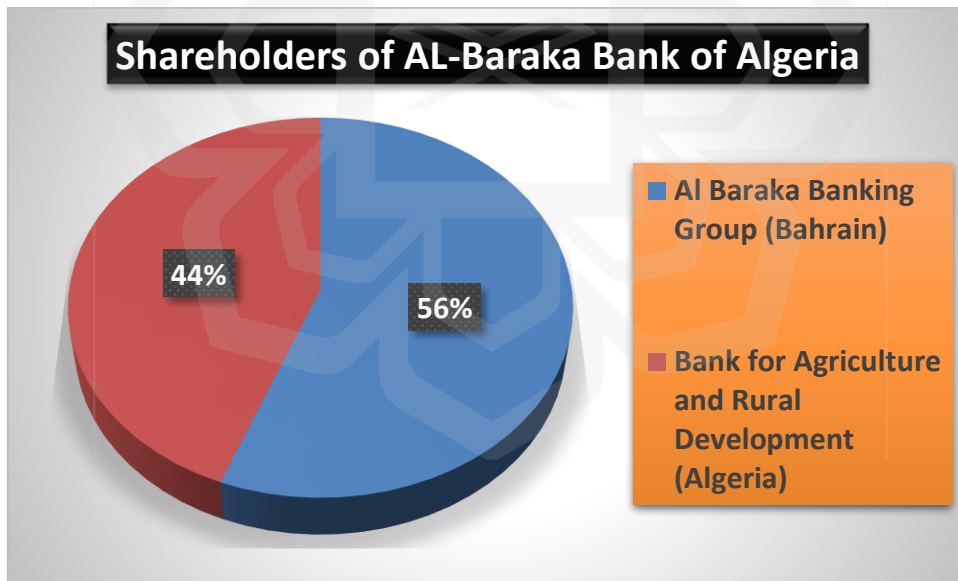


Figure 16 Shareholders of AL-Baraka Bank of Algeria

Source: Author's illustration

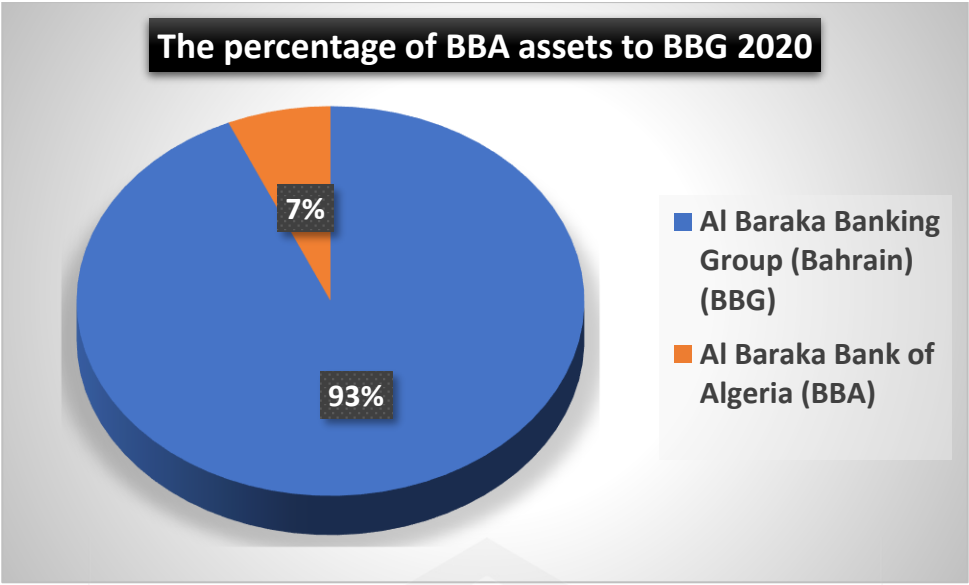


Figure 17 The percentage of BBA assets to BBG 2020

Source: Author's illustration

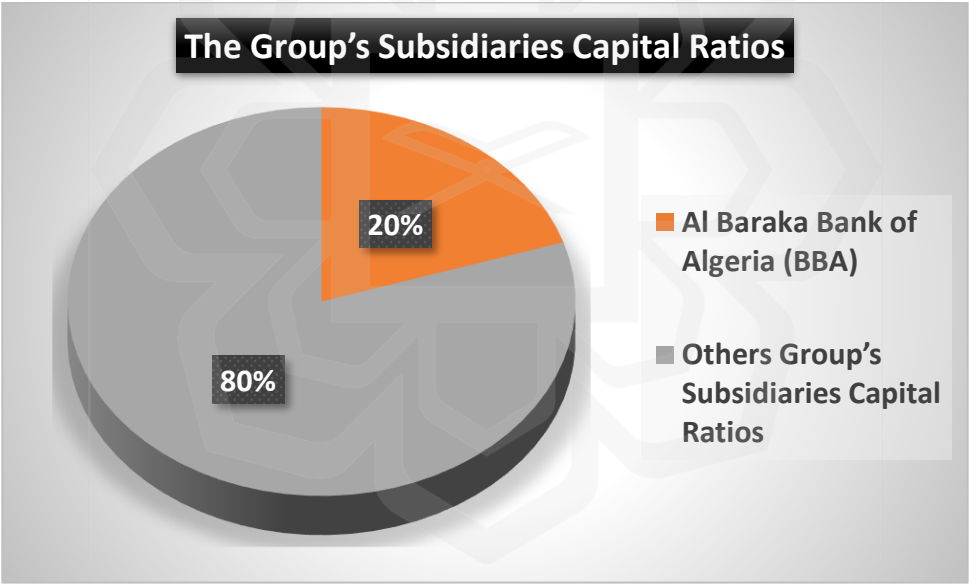


Figure 18 The Group's Subsidiaries Capital Ratios

Source: Author's illustration

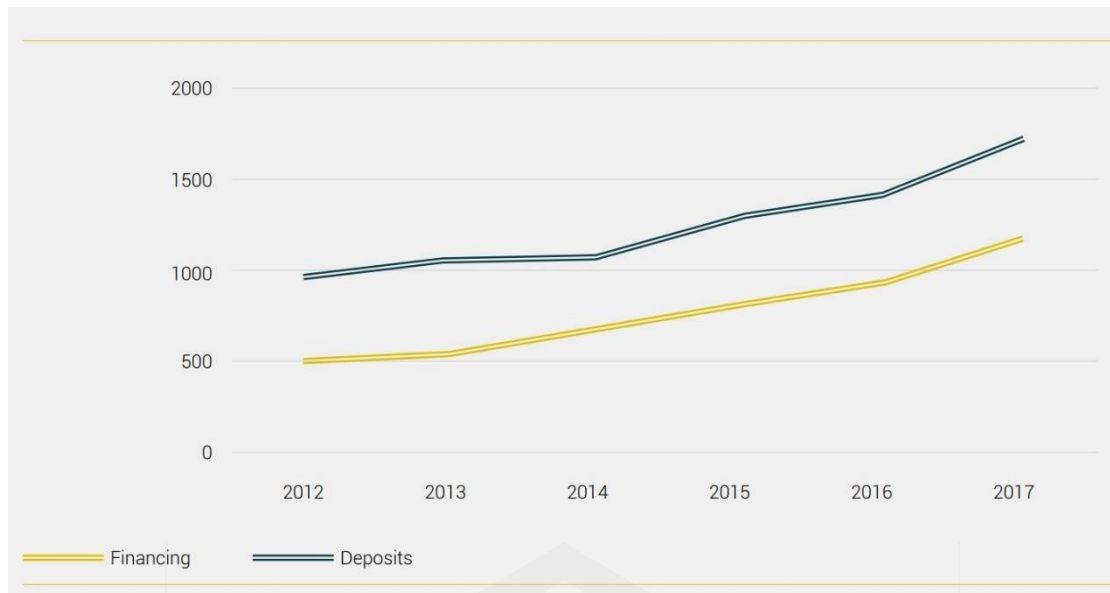


Figure 19 AL-Baraka Bank Algeria evolution of total financing and deposits between 2012-2017 (in US\$ million)

Source: IRTI

AL-Baraka Bank of Algeria has a five-member Sharī'ah Supervisory Board. They are scholars of Islamic jurisprudence who specialise in financial and economic transactions and possess educational qualifications, the necessary experience, and a good reputation in the field of compliance with the provisions of Islamic Sharī'ah (Al Barakah Bank, 2021d).

2.2.5 Islamic Banks in Malaysia

The Islamic finance industry has existed for over 30 years in Malaysia, providing the country with a solid financial foundation that adds to the financial system's richness, diversity, and maturity. The enactment of the Islamic Banking Act of 1983 enabled Malaysia to establish its first Islamic bank. More Islamic financial institutions have been established with the liberalisation of the Islamic financial system. Islamic finance continues to rise rapidly in Malaysia, supported by a conducive environment that fosters continuous product innovation, a diversity of financial institutions worldwide, a broad range of innovative Islamic investment instruments, comprehensive financial

infrastructure, and the adoption of global best practices, regulatory measures, and legal frameworks. Malaysia has also emphasized human capital development and the growth of the Islamic financial industry to ensure a steady supply of Islamic finance talent. These value propositions have transformed Malaysia into one of the most developed Islamic banking markets globally (Bank Negara Malaysia, 2021).

Malaysia currently has many full-fledged Islamic banks, including several foreign-owned entities, conventional institutions that have established Islamic subsidiaries, and entities conducting foreign currency businesses. All financial institutions are permitted to conduct both ringgit and non-ringgit businesses. The Islamic banking system refers to Shari'ah compliance, also known as Shari'ah law. The underlying principles that govern Islamic banking are mutual risk and profit-sharing between parties, assurance of fairness for all, and transactions based on underlying business activity or assets (Bank Negara Malaysia, 2021).

In 2019, Malaysia was the second-highest country in terms of Islamic finance assets relative to gross domestic product (GDP), with 53%. Malaysia also ranked third in Islamic finance and Islamic banking assets, with USD 570 billion and USD 297 billion, respectively, and had a total of 36 Islamic banks, including those with Islamic windows (ICD and REFINITIV, 2020). In 2019, Malaysia's Islamic banking assets reached USD 254 billion, with total funds placed with Islamic banks representing 38.0% of total banking sector deposits (Bank Negara Malaysia, 2019)

The tables provided show information on the ownership of Islamic banks in Malaysia. The table is divided into three columns: Ownership type, number of Islamic Banks, and percentage. Eleven Islamic banks in Malaysia are locally owned, representing 69% of the country's total number of Islamic banks. Five Islamic banks in Malaysia are foreign-owned, representing 31% of the country's total number of Islamic banks. In total, there are sixteen Islamic banks in Malaysia, with 100% of them being either locally or foreign-owned. Overall, the tables show that the majority of the Islamic banks in Malaysia are locally owned, with 69% of the total number of Islamic banks being locally owned. A minority of Islamic banks, 31%, are foreign-owned. This indicates that Malaysia's Islamic banking industry is strong. Tables 10 and 11 and Figure 20 summarize ownership of the Islamic Banks in Malaysia.

Table 10 Islamic Banks in Malaysia¹¹

No.	Name	Ownership
		Local (L) / Foreign (F)
1	Affin Islamic Bank Berhad	L
2	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	F
3	Alliance Islamic Bank Berhad	L
4	AmBank Islamic Berhad	L
5	Bank Islam Malaysia Berhad	L
6	Bank Muamalat Malaysia Berhad	L
7	CIMB Islamic Bank Berhad	L
8	Hong Leong Islamic Bank Berhad	L
9	HSBC Amanah Malaysia Berhad	F
10	Kuwait Finance House (Malaysia) Berhad	F
11	Maybank Islamic Berhad	L
12	MBSB Bank Berhad	L
13	OCBC Al-Amin Bank Berhad	F
14	Public Islamic Bank Berhad	L
15	RHB Islamic Bank Berhad	L
16	Standard Chartered Saadiq Berhad	F

Table 11 Ownership of the Islamic Banks in Malaysia¹²

Ownership of the Islamic Banks in Malaysia		
Ownership type	Number of the Islamic Banks	The Percentage
Local (L)	11	69%
Foreign (F)	5	31%
Total	16	100%

¹¹ - The data is taken by (Malaysia Bank Negara, 2021).

¹² - The data is taken by (Malaysia Bank Negara, 2021).

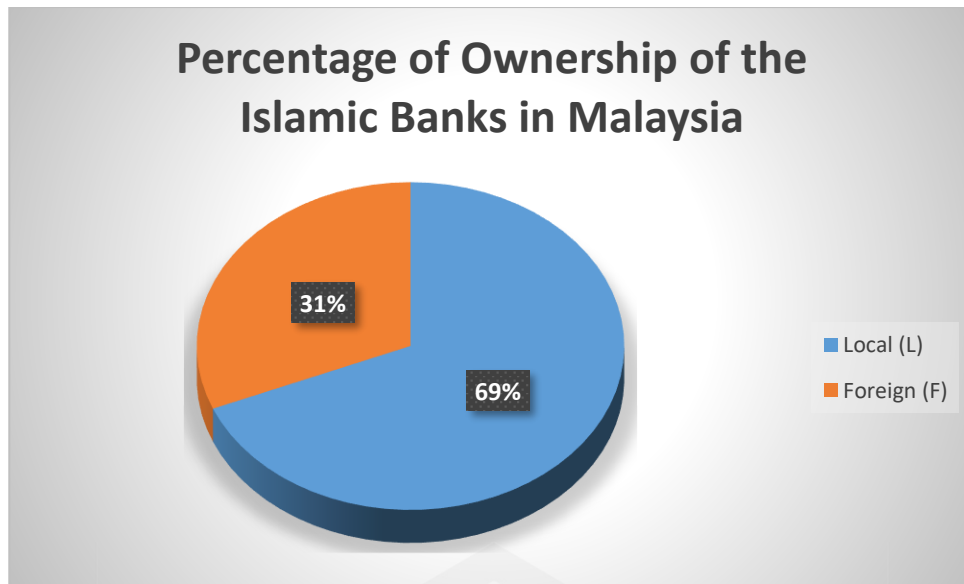


Figure 20 Percentage of the Ownership of Islamic Banks in Malaysia

Source: Author's illustration

2.2.5.1 Kuwait Finance House (Malaysia) In Malaysia

Kuwait Finance House (Malaysia) Berhad (KFH Malaysia) is the first foreign Islamic bank that was granted a license under the Islamic Banking Act (Malaysia) 1983 on May 8, 2005. KFH Malaysia commenced branch operations on August 8, 2005. KFH Malaysia commenced Branch Operations on the 8th of August 2005. KFH Malaysia is a subsidiary of Kuwait Finance House (KFH) in Kuwait. Its establishment was the result of Bank Negara Malaysia's (BNM's) decision to open the country's Islamic banking industry to qualified foreign players, as recommended in its Financial Sector Master Plan (Kuwait Finance House (Kuwait Finance House (Malaysia), 2021a).

By 2020, the bank's capital had increased to 1,425 million MYR. At the end of 2020, the bank's total assets were around 8.5 billion MYR (Kuwait Finance House (Malaysia), 2020; Kuwait Finance House, 2021).

Kuwait Finance House (Malaysia) has four members on its Shari'ah Supervisory Board, with one serving as chairman (Kuwait Finance House (Malaysia), 2021b). Shari'ah Supervisory Boards play a critical role in Islamic banks by ensuring compliance with Shari'ah. These boards consist of scholars and experts who are well-versed in Islamic jurisprudence, providing guidance and oversight to ensure that financial products and transactions meet the principles of Shari'ah.

This part has provided an overview of Islamic banking within OIC countries, delving into the historical evolution and the current landscape of Islamic banking institutions. This part traced the rich history of Islamic banking, underscoring its growth from its conceptual inception to its establishment as a prominent financial sector in OIC countries. The birth of Islamic banking can be traced back to the twentieth century when the need for liberation movements gave a distinct form to Islamic thought worldwide. The development of Islamic banking can be divided into two stages: the foundation stage from 1965 to 1976 and the propagation stage from 1977 to the present. The foundation stage saw tremendous development at the level of thought and application, with scholars writing several studies in banking with non-interest and the establishment of institutions such as Nasser Social Bank in Egypt, Islamic Development Bank and the Islamic Dubai Bank in 1975. The propagation stage has seen a significant growth in the number of Islamic Banks, with global Islamic Finance assets distribution divided into five sectors, with Islamic banking making up 69% of the distribution, and the number of institutions' instruments was 526 in 74 countries involved in 2019.

The part explores specific Islamic Banks in specific countries, such as Saba Islamic Bank in Yemen, Bank Aljazira in Saudi Arabia, Jordan Islamic Bank in Jordan, AL-Baraka Bank in Algeria, and Kuwait Finance House (Malaysia) in Malaysia. These banks were established between 1991 and 2005 as Islamic banks.

2.3 QARD

This section explores the fundamental aspects of *Qard*, beginning with its definition, followed by a detailed examination of its essential pillars (*Arkan*), conditions, and spiritual rewards. Additionally, we will address the concept of excess benefit in *Qard*, shedding light on its implications and how it aligns with Islamic principles.

2.3.1 Qard Definition

Many scholars have defined *Qard* literally, technically, juristically, theoretically, and practically. **Literally**, *Qard* means cutting off a part of someone's asset (ISRA, 2016). Juristically, *Qard* is defined as titling something for others, provided that it is returned without interest (Alzuhaili, 2006). **Technically**, "*Qard* is the transfer of ownership in

fungible wealth to a person on whom it is binding to return wealth similar to it.” (AAOIFI, 2017, p.518). According to ISRA (2010, p.145), “Jurists define it as paying money to help someone who, after benefiting from it, will return the same amount. It is a type of *Salaf*. Some said: transferring possession of fungible wealth to someone who is required to pay back its equivalent. Its legality is established by the Qur’an, the Sunnah and the consensus of jurists”. (Islamic Financial Services Board, 2019) defined it as “The payment of money to someone who will benefit from it provided that its equivalent is repaid. The repayment of the money is due at any point in time, even if it is deferred”. According to (Bank Negara Malaysia, 2005, 2018), “in its 51st meeting held on 28th July 2005/ 21st Jamadil Akhir 1426 resolved that the word “Hasan” should be taken out after the word *Qardh* implying that *Qardh* is an obligation for borrowers to pay back their loan to lenders”.

To summarize the definitions of *Qard*, the study can conclude that it is a financial concept rooted in Islamic concepts, denoting the transfer of ownership in fungible wealth to a person with the obligation to return wealth of similar type and amount. Its basis is in Islamic principles, with supporting references from the Sunnah and consensus among jurists. While it was conceptually referred to as *Qard al-Hasan*, emphasizing a benevolent loan, Bank Negara Malaysia and IFSB have moved towards simply using the term *Qard*, it is called *Qard*, without *al-Hasan*, by Bank Negara Malaysia and IFSB, signifying the same obligation for the borrower to repay the loan. Despite variations in technical definitions, the core concept of *Qard* remains consistent across sources, focusing on the mutual understanding of borrowing and repayment without interest.

2.3.2 The Pillars (Arkan)

According to the Ministry of Awqaf and Islamic Affairs Kuwait (2006), the majority of scholars opined that *Qard* comprises the three pillars of the loan contract:

1. The formula "which is the offer and acceptance."
2. The contracting parties (the lender and the borrower).
3. The loan amount.

2.3.3 Conditions of *Qarḍ*

Five summary conditions of *Qarḍ* are required for the *Qarḍ* to be valid (Alzuhaili, 1985, 2006):

1. The legal capacity of *Qarḍ* contract: The borrower and the lender must attain puberty or legal age and have a mental capacity, which makes them eligible to give charity.
2. *Qarḍ* must be concluded using the appropriate language of offer and acceptance or their equivalents.
3. The amount of the *Qarḍ* must be known; the Ḥanfis required that *Qarḍ* must be Mithli (fungible), while the majority of jurists think that any property is valid, including cash, grains, values of animals and real estate, etc.
4. *Qabḍ* (receipt) is required.
5. The *Qarḍ* does not bring a worldly benefit to the lender other than the reward from Allah (SWT).

2.3.4 The Ruling (*Al-Hukm*) of the *Qarḍ*

The ruling on *Qarḍ* - for both the lender and the borrower - falls under the five categories of legal rulings in Islamic jurisprudence, which are: obligatory (*Wajib*), recommended (*Mandub*), permissible (*Mubah*), disliked (*Makruh*), and prohibited (*Haram*). This ruling is determined based on the benefit or harm resulting from the *Qarḍ*. If it brings a necessary benefit, it is obligatory; if it brings a beneficial need, it is recommended; if it brings an improvement, it is permissible. However, if it results in harm, it may be disliked or prohibited, depending on the degree of harm (Alhaj, 2008). The explanation of this is as follows:

2.3.5 Types of *Qarḍ*

This part explores the various *Qarḍ* in terms of *al- Hukm*, aiming to identify the types most suitable for developing *Qarḍ* financing for Islamic banks. This financing is intended as a socially responsible instrument to empower the poor and benefit society. *Qarḍ* can be classified into two types, usage in terms (which will be further discussed in the types of *Qarḍ*) and types in terms of *al- Hukm* (the juristic opinion) as follows:

2.3.5.1 Types of Qarḍ In Terms of Al-Hukm (The Juristic Opinion)

Qarḍ is categorized into five types in terms of *Alhukm* revolve around the five mandatory jurisprudential rulings concerning the lender and the borrower, which are *Alwujub* (obligatory), *Alnadab* (desirable), *Al'ibaha* (permissible), *Alkaraha* (reprehensible), and borrower *Altahrim* (forbidden) as follows:

2.3.5.1.1 Obligatory (Alwujub)

If the indigent needs money to meet necessary expenses, *Qarḍ* is a valid option for the borrower (Alshatibi, 1990) (Alhaj, 2008). If the lender is wealthy and can rescue people in need, *Qarḍ* becomes almost obligatory (Ibn Qudamah, 1968) (Alhaj, 2008).

2.3.5.1.2 Desirable (Alnadab)

If the *Qarḍ* is for general needs, the borrower should seek *Qarḍ al-Ḥasan* (Aljanadi, 1996). For the lender, it is desirable because it will alleviate the distress of the needy (Ibn Qudamah, 1968). *Qarḍ* for general needs may be suitable for Islamic banks as a socially responsible instrument to empower people experiencing poverty.

2.3.5.1.3 Permissible (Al'ibaha)

When the *Qarḍ* is for an economic improvement such as increasing capital, requesting a profit, or for the purpose of production, it is considered permissible *Qarḍ* (Alhaj, 2008). Permissible *Qarḍ* is suitable for Islamic banks as a socially responsible instrument to empower people's economic well-being.

2.3.5.1.4 Reprehensible (Alkaraha)

If the borrower intends to use *Qarḍ* for something wrong or an unnecessary need or if it might be used for something prohibited, the *Qarḍ* becomes disliked by the borrower (Alhaitmi Ibin Hajar & Alsharwani, n.d.) (Alhaj, 2008). For the lender, the *Qarḍ* becomes reprehensible because the lender knows that the *Qarḍ* might be used for something wrong, an unnecessary need, or prohibited (Albakri, n.d.) (Alhaj, 2008).

2.3.5.1.5 *Forbidden (Altahrim)*

If the borrower intends to use *Qard* for something prohibited, the *Qard* is forbidden for the borrower (Ibn Qudamah, 1968) (Alhaitmi Ibin Hajar & Alsharwani, n.d.). Similarly, If the lender knows the *Qard* will be used for something prohibited, such as buying wine, it is also forbidden (Alhaj, 2008) (Albakri, n.d.). In such cases, the *Qard* should not be granted.

Furthermore, the distinction between "forbidden" (*Altahrim*) and "reprehensible" (*Alkaraha*) lies in the severity of prohibition. Reprehensible *Qard* involves actions that are morally disapproved but not outright sinful, such as unnecessary or frivolous uses that are discouraged. Forbidden *Qard*, however, involves actions explicitly prohibited by Islamic law, like buying alcohol or gambling, making both lending and borrowing sinful and strictly prohibited. This clear demarcation highlights the varying degrees of moral and legal implications in Islamic jurisprudence regarding *Qard*. Figure 21 illustrates *that Qard* and its Maslaha and Mafsadah are sourced from (Zain & Engku Ali, 2017).



THE RELATIONSHIP BETWEEN *QARD* AND ITS MASLAHA AND
MAFSADAH IN TERMS OF AL-HUKM

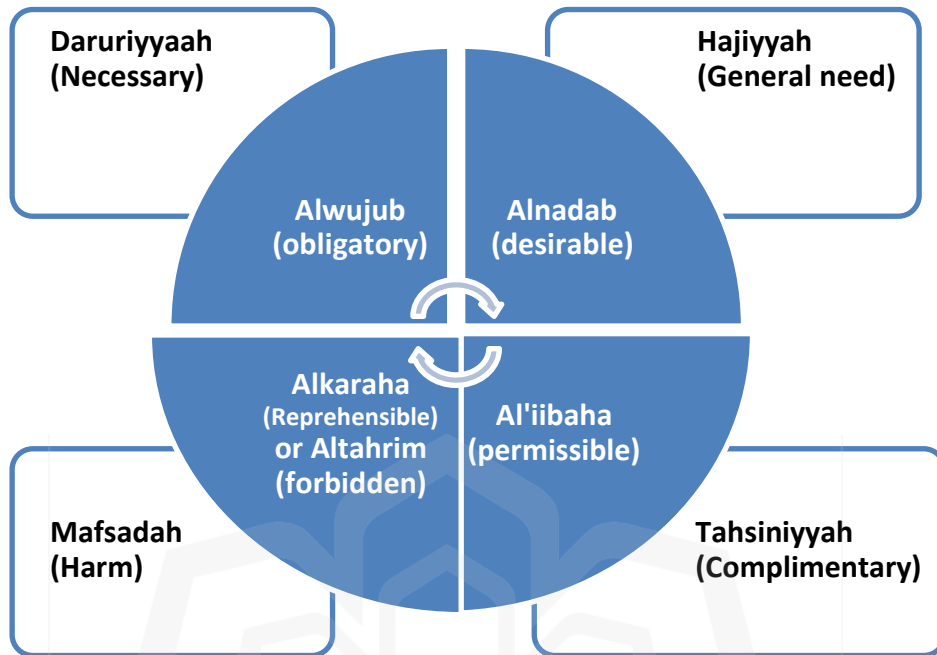


Figure 21 *Qard* and its *Maslahah* and *Mafsadah*

Source: Zain & Engku Ali

In conclusion, the different types of *Qard* in terms of Al-Hukm reflect varying levels of permissibility and moral guidance in Islamic jurisprudence. From the obligatory (Alwujub) type, where lending becomes a duty to help those in dire need, to desirable (Alnadab), encouraging support to alleviate hardship, Islamic loans are shaped by ethical considerations. Permissible (Al'iibaha) signifies economic development, allowing borrowers to use funds for capital growth and production. Reprehensible (Alkaraha) arises when loans are used for questionable or non-essential purposes, signalling caution. Finally, forbidden (Altahrim) indicates that lending for unlawful or prohibited activities is strictly off-limits. This framework helps ensure that Islamic financial transactions align with ethical principles and societal welfare.

2.3.6 *Qard* Reward

Many Hadiths have compared *Qard* and charity and highlighted the distinct for *Qard* reward. Also, in the study of Hadiths, there is a notable distinction between the rewards

associated with giving charity (Ṣadaqah) and offering a loan (*Qarḍ*). It was narrated from Anas bin Malik that the Messenger of Allāh (ﷺ) said:

"رَأَيْتُ لَيْلَةَ أُسْرِي بِي عَلَى بَابِ الْجَنَّةِ مَكْتُوبًا الصَّدَقَةُ بِعَشْرٍ أَمْثَالِهَا وَالْقَرْضُ بِثَمَانِيَةِ عَشْرٍ. فَقُلْتُ يَا جِبْرِيْلُ مَا بَالُ الْقَرْضِ أَفْضَلُ مِنَ الصَّدَقَةِ. قَالَ لِأَنَّ السَّائِلَ يَسْأَلُ وَعِنْدَهُ وَالْمُسْتَقْرَضُ لَا يَسْتَقْرَضُ إِلَّا مِنْ حَاجَةٍ"

“On the night on which I was taken on the Night Journey (*Isra*’), I saw written at the gate of Paradise: ‘Charity brings a tenfold reward, and a loan brings an eighteen fold reward.’ I said: ‘O Jibril! Why is a loan better than charity?’ He said: ‘Because the beggar asks when he has something, but the one who asks for the loan does so only because he is in need.’” (Ibn Majah, n.d.). Additionally, another Hadith narrated by Qais bin Rumi said:

{مَا مِنْ مُسْلِمٍ يُقْرِضُ مُسْلِمًا قَرْضًا مَرَّتَيْنِ إِلَّا كَانَ كَصَدَقَتِهَا مَرَّةً}

The Prophet (ﷺ) said: “There is no Muslim who lends something to another Muslim twice, but it will be like giving charity once.” (Ibn Majah, n.d.).

These Hadiths underscore the great rewards associated with both charity and lending in Islam, emphasizing the importance of assisting those in need through various means.

2.3.7 The Excess Benefit in *Qarḍ*

It is narrated by ‘Ali (RA) that the Prophet (ﷺ) said:

{كُلُّ قَرْضٍ جَرٌّ مَنْفَعَةٌ, فَهُوَ رَبًّا}

“Allāh’s Messenger (ﷺ) said: “Every loan, which leads to a benefit, is usury” (Ibn hajar alasqalani, n.d.). The excess benefit in *Qarḍ* has several types such as the excess benefit stipulated in the *Qarḍ* contract, the excess benefit not stipulated in the contract, the stipulation of a period in *Qarḍ*, the stipulation of a contract in *Qarḍ*, and the stipulation of a reward for raising loans for another and service charges for *Qarḍ*.

2.3.7.1.1 Rules for Excess Benefit Stipulated and Unstipulated in the *Qarḍ* Contract:

In Islamic finance, the *Qarḍ* contract represents a loan agreement emphasizing fairness and the prohibition of any form of interest or ribā. This foundational principle ensures that the lender does not benefit from any additional amount, quality, or service beyond

the original loan, regardless of whether the benefit is stipulated in the contract or implied through customary practices. The rules for Excess Benefit Stipulated and Unstipulated in the *Qard* Contract are as follows:

1. Prohibiting the inclusion of any additional amount for the lender in a *Qard* is a strict rule, and such an addition constitutes *Ribā*. This applies regardless of whether the surplus is related to quality or quantity and whether it's a tangible item or a form of benefit. This prohibition extends to instances where the excess is stated during the contract while establishing the period of delay for repayment or within the delay period itself. Additionally, this prohibition encompasses both written stipulations and customary practices. The borrower cannot provide physical assets or offer advantages to the lender throughout the *Qard* period unless this practice predates the *Qard* agreement. However, surpassing the *Qard* amount is acceptable in terms of quantity or quality, including the provision of assets or benefits, during the repayment period when not explicitly agreed upon or part of established custom, regardless of whether the *Qard* involves money or goods. (AAOIFI, 2017). A borrower is permitted to return the loan with an additional amount or in better quality. This is recommended (Abozaid & Saleem, 2013b). It was narrated from Abu Hurairah (Allah be pleased with him) that the Prophet (ﷺ) said:

“There came a person demanding a camel from Allah's Messenger (ﷺ). He (the Holy Prophet) said: Give him (the camel) of that age or of more mature age, and said: Best among you is one who is best in clearing off the debt.” (Sahih Muslim 1601c).

2. It is allowed to specify a location for repaying *Qard* other than the place of its origination (AAOIFI, 2017).

2.3.7.1.2 Service Charges for Qard:

According to the AAOIFI Standard, A lending institution is allowed to charge for services provided in loans, limited to the actual amount directly spent on these services. However, charging an amount exceeding this service fee is not permitted. Any charges beyond the actual expenses are forbidden, and it's crucial to accurately determine these charges to avoid an excessive amount that could be seen as a benefit. The general

principle is that each loan should carry its distinct charges, except in cases where this is impractical, such as with group or shared loans. In these instances, collective charges for all loans based on the total amount are acceptable. The method for determining charges should be established in detail by the Sharī'ah Supervisory Board of the institution. This involves distributing the incurred expenses among all loans, with each loan bearing its share proportionally. Such circumstances need to be presented to the Board with appropriate documentation. Indirect expenses, like employee salaries, space rentals, assets, transportation, and other general institution costs, are not considered as actual expenses related to *Qarḍ* services (AAOIFI, 2017). Therefore, a service charge for *Qarḍ* is permissible for Islamic banks, as it reflects the amount spent directly on that service.

2.3.7.1.3 Stipulation of a Period in Qarḍ:

Setting a duration for *Qarḍ* is allowed. Hence, the borrower isn't compelled to repay it before the designated term, nor can the lender request its return before that time. In the absence of a specified period, the borrower must return its equivalent (Badal) upon request (AAOIFI, 2017).

This part has provided an exploration of the conceptual framework of the literature review, focusing on the intricate dimensions of *Qarḍ* and *Qarḍ al-Ḥasan*, along with the theoretical underpinnings that underscore the necessity of a socially responsible *Qarḍ*. The part delved into the multifaceted aspects of *Qarḍ*, encompassing its definition, fundamental pillars, conditions, varied types, rewards, and the remarkable surplus benefits it offers. Furthermore, *Qarḍ al-Ḥasan* emerged as a key consideration, with its Sharī'ah perspective encompassing its definition, legality, and diverse utilization.

2.4 QARḌ AL-ḤASAN

Qarḍ al-Ḥasan, often known as "benevolent loan," is a form of interest-free lending in Islamic finance. It is rooted in Sharī'ah principles and is designed to support those in need without imposing financial burdens. This part explores the critical concepts related

to *Qarḍ al-Ḥasan*, including its definition and its legality, *Qarḍ al-Ḥasan* from a Sharī'ah perspective and its different types.

Qarḍ al-Ḥasan is one of the solutions to many financial problems, especially financing for SMEs and people in need. Mohsin & Alhabshi (2016) argued for the need to resurrect religious institutions such as *Qarḍ al-Ḥasan* and interest-free financial institutions to support poverty alleviation and eradicate Ribā from society morally and justly. Thus, forming a *Qarḍ al-Ḥasan* fund for the needy strengthens benevolent behaviour across societies. It adds to the financial products Islamic banks offer and promotes the profitability of their banking business through their efforts to reduce operational costs (Sadr, 2014). Improving operational efficiency in Islamic banks through lower default rates and simplified loan structures. While it does not generate direct profit, *Qarḍ al-Ḥasan* fosters financial discipline, attracts ethically minded customers, and creates opportunities for cross-selling other profitable products, thus contributing to the bank's financial sustainability.

In 2000, the Statistical Centre of Iran surveyed 1229 *Qarḍ al-Ḥasan* funds, significantly contributing to the financial sector's value-added in the Iranian economy by collecting small deposits and disbursing them to borrowers. These funds are predominantly small units serving local communities and complement banks and other formal institutions (Sadr, 2008). Monetary policies involving *Qarḍ al-Ḥasan* can boost the inflow of funds and foreign currency reserves with the central bank by increasing exportable surplus, leading to more exports and reduced imports. This policy also positively impacts the real sector of the economy, enhancing output and moving the economy towards full employment (Selim, 2019).

This part covers several sections, starting with *Qarḍ al-Ḥasan* from a Sharī'ah perspective, a definition of *Qarḍ al-Ḥasan*, the challenges associated with *Qarḍ al-Ḥasan*, and the sources of *Qarḍ al-Ḥasan* financing, which include *Zakāt*, *Waqf*, *Ṣadaqāt*, crowdfunding, and non-permissible earnings. It also explores *Qarḍ al-Ḥasan* applications in fintech and its impact on SMEs, and concludes with the societal impact of *Qarḍ al-Ḥasan* financing.

2.4.1 *Qarḍ al-Ḥasan* from A Sharī'ah Perspective

As a principle, Islam discourages borrowing money unless it is absolutely needed. However, the Sharī'ah encourages Muslims to engage in *Qarḍ al-Ḥasan* and strongly prohibits *Ribā* in all its forms. (Ismail & Possumah, 2010) explored how microfinance programmes could be based on *Qarḍ al-Ḥasan* financing mode. They found *Qarḍ al-Ḥasan* would potentially create problems, which may tarnish the image of the Islamic financial system if it is inappropriately used because *Qarḍ al-Ḥasan* is not intended to generate profit but is benevolent by nature. However, using this financing correctly matching to the Sharī'ah will undoubtedly benefit the contracting parties.

Islam attempts to establish justice and eliminate exploitation in society. It prevents the accumulation of wealth in the hands of a few people. Islam, therefore, prohibits *ribā* as it is the root of all injustice in human society. *Qarḍ al-Ḥasan*, on the contrary, being an interest-free loan for humanitarian and welfare purposes, may ensure the proper movement of wealth among all classes of people in society. That is why the Quran and the Sunnah appreciated and encouraged the implementation of *al-Qarḍ al-Ḥasan* in a Muslim society (Ismail & Possumah, 2010).

In summary, while Islam discourages unnecessary borrowing, it encourages the use of *Qarḍ* as a compassionate, interest-free financing method for those in need. Though not without potential challenges, when applied in accordance with Sharī'ah principles, *Qarḍ* can promote social justice and equitable distribution of wealth. Its role in fostering financial inclusivity and community welfare aligns with the fundamental teachings of the Quran and the Sunnah, advocating for a just and fair society. The grounding for *Qarḍ* theory can be traced to the Sunnah of the Holy Prophet (ﷺ), and *Ijmā'*.

2.4.1.1 *Qarḍ al-Ḥasan* and *Maqāṣid al-Sharī'ah*

Maqāṣid Al-Sharī'ah refers to “the goals that the Sharī'ah was designed to achieve for the benefit of the people” (AlRaisouni, 1995). Islamic social finance operates within the framework of *Maqāṣid al-Sharī'ah*, which includes six fundamental objectives crucial for human existence and preservation. These objectives are the preservation of *Al-Deen* (religion), *Al-Nafs* (life), *Al-Nasl* (progeny), *Al-Aql* (intellect), *Al-Maal* (property) and *Al-Ardh'* (honour). Islamic social finance and its instruments can protect these six essential matters. For instance, *Qarḍ al-Ḥasan* protects and preserves *Al-Maal*

(property) and *Al-Nafs* (life) by generating business and employment opportunities. Simultaneously, it can safeguard Al-deen (religion), where Islam is a comprehensive religion that provides a comprehensive mechanism for securing the Maqāsid Al-Sharī'ah and the interests or good (*Maslahah*) can be preserved in the society. The relationship between Islamic social finance and Maqāsid al-Sharī'ah was examined by (Zain & Engku Ali, 2017).

In summary, Islamic social finance, exemplified by instruments like *Qard*, plays a significant role in supporting the Maqāsid al-Sharī'ah, contributing to the preservation of key aspects such as property, life, and religion. Aligning with these fundamental goals, it not only fosters economic opportunities but also upholds Islamic teachings' broader ethical and moral objectives. This synergy underscores the potential of Islamic finance to drive both social welfare and religious values.

2.4.2 *Qard al-Hasan* Definition

Qard al-Hasan (interest-free loan) is defined as “a loan given from *halāl* money without injury to the recipient, without reminding him that a favour is being done to him, and without resulting in usury” (Qamus, n.d.) as cited in (ISRA, 2010, p.145). (AAOIFI, 2015a, p.998) defines *Qard al-Hasan* as “a non-interest bearing loan intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the period.” The definition of *Qard al-Hasan* by Qamus, as cited in ISRA, emphasizes that the loan must come from *halāl* money, not harm the recipient, and avoid reminding them of the favour, in addition to being interest-free. In contrast, the AAOIFI definition focuses more narrowly on the non-interest-bearing loan and the requirement that the same amount be repaid after a certain period. The key difference lies in the additional ethical considerations highlighted by Qamus, as cited in ISRA, regarding the source of funds and the lender's conduct, whereas AAOIFI emphasizes the financial transaction's interest-free nature and repayment terms. *Qard al-Hasan* is one of *'Uqūd al-Irfāq*, benefiting contracts. (ISRA, 2010) defines *al-Irfāq*, literally; to benefit someone; technically, (*'Uqūd al-Irfāq*) are "contracts intended to benefit one party of the contract, like *Qard*."

The term "*Qard al-Hasan*" appears in several verses of the Qur'an, where it is interpreted by many scholars, including Ibn Kathir, Al-Sa'di, Al-Zuhayli, and Al-

Sabuni, as referring to acts of charitable giving (*al-Infāq*) rather than loans. Despite this interpretation, Islamic banks such as Saba Islamic Bank, Bank Aljazira, Al-Baraka Bank, and Jordan Islamic Bank have adopted the term "*Qard al-Hasan*" to describe interest-free loans. This positive adaptation by Islamic banks highlights their commitment to aligning financial practices with the ethical and charitable principles emphasized in the Qur'an, promoting a more socially responsible approach to finance.

Qard al-Hasan is mentioned six times in Quranic verses in different surahs. In Surat Al-Baqarah, Allâh the exalted says:

﴿مَنْ ذَا الَّذِي يُقْرِضُ اللَّهَ قَرْضًا حَسَنًا فَيُضْعِفُهُ لَهُ وَأُضْعَافًا كَثِيرَةً﴾ [البقرة: ٢٤٥]

“Who is he that will lend Allâh a goodly loan so that He may multiply it to him many times? And it is Allâh that decreases or increases (your provisions), and to Him you shall return” (The Qur’an, Al-Baqarah: 245). In surah Al-Ma’idah, Allâh the exalted says:

﴿مَنْ ذَا الَّذِي يُقْرِضُ اللَّهَ قَرْضًا حَسَنًا فَيُضْعِفُهُ لَهُ وَ لَهُ أَجْرٌ كَرِيمٌ﴾ [الحديد: ١١]

“Who is he that will lend Allâh a goodly loan: then (Allâh) will increase it manifold to his credit (in repaying), and he will have (besides) a good reward (i.e. Paradise)?” (The Qur’an, Al-Hadid: 11). In Surah Al-Ma’idah, Allâh the exalted says:

﴿وَأَقْرَضْتُمُ اللَّهَ قَرْضًا حَسَنًا﴾ [المائدة: ١٢]

“And lend a good loan to Allâh, verily, I will expiate your sins and admit you to Gardens under which rivers flow (in Paradise). But if any of you after this, disbelieved, he has indeed gone astray from the Straight Path” (The Qur’an, Al-Ma’idah: 12).

Also, in Surah Al-Hadid, Allâh the exalted says:

﴿..... وَأَقْرَضُوا اللَّهَ قَرْضًا حَسَنًا يُضْعَفُ لَهُمْ وَلَهُمْ أَجْرٌ كَرِيمٌ﴾ [الحديد: ١٨]

“Verily, those who give Sadaqât (i.e. Zakât and alms), men and women, and lend Allah a goodly loan, it shall be increased manifold (to their credit), and theirs shall be an

honourable good reward (i.e. Paradise)” (The Qur’an, Al-Hadid: 18). Moreover, in Surah Al- Tagabun and Muzzammil, Allah the exalted says:

﴿إِن تُقْرِضُوا اللَّهَ قَرْضًا حَسَنًا يُّضْعِفْهُ لَكُمْ﴾ [التَّغَابُن: ١٧]

“If you lend Allah a goodly loan (i.e. spend in Allah’s Cause), He will double it for you, and will forgive you. And Allah is Most Ready to appreciate and to reward, Most Forbearing” (The Qur’an, At-Tagabun: 17).

﴿وَأَقْرِضُوا اللَّهَ قَرْضًا حَسَنًا﴾ [المُرَزَّل: ٢٠]

“And lend Allah a goodly loan. And whatever good you send before you for yourselves (i.e. Nawâfil non-obligatory acts of worship: prayers, charity, fasting, hajj and ‘umrah), you will certainly find it with Allah, better and greater in reward. And seek Forgiveness of Allah. Verily, Allah is Of Forgiving, Most Merciful (1)” (The Qur’an, Al-Muzzammil: 20).

Qard al-Hasan, as defined by Islamic teachings, represents a benevolent and altruistic form of financial assistance that aligns with Sharī’ah principles. It emphasizes mutual benefit without interest or exploitation, providing a framework for compassionate lending within Islamic teachings. **The researcher** deduces from the previous definitions that “*Qard al-Hasan* is a loan given in compliance with the Sharī’ah.”

2.4.3 Legality of the *Qard al-Hasan*

The legality of *Qard al-Hasan* can be evident from the Sunnah, consensus (Ijmā’), and the need for it. It is supported by the Sunnah. It was narrated from Anas bin Malik that the Messenger of Allah (ﷺ) said:

"رَأَيْتُ لَيْلَةَ أُسْرِي بِي عَلَى بَابِ الْجَنَّةِ مَكْتُوبًا الصَّدَقَةُ بِعَشْرِ أَمْثَالِهَا وَالْقَرْضُ بِثَمَانِيَةِ عَشْرٍ. فَقُلْتُ يَا

مَا بَالَ الْقَرْضِ أَفْضَلُ مِنَ الصَّدَقَةِ. قَالَ لَأَنَّ السَّائِلَ يَسْأَلُ وَعِنْدَهُ وَالْمُسْتَقْرِضُ لَا يَسْتَقْرِضُ إِلَّا

مِنْ حَاجَةٍ"

“On the night on which I was taken on the Night Journey (Isra), I saw written at the gate of Paradise: ‘Charity brings a tenfold reward, and a loan brings an eighteen-fold reward.’ I said: ‘O Jibril! Why is a loan better than charity?’ He said: ‘Because the beggar asks when he has something, but the one who asks for loan does so only because he is in need.’” (Ibn Majah, n.d.).

Similarly, Muslims have unanimously agreed upon the permissibility of *Qard* (Ibn Qudamah, 1968). The legality of *Qard al-Ḥasan* also extends to fulfilling people's needs in Islam (Abu Mounes, 2019).

The Sunnah clearly endorse *Qard al-Ḥasan*, highlighting its importance as an act of charity and goodwill. Consensus among Islamic scholars further solidifies its permissibility and significance in meeting community needs. By extending interest-free loans, Muslims fulfil a noble duty, earning substantial rewards in both this life and the hereafter.

2.4.4 Types of *Qard al-Ḥasan* in Terms of Usage

According to Al-Gharib (1996) divided *Qard al-Ḥasan* according to its purpose into social *Qard*, such as educational and marriage *Qard*, and productivity *Qard*, intended to promote productivity.

The concept of *Qard al-Ḥasan* encompasses a diverse range of applications, from personal and educational needs to business and housing. In terms of usage, there are several types of *Qard al-Ḥasan*, including personal, business, housing, Educational and so on. This versatility underscores its value in addressing various social and economic challenges, fostering both personal growth and community development.

2.4.5 QARD AL-ḤASAN CHALLENGES AND RISKS

Qard al-Ḥasan faces several challenges, such as the fact that it is a non-profit product, Sharī'ah compliance, lack of sources, absence of collateral, repayment risk and inflation. This section focuses on the literature that identifies the challenges facing *Qard al-Ḥasan*. Fatima et al. (2019) found that non-follow-up and weak project controls allowed the beneficiaries to change their activities and spend *Qard al-Ḥasan* on areas other than those initially agreed. This resulted in the impossibility of recovering *Qard al-Ḥasan*, which was estimated at 70% of the total of *Qard* in Satif, Algeria. This issue

led the Minister of Religious Affairs and *Waqf* to freeze *Qarḍ al-Ḥasan* through *Zakāt* until all funds granted were recovered.

Junaidi et al. (2017) highlighted that *Qarḍ al-Ḥasan* financing no longer receives the attention from Islamic banks as it once used to as a social function in the early establishment of Islamic banking. Similarly, Utomo et al. (2015) examined the financial factors that determine the growth of *Qarḍ al-Ḥasan* financing in Islamic banks in Indonesia. They found that Islamic banking products are primarily focused on programs that emphasize profit values.

Although the funds of the National Agency for Supporting Youth Employment are interest-free loans and thus can be considered *Qarḍ al-Ḥasan*, they are not granted under the framework of Islamic financing. Instead, they are more like social assistance from the state for young people in Algeria (Naser & Muhsen, 2011).

Maggangka (2015) found that 13 of the total 40 selected Baitul Maal Wa Tamwil (BMT) institutions in the Riau Archipelago, Indonesia, offer *Qarḍ al-Ḥasan*, although this product was not able to generate profit and income. Also, found that most selected BMT institutions in the Riau Archipelago have not concentrated on the deposit funds received, such as *Waqf*, *Zakāt*, and *Ṣadaqāt*. The selected BMT institutions have not integrated the social development activities with micro-business sectors through *Qarḍ al-Ḥasan* services under one roof but in separate systems of management, policies, etc. However, those BMT institutions seem very excited to carry out the development of productive activities and investments in improving the economic status of micro-entrepreneurs.

It is found that the *Qarḍ al-Ḥasan* has several risks, such as the risk of repayment, risk management, and inflation risk. However, these risks can be mitigated through auditing and monitoring systems (Aderemi & Ishak, 2020). Najeeb and Lahsasna (2013) discovered that because of the absence of profit motivation, Islamic financial institutions seldom use *Qarḍ al-Ḥasan*. Furthermore, most Islamic banks do not have a *Qarḍ al-Ḥasan* policy due to the effect of inflation that affects the money (Auweesi, 2014). While there are potential risks involved, such as the risk of default and attracting large funds, these risks can be effectively managed and overcome by utilizing FinTech approaches like blockchain for conducting due diligence, project monitoring, and ensuring repayment in instalments (Aderemi & Ishak, 2023).

Qarḍ faces significant challenges, including repayment risk, lack of profit motivation, limited funding sources, Sharī'ah compliance issues, and inflation. The

absence of collateral and proper management controls further complicates its implementation, leading to issues like misallocation of funds. While its social impact is clear, Islamic financial institutions are hesitant to offer it due to these risks. Improved auditing, monitoring, and integration with other Islamic finance instruments could help mitigate these issues. To ensure *Qarḍ* sustainability, a balance between social objectives and risk management is essential, possibly requiring collaboration with governmental and non-profit organizations to create a more supportive ecosystem.

2.4.6 QARḌ AL-ḤASAN FINANCING SOURCES

Most Islamic banks are depending upon various modes of Islamic financing, such as *Muḍārabah* – *Murābaḥah*, etc. Consequently, they are obligated to cater to the objectives of depositors to meet the cost of capital and profit, which leads them to charge a high-profit margin. In contrast, *Qarḍ al-Ḥasan* is an interest-free loan extended on a benevolent basis, where the borrower is only required to repay the principal amount. Since *Qarḍ al-Ḥasan* does not generate any profit for the bank, its provision does not directly contribute to the bank's profitability. This prioritization and resource allocation lead to the weakness of *Qarḍ al-Ḥasan* financing in Islamic banking practices. However, some institutions have accepted other sources. For example, Iqbal and Shafiq (2015) illustrated financial inclusion from the Islamic finance perspective and debated the significance of *Qarḍ al-Ḥasan* in enhancing social solidarity. They found that the Akhuwat organisation relied fundamentally on local donations until the Punjab government in 2011 provided funds of Rs. 1 billion (US \$ 10 million) on the basis of *Qarḍ al-Ḥasan*. In addition, it has a good marketing policy to collect funds, and the clients can contribute voluntarily, although they are not obligated to pay any processing fee for the *Qarḍ*. This is an important component of institutions' sustainability through Financial Self-Sufficiency (FSS) and Operational Self-Sufficiency (OSS) (Abu Mounes, 2019). This approach demonstrates that Islamic banks can balance financial sustainability with community-focused initiatives through *Qarḍ al-Ḥasan* and similar funding sources. The absence of profit from *Qarḍ al-Ḥasan* does not prevent the banks from offering *Qarḍ al-Ḥasan*. Funding could also be sourced from *Qarḍ al-Ḥasan* account, the government, *Zakāt*, *Waqf*, etc.

2.4.9.1 *Qard al-Ḥasan Financing Based on Zakāt, Waqf, and Ṣadaqah*

Literary, *Zakāt* means “blessing, purification, increase and cultivation of good deeds. It is called *Zakah* because it blesses the wealth from which it is paid and protects it. In Shari'a, *Zakah* is an obligation in respect of funds paid for a specified type of purpose and for specified categories. It is a specified amount prescribed by Allah, the Almighty, for those who are entitled to *Zakah* as specified in the Qur'an. The word *Zakah* is also used to indicate the amount paid from the funds that are subject to *Zakah*” (AAOIFI, 2015a, p.361). According to the International Islamic Fiqh Academy resolution No. 15 (3-3), it is permissible to invest *Zakāt* funds in investment projects that generate a return on the condition that the return is channelled to the legitimate beneficiaries of *Zakāt*. Such investments can be managed by the administration responsible for and have jurisdiction over collecting and distributing *Zakāt*, provided it satisfies the immediate needs of the beneficiaries and with proper guarantees against loss (The International Islamic Fiqh Academy, 1986). Additionally, such investments must satisfy several other conditions, including compliance with *Sharī'ah* principles, selection of low-risk projects to safeguard the *Zakāt* funds, and ensuring the investments are both ethically and financially sound to protect the interests of the beneficiaries and maintain the integrity of the *Zakāt* funds.

In M'sila Province, Algeria, The *Zakāt* Fund plays an influential role in economic development by financing small projects through *Qard al-Ḥasan* (Hiba & Ibtasam, 2018). In Sudan, Diwan al-*Zakāt* collaborated with 32 banks to provide microfinance to 83,000 needy families, who, through *Qard al-Ḥasan*, became active members of society. These families were expected to repay the loans to the Diwan al-*Zakāt* in 2010 (Mohsin & Alhabshi, 2015).

The *Qard al-Ḥasan* fund in Wilayat Albalida, Algeria, has seen growth. Efforts to raise awareness about the obligation of *Zakāt* and streamline the procedures for projects financed through *Qard al-Ḥasan* could lead to better outcomes and increased investment (Riwaya, 2015).

Febianto & Ashany (2012) explored whether *Qard al-Ḥasan* financing through Sinergi of Dompot Dhuafa in West Java, Indonesia, as a *Zakāt*-managing organisation, could economically empower the beneficiaries. The statistical results demonstrated that *Qard al-Ḥasan* financing using *Zakāt* funds improved economic empowerment. Similarly, Widiyanto et al. (2011) highlighted how *Qard al-*

Ḥasan financing, conducted by Baitul Mal Wat Tamwil, a model of interest-free financing funded by *Zakāt*, *Ṣadaqah*, and other forms of charity, supported poverty alleviation. Their findings showed that the *Qarḍ al-Ḥasan* financing significantly improved the business performance of small and medium enterprises (SMEs).

Alhabshi et al. (2016) proposed integrating Islamic social financial institutions with Islamic microfinance to empower people experiencing poverty to contribute to their societies. They developed a sustainable social benefit model for the hard-core poor by merging *Zakāt*, *Waqf*, and *Qarḍ al-Ḥasan* into microfinance. The International Islamic Fiqh Academy (2004) notes that *Waqf* funds can be used for *Qarḍ al-Ḥasan* and investment, either directly, through multiple endowments in one fund, or by issuing *Waqf* cash shares to promote collective participation.

Wulandari (2019) emphasized the poverty alleviation potential of Baitul Maal Wa Tamwil (BMT) in Indonesia through its role in providing *Qarḍ al-Ḥasan* financing, suggesting ways to maximise BMT's outreach performance. Sources of *Qarḍ al-Ḥasan* funding include *Waqf*, *Zakāt*, and charity. The study also found that *Qarḍ al-Ḥasan* is effective for productive purposes and that an increasing number of clients who were once recipients of *Zakāt* became *Zakāt* payers over time.

Qarḍ al-Ḥasan financing, derived from Islamic principles and funded by *Zakāt*, *Waqf*, and *Ṣadaqah*, has proven to be a powerful tool for economic empowerment and poverty alleviation and can be appropriate as a socially responsible instrument. Case studies from regions like Algeria, Sudan, and Indonesia demonstrate that these interest-free loans enable beneficiaries to start or grow businesses, fostering sustainable community growth. By allowing the investment of *Zakāt* funds into projects that generate returns for those in need, Islamic financing models offer innovative pathways for social and economic justice. The success stories show that with proper management and community involvement, these initiatives can help beneficiaries become financially self-sufficient and even transition into *Zakāt* contributors, reinforcing the positive cycle of giving and support.

2.4.9.2 *Qarḍ al-Ḥasan* Financing Based on Crowdfunding

Concerning crowdfunding, Aderemi & and Ishak (2020) explored the ability of crowdfunding and suggested a new model for crowdfunding based on the principle of *Sharī'ah* through *Qarḍ al-Ḥasan*. They found that *Qarḍ al-Ḥasan* based on

crowdfunding could constitute an alternative model for financing small and micro enterprises in compliance with the Sharī'ah as a form of Islamic financing. Similarly, (Wahjono, Sentot et al., 2015) discussed Islamic crowdfunding that could be used to fund projects and products of Muslim societies. (Aderemi & Ishak, 2023) find that despite the commonly held view that *Qard al-Hasan* is not a business-focused tool, a more thorough examination of its framework reveals its distinctiveness and adaptability as a feasible crowdfunding instrument for financing micro-enterprises in Malaysia.

Qard al-Hasan-based crowdfunding offers a Sharī'ah-compliant way to finance small and micro enterprises. Although traditionally not seen as business-oriented, this financing can support Muslim community projects and would contribute to society as a socially responsible instrument.

2.4.9.3 Qard al-Hasan Financing Based on Non-Permissible Earnings

Adherence to Sharia principles is paramount in Islamic banking and finance, ensuring financial transactions are conducted according to Islamic law. One such financial instrument that aligns with these principles is *Qard al-Hasan* Financing, which provides interest-free loans for social welfare purposes. However, an important consideration arises when these loans are sourced from non-permissible earnings, raising ethical and regulatory concerns. This section delves into the intricacies of *Qard al-Hasan* Financing based on Non-Permissible Earnings, exploring the concept of non-permissible earnings in Islamic banking, their utilization within the framework of Islamic finance, and the imperative of transparent disclosure in Islamic banks regarding such earnings.

2.4.6.3.1 Non-Permissible Earnings in Islamic banking

Non-permissible earnings are unique incomes that come unwantedly into the balance sheet of Islamic banks. The earnings could have resulted from the profits gained as a result of the Islamic banks dealing with conventional or interest-bearing banks or earnings that come as a result of a sanctioned Islamic banking product or any other earning that was sanctioned by the Sharī'ah committee of an Islamic bank. (Al-Melahi and Sa'ad, 2021).

Non-permissible earnings in the charitable fund of Islamic Financial Institutions and Sharī'ah-compliant companies are a result of their transactions with conventional

banks, which involve ribā, and it also includes payments received from their customers as a result of late payments of their due instalments or profits of some operations that the bank's Sharī'ah board decided to avoid and to spare their profits for charity. (Fidad, 2020).

2.4.6.3.2 Using Non-Permissible Earnings in Islamic banking and finance

According to the International Islamic Fiqh Academy resolution No: 13 (1/3) [1]:

“the Bank must spend that interest in ways that realize the public benefit, like training, research, providing means of relief, providing financial and technical assistance to member countries and to academic institutions, schools, and foundations, and on anything related to spreading Islamic knowledge” (International Islamic Fiqh Academy, 1986; ISRA, 2020).

Similarly, AAOIFI (2017, p.159) illustrates that:

“any interest and other non-permissible Earnings should be channelled to charity and general public utilities. It is not permissible for the bank to use these amounts, directly or indirectly, for its benefit. Examples of charitable channels include, among others, training people other than the staff of the bank, funding research, providing relief and support equipment's, financial and technical assistance to Islamic countries or Islamic scientific, academic Institutions, schools, anything to do with spreading Islamic knowledge, and similar channels. The charity fund must go to these channels in accordance with the resolutions of the Sharī'ah Supervisory Board of the bank”.

Moreover, AAOIFI (2015a) considered how Islamic financial institutions intend to dispose of such revenues, assets, or liabilities as a mandatory conduct standard of corporate social responsibility (CSR). Thus, Islamic banks can use non-refundable, non-permissible earnings to the *Qard al-Hasan* defaulted to facilitate SME financing initiatives. According to Al-Melahi and Sa'ad (2021), most Islamic banks lack transparency in their data on non-permissible earnings. Given the lack of transparency, detailed disclosure of non-permissible earnings is crucial for accountability in Islamic banking. If these earnings are directed towards *Qard al-Hasan*, they should not be recovered by the bank, ensuring that they are used purely for charitable purposes.

2.4.6.3.3 Disclosure of Non-Permissible Earnings in Islamic banks

The table below provides information on Islamic Banks and their non-permissible earnings disclosure on five countries' reports. Yemen, Saudi Arabia, Jordan, Algeria,

and Malaysia. Islamic Banks in Yemen only disclose non-permissible earnings on their reports. Table 12 shows the disclosure of non-permissible earnings in Islamic banks.

Table 12 Disclosure of non-permissible earnings in Islamic banks

Countries	Islamic Banks	Non-permissible earnings disclosure on the reports
Yemen	Saba Islamic Bank	√
Saudi Arabia	Bank Aljazira	
Jordan	Jordan Islamic Bank	
Algeria	AL-Baraka Bank	
Malaysia	Kuwait Finance House	

Source: Author's illustration

Yemeni Islamic banks display transparency by including data about earnings that are not permissible in their reports. The researcher makes clear tables and figures to illustrate non-permissible earnings in Islamic Banks in Yemen. The following are brief explanations prepared by the researchers according to figures extracted from the bank's annual reports from 2010 – 2019. This study analyzed the annual reports of a vast three Islamic banks, studied each year separately, and came up with a summary. Table 2 summarizes non-permissible earnings in Saba Islamic Bank from 2010 to 2019. The table below shows the non-permissible earnings of Saba Islamic Bank. It is clear from the table and charts that Saba Islamic Bank already had the amount of non-permissible earnings, which is around sixty-eight million (YER) within ten years from 2010 to 2019, with 55% from the big three banks in Yemen. It can contribute to the operational cost for the *Qarḍ al-Ḥasan* Financing process and *Qarḍ al-Ḥasan* default. Table 13 summarises how non-permissible earnings can be in Saba Islamic Bank.

Table 13 Non-permissible earnings in Saba Islamic Bank from 2010 to 2019¹³

Years	Non-permissible earnings in Saba Islamic Bank (YER)
2010	2,271,000
2011	4,157,000
2012	7,280,000
2013	4,863,000
2014	5,911,000
2015	580,000
2016	0

¹³ - The data taken by Saba Islamic Bank Reports from 2010 – 2019.

2017	0
2018	35,658,698
2019	7,909,448
Total	68,630,146
The percentage of non-permissible earnings in Saba Islamic Bank from the biggest/most popular three banks in Yemen	55%

Source: Author's illustration

2.4.7 QARḌ AL-HASAN THROUGH FINTECH

A study by Sa'ad and Pitchay (2019) suggested that using Islamic FinTech and its mechanisms realizes good practices using the Islamic *Qarḍ al-Ḥasan* mode of financing. It is found that using financial technology can be appropriate for the application of *Qarḍ al-Ḥasan* and attract various Islamic banking and finance players into SME financing projects. Syed et al. (2020) recommended blending *Zakāt* and *Qarḍ al-Ḥasan* to counter the adverse impact of COVID-19 on SMEs. It could serve as a springboard for developing an Artificial Intelligence and Natural Language Processing-based Islamic fintech model (Shaikh, 2020). Khan et al. (2020) discovered that *Qarḍ al-Ḥasan* is a noble and generous financial service in Islamic finance that can be coupled with Fintech tools such as Artificial Intelligence to assist in rescuing underprivileged individuals and small to medium-sized enterprises (SMEs) impacted by the pandemic of COVID-19.

The banking industry is utilizing artificial intelligence (AI) in a very advanced way that saves money and time. The banks use algorithms to generate accurate results, which in turn help enhance customer service and generate better sales performance to deliver profits. AI includes machine learning and profound learning, which helps to reduce errors caused by emotional and psychological factors; these tasks are considered one of the most important tasks provided by AI. A few studies highlighted the areas where Machine Intelligence is being launched in the banks and applications of AI in some commercial banks (Al-Melahi & Sa'ad, 2022). There are advancements in traditional banking, and fintech companies and banks are gradually adopting innovative technologies like artificial intelligence, blockchain, and cloud computing. However, banks have yet to reach the stage of the AI revolution, and the human touch is still important. The banking sector is discovering ways through which AI can be

incorporated, which improves the working of banks and customer service experiences (Jewandah, 2018). AI technologies can be used to automate *Qard al-Hasan* funds of Islamic banks and initiate a processing mechanism in which the fund will reach the designated SMEs significantly faster and more accurately. AI is very effective in finding patterns in real time. It uses additional behavioural indicators to spot suspicious activity and offer suggestions for risk mitigation (Al-Melahi & Sa'ad, 2022).

AI's role in Islamic FinTech, especially in *Qard al-Hasan*, is increasingly critical in providing efficient and accessible financing for SMEs. It enhances processing speed, reduces errors, and improves customer service, all of which are vital in contexts like the COVID-19 pandemic. AI's capabilities in machine learning and deep learning offer improved risk management, but the human touch and Islamic ethical principles must remain central. As Islamic banking integrates AI, there's a significant opportunity to support SMEs and build a resilient financial ecosystem.

2.4.8 QARD AL-HASAN ON SMES

Baeaziz & Makhlufi (2018) found that the bodies financed for micro-projects by *Qard al-Hasan* have contributed to the realisation of many benefits at the economic or social level by increasing the number of these projects and raising the operating rates. Algeria should consider this experience when facing the challenges of introducing the financing mechanism of *Qard al-Hasan* in the country. Mojtahed & Hassanzadeh (2009) argued that evaluating the results and effects of the application of interest-free loans in poverty alleviation programmes in Iran showed that *Qard al-Hasan* has an effect on per-capita income for poverty elimination.

Zada & Saba (2013) shared the Shari'ah substantiation regarding the importance, value, usefulness, and reward of *Qard al-Hasan* for society. They found that AKHWAT practices *Qard al-Hasan*, which is suitable for Malaysia as a model. They argued that *Qard al-Hasan* is a valid option for Shari'ah-compliant microfinance. Moreover, it can be a success factor in the lives of poor entrepreneurs and will help restore the spirit of Islamic finance and public trust in the Islamic finance industry. *Qard al-Hasan* should be offered to needy micro-entrepreneurs and the jobless to start a business instead of government and private employees who have permanent jobs. Abu Mounes (2019) argued for financing SMEs based on *Qard al-Hasan*. The mechanism should be designed to empower socio-economic development projects and provide financial

services facilities to people in need. This product can also provide job opportunities to these communities and help them exit poverty.

Masyita (2012) examined and explored the demand and supply-side issues related to the operations and growth of Islamic microfinance institutions and integrating microfinance and *Waqf* to enhance the social responsibility for the needy and poor. The study found positive indications for helping needy micro-entrepreneurs with *Qard al-Hasan*. Managing of *Qard* fund will promote the desire of others to entrust the donors to be managed by microfinance institutions if it is done fairly. Moreover, the clients of *Qard al-Hasan* will help the microfinance institutions indirectly promote their products (Ismail & Possumah, 2010). Hassan (2014) discussed the evolution of Islamic microfinance and how social capital and the Islamic microfinance sector contribute to facing the challenge in poverty alleviation. He found that some Islamic microfinance groups, such as the Welfare Society, operate funds that provide an interest-free loan (*Qard al-Hasan*), whereby savings are often reserved in a fund that members may access for serious risks.

Qard al-Hasan has shown significant potential in supporting small and medium-sized enterprises (SMEs) and reducing poverty. Studies across different countries, including Algeria, suggest that interest-free loans can boost employment, raise per-capita income, and stimulate economic growth. This Sharī'ah-compliant form of financing also fosters trust in Islamic finance and empowers entrepreneurs. Researchers emphasize that implementing *Qard al-Hasan* can encourage socio-economic development and provide financial opportunities for those in need. Effective management of the *Qard* fund can further enhance its impact by promoting fairness and encouraging community participation.

2.4.9 THE MULTIFACETED ROLE OF QARD AL-HASAN IN ISLAMIC BANKS

This study synthesizes various perspectives and findings on the application and benefits of *Qard al-Hasan* in Islamic banks. Abozaid & Saleem (2013a) examined the practice of benefiting from *Qard* contract with an analysis of juristic opinions. They indicated that the Sharī'ah intends that the *Qard* contract should not be used as a vehicle for investment or financing, ensuring that the risk and rewards of investment are divided among its users and fund owners. On the other hand, Stela and Bardai (2013) found that

Qard al-Hasan is an Islamic financing tool that will be substantially supported by the depositors through the Islamic banking system. This study demarcates the stakeholders' response to *Qard al-Hasan* as an Islamic mechanism in the Islamic banking system in Libya.

Man et al. (n.d.) discussed how the principle of *Qard al-Hasan* can be used as a sustainable product-based CSR. The study illustrates that Corporate Social Responsibility and *Qard al-Hasan* can be a sustainable and socially responsible product and must be merged to help the community. They suggested that Islamic banks can offer *Qard al-Hasan* as a socially responsible product. For example, Islamic banks can open a dedicated *Qard al-Hasan* account through which deposits can be received, which would be financed to needy clients. K. Khan and Nor Saeran (2017) Sharī'ah-compliant *Qard al-Hasan* financing offers applicable solutions for the needs of small businesses and poor small farmers. They found that Islamic banks would be fulfilling their CSR by providing *Qard al-Hasan* and a social welfare project to achieve the objectives of the Islamic economic system. Moreover, integrating of *Qard al-Hasan* into Islamic banking services will uphold the principle of financial inclusion, protecting the interests of those experiencing poverty.

Ariffin et al. (2011) found that intending to promote corporate social responsibility and supporting people in need, Islamic bankers in Malaysia agreed that Islamic banks should offer *al-Qard al-Hasan*. It gains divine rewards and public estimation for parties involved when *Qard al-Hasan* is a form of corporate social responsibility for Islamic Financial Institutions (Najeeb & Lahsasna, 2013). Saqib et al. (2015) studied *Qard al-Hasan* to finance Muslim farmers in Islamic countries such as Pakistan. They found that *Qard al-Hasan* can be appropriate for Islamic banks and other Islamic financial institutions for agricultural financing. It can be efficiently implemented for the agricultural sector, both for crop and non-crop activities. Moreover, *Qard al-Hasan* has many benefits for financial institutions and farmers, as it will improve their living standards. In doing so, financial institutions would fulfil their commitment to the society.

By offering *Qard al-Hasan*, Islamic banks can enhance their societal impact, foster community development, and uphold ethical financial practices. The concept is a powerful example of how finance can be both compliant with religious values and a driver of positive change.

2.4.12.1 How *Qarḍ al-Ḥasan* Propel Growth, Publicity, and Revenue for Islamic Banks

Islamic finance is a growing sector in the financial industry, with a unique set of principles and practices that differentiate it from conventional finance. One of the most significant aspects of Islamic finance is the concept of *Qarḍ al-Ḥasan*, a benevolent loan that provides interest-free financial assistance to needy individuals. While this practice is primarily seen as fulfilling a religious obligation and promoting social welfare, it also offers several benefits to Islamic banks. In this context, Islamic banks can benefit and advantages from *Qarḍ al-Ḥasan* in multiple ways.

Firstly, suppose a farmer voluntarily gives back more than the principal loan amount within their financial means. In that case, it can lead to the growth of Islamic banks and encourage them to provide more loans to the agricultural sector. However, it is the responsibility of the state and educated individuals to educate illiterate farmers about this practice. Secondly, by providing *Qarḍ al-Ḥasan* to local farmers, Islamic banks can encourage them to participate in other modes of financing, such as trade-based modes where the bank acts as a trader and supplies goods to the customer after making the necessary purchases. Such transactions can be beneficial for future bank loans either directly or via an agent such as *Musāwamah*, *Murābahah*, *Istiṣnāʿ*, and *Salam*. Thirdly, providing such loans can lead to positive publicity for Islamic banks in the agricultural sector, drawing attention to their other business activities. Lastly, Islamic banks and other financial institutions can earn a service charge on these loans, contributing to their revenue streams (Saqib et al., 2015).

Qarḍ al-Ḥasan has significant benefits for Islamic banks in terms of growth, publicity, and revenue generation. Islamic banks can promote social welfare and encourage their business growth by providing interest-free loans. Additionally, this practice can encourage local farmers to participate in other financing modes and enhance the bank's reputation in the agricultural sector. Furthermore, Islamic banks can earn a service charge on these loans, which helps them sustain their operations and further expand their businesses. Thus, *Qarḍ al-Ḥasan* loans are an essential aspect of Islamic finance that can benefit both individuals and Islamic banks.

2.4.10 THE EFFECT OF *QARD AL-HASAN* FINANCING ON SOCIETY

Providing *Qard al-Hasan* financing to small-scale farmers can positively impact their children's education, allowing them to afford to send their children to school; This, in turn, can lead to improvements in literacy rates; Furthermore, this practice can enable farmers to understand financial institutions and their operations better; As a result, they may be more inclined to use other banking services, such as opening an account or engaging in various trade-based transactions, including *Murābahah*, *Musāwamah*, *Salam*, *Istiṣnā'*, *Mushārah* and *Ijārah*; This can create greater business awareness among farmers and contribute to the overall development of the agricultural sector; With *Qard al-Hasan* financing, farmers can also gain knowledge about good-quality seeds, modern cultivation methods, machinery use, and new irrigation techniques, as they can now afford these items (Saqib et al., 2015). According to the research conducted by Widiyanto et al. (2011), the *Qard al-Hasan* financing model has proven to be successful in enabling those in need to improve their economic activities. Hasan et al. (2021) affirm that *Qard al-Hasan* can have a crucial impact on promoting sustainable development. *Qard al-Hasan* can substantially reduce the cost of borrowing. Consequently, it may help the participants to develop their economic standards by accumulating more assets (Muneer & Khan, 2019). *Qard al-Hasan* financing offers several potential benefits for small-scale entrepreneurs. It can contribute to their children's education and improve their literacy. This financing can also enable them to better understand financial institutions and other banking services. Additionally, it can create greater business awareness among them, contributing to overall sectoral development. As highlighted by various researchers, *Qard al-Hasan* financing has proven successful in enabling those in need to improve their economic activities and can play a crucial role in promoting sustainable development.

This part has examined the landscape of contemporary practices surrounding *Qard al-Hasan*, offering a review of pertinent literature. By delving into many key topics, this part has shed light on the challenges and risks inherent in *Qard al-Hasan*, while exploring its diverse financing sources. The examination extended to the innovative realm of fintech, investigating how *Qard al-Hasan* interfaces with technological advancements. The significance of *Qard al-Hasan* in the context of small and medium-sized enterprises (SMEs) was explored, as well as its integration within Islamic banks, unearthing its potential to reshape the financial landscape.

Furthermore, the profound impact of *Qarḍ al-Ḥasan* financing on society emerged as a pivotal theme. The chapter elucidated how this form of financing can reverberate beyond financial transactions, leaving a footprint on broader social and economic dimensions. A literature review summary offered valuable insights into the existing body of knowledge and its implications for the present study.

Qarḍ al-Ḥasan financing is a form of interest-free loan in Islamic finance that can significantly benefit small-scale entrepreneurs. One notable advantage of *Qarḍ al-Ḥasan* financing is that it can positively impact their children's education and contribute to improving the literacy rate. Additionally, this practice can enable entrepreneurs to understand financial institutions and their operations better, encouraging them to use other banking services. *Qarḍ al-Ḥasan* financing can also create greater business awareness among these entrepreneurs, contributing to the overall development of the sectors.

The part identified a significant research gap in scrutinizing the terrain covered thus far. This gap underscored the need for a more in-depth investigation into the development and structuring of *Qarḍ al-Ḥasan* financing mechanisms, a call that the forthcoming chapters of this study will address. By bridging this gap, the study seeks to contribute substantially to the understanding of *Qarḍ al-Ḥasan*'s role within contemporary Islamic finance.

As we pivot towards the subsequent chapters, the groundwork laid by this literature review becomes paramount. The insights gleaned from the challenges, sources, technological advancements, SMEs, and the broader financial sector provide the context necessary to craft a detailed and robust structure for developing *Qarḍ al-Ḥasan* financing.

2.5 THE DIFFERENCE BETWEEN *QARḌ* AND *QARḌ AL-ḤASAN*

The main difference between *Qarḍ* and *Qarḍ al-Ḥasan* lies in the nature of the obligation and the additional ethical and benevolent considerations associated with *Qarḍ al-Ḥasan*.

2.5.1 *Qard*

The researcher concluded from the previous definitions of *Qard* and *Qard al-Hasan* that *Qard* is a financial concept rooted in Islamic finance that involves the transfer of ownership in fungible wealth (like money) to another person with the obligation for the borrower to return wealth of the same type and amount without any interest. The core elements of *Qard* are:

1. Interest-Free Loan: The borrower must repay the loan amount without any additional interest.
2. Repayment Obligation: The borrower is required to repay the exact amount borrowed.
3. Juristical Foundation: It is supported by Islamic jurisprudence, with references from the Qur'an, the Sunnah, and consensus among jurists.
4. General Usage: It is commonly used in Islamic finance to refer to loans without the term "Hasan," as seen with institutions like Bank Negara Malaysia and IFSB, focusing on the repayment obligation.

2.5.2 *Qard al-Hasan*

Qard al-Hasan is a specific type of *Qard* that emphasizes ethical and benevolent aspects. The distinctive features of *Qard al-Hasan* include:

1. Non-Interest Bearing Loan: Like *Qard*, it is an interest-free loan, where the borrower is expected to repay the exact amount borrowed.
2. Ethical and Benevolent Considerations: It includes additional ethical guidelines, such as:
 - The loan should come from halal (permissible) money.
 - The lender should not harm the recipient.
 - The lender should not remind the recipient of the favour being done to them.
3. Purpose: It is intended to provide assistance and support without expecting any financial gain, focusing on mutual help and social welfare.
4. Definition Variations: Different sources may highlight various aspects:
 - Qamus (as cited in ISRA, 2010): Emphasizes ethical considerations and the benevolence of the loan.

- AAOIFI (2015a): Focuses on the non-interest-bearing nature and the repayment requirement.

In addition to these aspects, several studies in the literature review and four selected Islamic banks have highlighted that these institutions frequently use the term *Qard al-Hasan* in their financial operations. This demonstrates the practical application of the concept within the industry, underscoring its significance not only in theory but also in the operational frameworks of Islamic banks.

In summary, while both *Qard* and *Qard al-Hasan* involve interest-free loans with the obligation to repay the same amount borrowed, *Qard al-Hasan* adds a layer of ethical and benevolent considerations, emphasizing the moral conduct of the lender and the source of the loaned funds. This makes *Qard al-Hasan* not only a financial transaction but also socially and morally responsible.

2.6 SOCIAL RESPONSIBILITY

Social responsibility in Islam can be classified into three forms of relationship responsibilities: the relationship of responsibility to Allah, the relationship of responsibility to humans, and the relationship of responsibility towards the environment (Yusuf & Bahari, 2015). The total corporate social responsibility fund reached US\$ 1.16 billion disbursed by Islamic Financial Institutions in 2019. One of that total was *Qard al-Hasan*, with a total of US\$ 129 million (ICD and REFINITIV, 2020).

An overview of Islamic social responsibility found that Islam provides several methods of social finance and investment mechanisms beneficial to Islamic society. According to (IRTI, 2014), the Islamic social finance sector broadly comprises three main types. First, Islamic institutions are based on charity, such as *Zakāt*, *Ṣadaqāt*, and *Awqāf*. Second, non-profit institutions such as contemporary Islamic microfinance institutions. Third, institutions based on mutual cooperation, such as *kafālah* and *Qard*. According to the AAOIFI standard, corporate social responsibility (CSR) is categorized into two main types: mandatory conduct and recommended conduct. Under mandatory conduct, companies are required to have policies in place for screening clients, ensuring responsible dealings with clients, adhering to earnings and expenditure practices permitted by Shari'a, promoting employee welfare, and implementing policies for Zakah. On the other hand, recommended conduct includes policies for *Qard al-Hasan*,

minimizing adverse impacts on the environment, establishing social, development, and environment-based investment quotas, providing par excellence customer service, supporting micro and small businesses, encouraging social savings and investments, engaging in charitable activities, and effectively managing *Waqf* (AAOIFI, 2015).

In this section, the study will explore the definition of social responsibility, examine the various types of social responsibility practices in Islamic banks, and conclude with a summary.

2.6.1 Social Responsibility Definition

CSR is defined as “all activities carried out by an Islamic financial institution (IFI) to fulfil its religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries for individuals and institutions” (AAOIFI, 2015b). On the other hand, the International Organisation for Standardisation (ISO) 26000 named it “social responsibility” and not “corporate social responsibility” because its guidance applies to all categories of organisations and not only to private or industrial companies. The ISO provides a standard as a clear and detailed definition of “social responsibility” to prevent misunderstanding. As mentioned, the responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour, contributes to sustainable development, including the health and welfare of society (ISO, 2017). Social responsibility encompasses a broad spectrum of activities and obligations that organizations, including Islamic financial institutions, must address to foster ethical conduct and sustainable development. By adhering to established standards like ISO 26000, organizations can ensure that their practices positively impact society and the environment, promoting overall well-being.

2.6.2 Types of Social Responsibility in Islamic Banks

Islamic banks exhibit several types of social responsibilities, including:

1. **Ethical Responsibility:** Islamic banks follow ethical principles such as avoiding investments in businesses that deal with prohibited products like alcohol and gambling.

2. Environmental Responsibility: Islamic banks reduce their negative impact on the environment by promoting sustainable business practices and reducing waste and pollution.
3. Community Responsibility: Islamic banks support communities by providing financial assistance through charitable donations and social welfare programs like *Qard al-Hasan*.
Searching for cases that are eligible for *Qard al-Hasan* and stating the purposes for *Qard al-Hasan* granted (Almagribi, 2004).
4. Financial Responsibility: Islamic banks ensure the financial stability of their customers and the broader community by promoting fair and transparent financial practices and offering products that meet their customers' needs.
5. Governance Responsibility: Islamic banks adhere to the best practices in governance, including transparency and accountability, to ensure the integrity of their operations and promote stakeholder trust.
6. Overall, Islamic banks uphold ethical principles and promote the well-being of society and the environment while providing financial products and services that align with Islamic principles.

2.6.3 Corporate Social Responsibility Activities

Islamic finance experienced significant growth, reflecting a rising interest in Sharia-compliant financial products. In terms of corporate social responsibility (CSR), Islamic finance institutions (IFIs) demonstrated a commitment to social and ethical principles. The Islamic Finance CSR disclosure score reflected a growing trend among IFIs to provide transparent reporting on their CSR activities and adherence to Sharia principles. These trends demonstrate the Islamic finance sector's resilience and adaptability, with a robust focus on growth, transparency, and social responsibility.

Islamic social finance and its instruments are progressively being practised for citizens in OIC countries (Zain & Engku Ali, 2017). In terms of social responsibility, the total corporate social responsibility fund reached US\$ 1.16 billion disbursed by Islamic Financial Institutions in 2019. One component of this total was *Qard al-Hasan*, which amounted to US\$ 129 million (ICD and REFINITIV, 2020). Figure 22 provides a summary of Islamic Finance CSR in 2019.

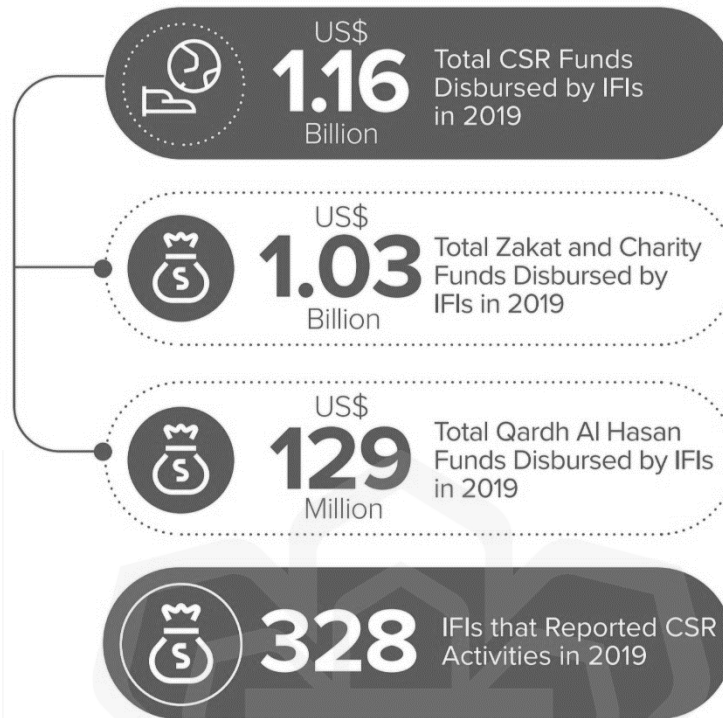


Figure 22 Islamic Finance CSR in 2019

Source: ICD & REFINITIV

According to the Islamic Finance Development Report (ICD and REFINITIV, 2020), Corporate Social Responsibility (CSR) is evaluated through two components: disclosed CSR activities and CSR funds disbursed, which include charity, *Zakāt*, and *Qard al-Hasan*. CSR activities are assessed based on Islamic financial institution annual reports and the AAOIFI Governance Standard for Islamic Financial Institutions No. 7. However, CSR reporting by Islamic financial institutions remains low, with only 52% of institutions reporting between one to ten CSR activities in their 2019 financial statements. In total, 153 Islamic Banks disbursed US\$ 986 million in CSR funds. Palestine and Syria were the top countries in terms of CSR disclosure scores in 2019. Figures 23 to 25 summarise the Islamic Finance CSR disclosure score by IFIs in 2019.

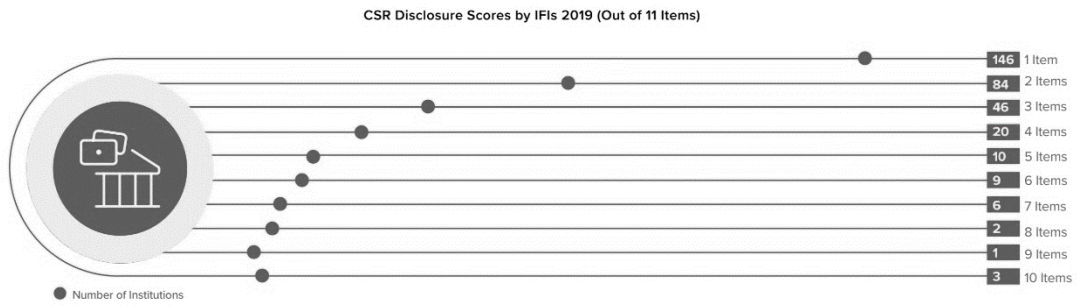


Figure 23 CSR disclosure score by IFIs in 2019

Source: ICD & REFINITIV

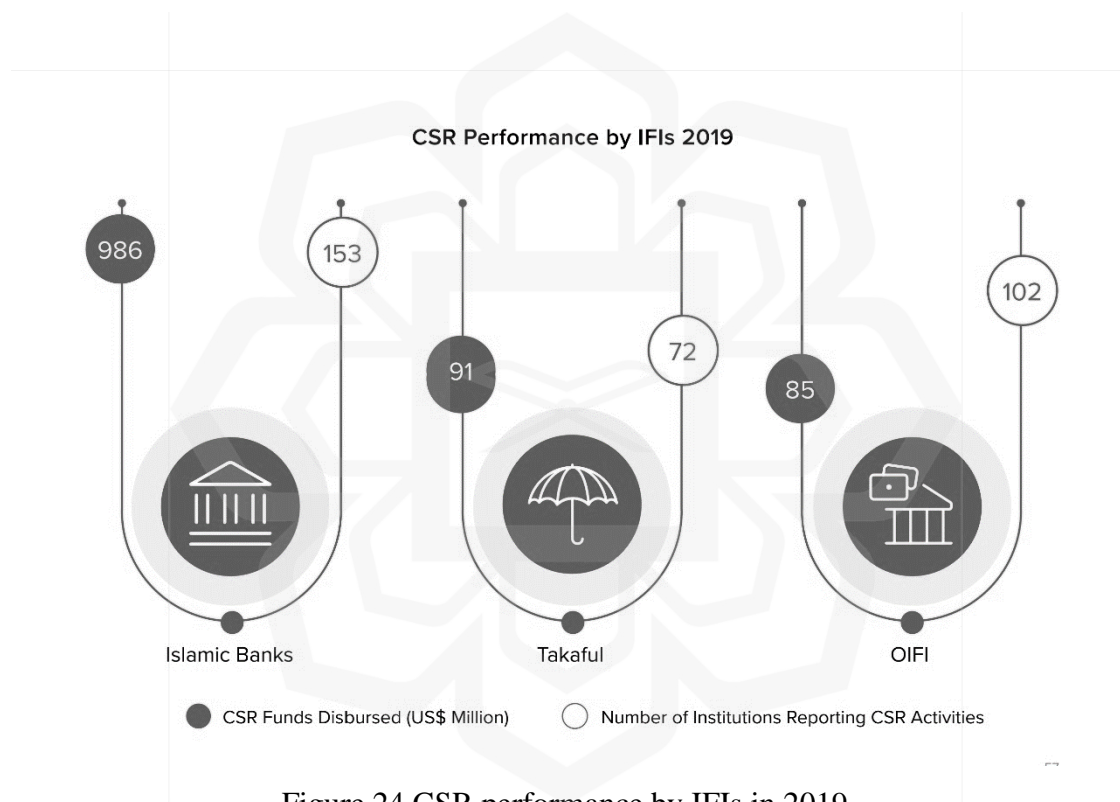


Figure 24 CSR performance by IFIs in 2019

Source: ICD & REFINITIV

**Top Countries in CSR Disclosure Score 2019
(Out of 11 Items)**

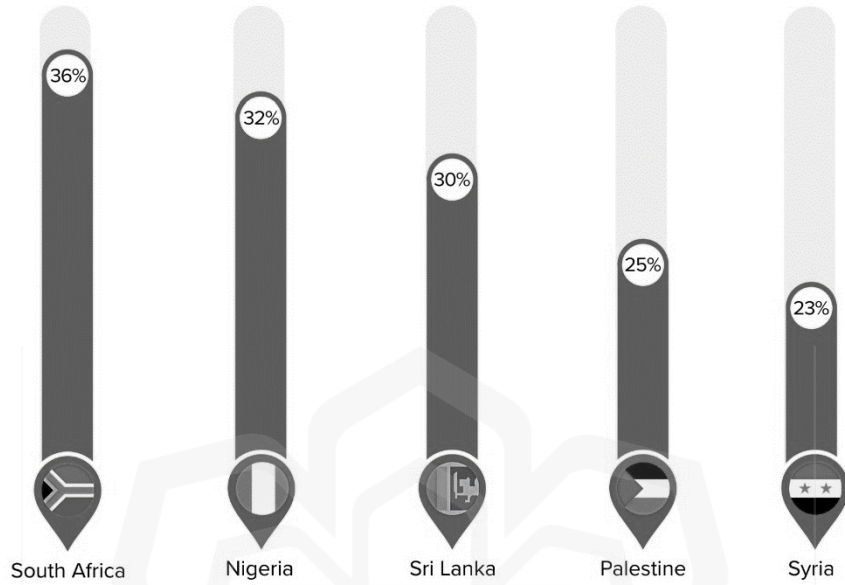


Figure 25 The top countries in CSR disclosure score in 2019

Source: ICD & REFINITIV

Malaysia was ranked as the top country in the Islamic Finance Development Indicator (IFDI) markets and had the highest global average IFDI value for 2020. Conversely, Syria was identified as the lowest country in IFDI markets and the lowest global average IFDI value (ICD and REFINITIV, 2020). Figure 26 illustrates the top IFDI markets and global average IFDI values for 2020.

TOP IFDI MARKETS AND GLOBAL AVERAGE IFDI VALUES FOR 2020

Country	Ranking	Indicator Value					
		IFDI 2020	Quantitative Development	Knowledge	Governance	Awareness	CSR
Malaysia	1	111	94	185	86	149	41
Indonesia	2	72	27	181	67	60	23
Bahrain	3	67	38	68	88	103	38
United Arab Emirates	4	66	31	67	79	91	60
Saudi Arabia	5	64	59	52	41	50	119
Jordan	6	53	14	75	51	29	99
Pakistan	7	51	18	80	74	53	31
Oman	8	45	14	46	66	73	25
Kuwait	9	43	48	13	63	48	42
Qatar	10	38	28	19	63	52	29
Brunei	11	36	13	44	51	61	9
Maldives	12	34	22	21	70	22	34
Nigeria	13	32	5	26	60	17	51
Sri Lanka	14	30	11	36	42	11	48
Syria	15	28	31	15	45	14	36
Global Average		11	6	11	14	17	7

Figure 26 The top IFDI markets and global average IFDI values for 2020
Source: ICD and REFINITIV

According to the Islamic Finance Development Report 2020, Saudi Arabia emerged as the leading country in CSR funds indicators in 2020. It held the top position in the disbursement of CSR funds in 2019 (ICD and REFINITIV, 2020). Figures 27 to 29 analyse Islamic finance development and CSR fund indicators for 2020.

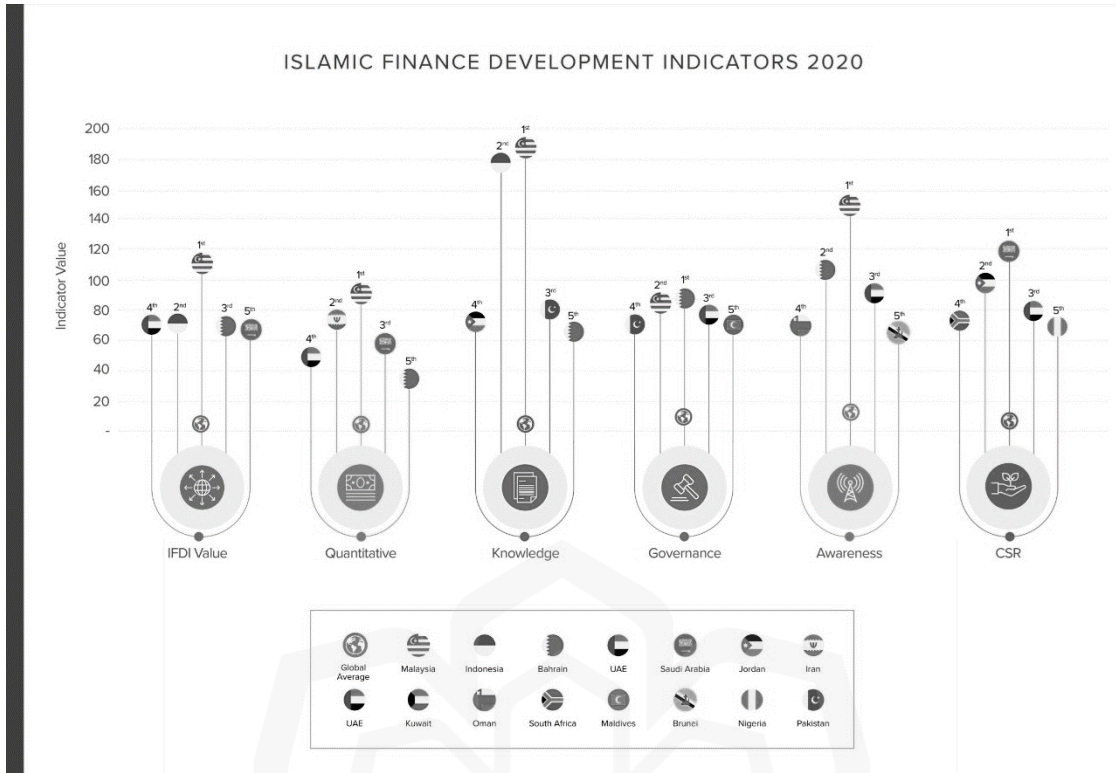


Figure 27 Islamic Finance Development Indicators 2020

Source: ICD & REFINITIV

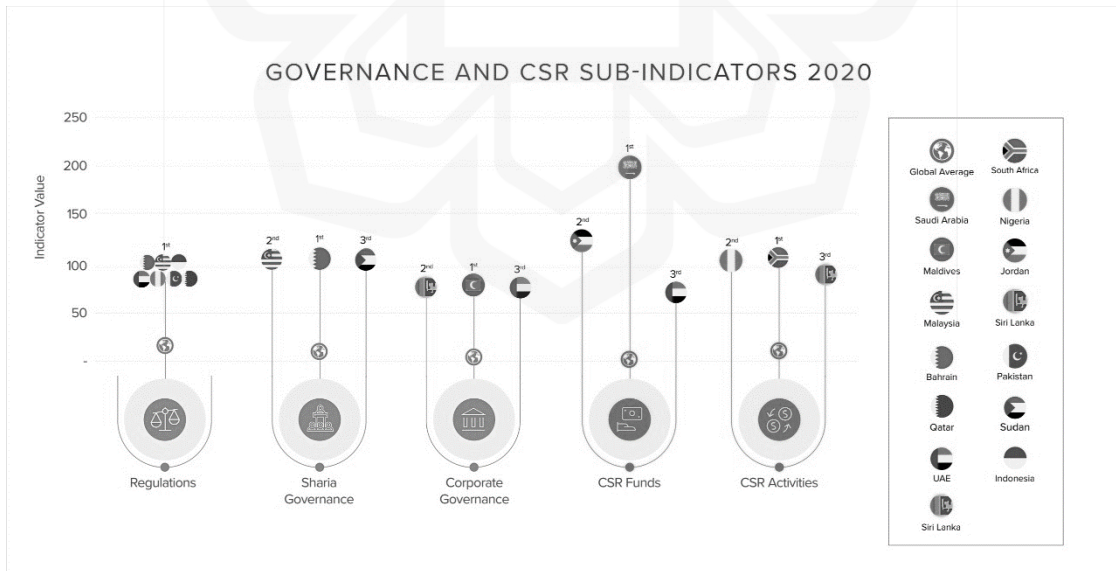


Figure 28 Governance and CSR SUB - indicators 2020

Source: ICD & REFINITIV

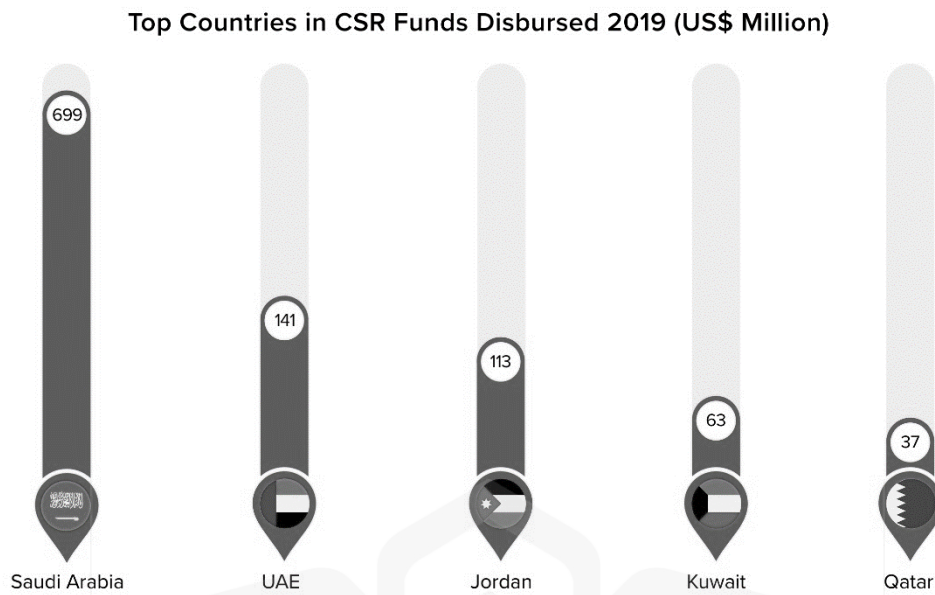


Figure 29 The top countries in CSR funds disbursed in 2019

Source: ICD & REFINITIV

This part sheds light on the concept of social responsibility, the types of social responsibility in Islamic Banks, and corporate social responsibility activities, a central tenet in the contemporary discourse, demonstrating how this concept intersects with the practice of *Qard al-Hasan*. This intersection reveals the potential for Islamic financial institutions to not only fulfil their economic roles but also contribute meaningfully to societal welfare, aligning with broader ethical and social objectives.

2.7 THEORETICAL FOUNDATIONS ON THE NEED OF A SOCIALLY RESPONSIBLE QARD

Qard holds a significant place in Islamic finance as a tool for promoting social welfare and economic justice. This concept is deeply rooted in the pursuit of *Falah*, which represents ultimate success and well-being in both this life and the hereafter. *Falah* is not merely an individual endeavour but a collective aspiration that can be realized through a framework of distributive justice.

Achieving *Falah* necessitates the effective circulation of wealth, ensuring that resources flow freely and benefit all segments of society. This objective underscores

the importance of financial instruments like *Qard*, which facilitate access to capital for those in need without the burden of interest. By enabling continuous investment in productive ventures, *Qard* contributes to sustainable economic growth and resilience.

Moreover, the principle of holistic communal prosperity is central to the concept of Falah. A socially responsible *Qard* system fosters an environment where economic benefits are shared equitably, supporting the community's overall development. This integrative approach uplifts individuals and strengthens social cohesion and harmony.

In summary, the theoretical underpinnings of a socially responsible *Qard* align with the Islamic pursuit of Falah through distributive justice. This approach ensures effective circulation and continuous wealth investment, ultimately achieving comprehensive communal prosperity.

2.7.1 The Concept of *Falah*

Islamic economic system stresses the need for socially responsible transactions to attain the higher objectives of the *Shari'ah* in wealth. In contrast to the capitalist and socialist systems, Chaudhry (2003, p.1) explains Islamic economic theory under the principle of attaining *al-falah*, which he explains as:

The Islamic concept of '*falah*' is very comprehensive. It refers to spiritual, moral, and socio-economic well-being in this world and success in the Hereafter. At the micro level, '*falah*' refers to a situation where an individual is adequately provided for in respect of his basic needs and enjoys necessary freedom and leisure to work for his spiritual and material advancement; whereas at the macro level, it aims at the establishment of an egalitarian and happy society with a clean environment, with freedom from want and with opportunities to its members for progress in socio-political and religious affairs.

The concept of *falah* as emphasized in Islamic economic thought, is the striking difference between capitalism and the Islamic economic system, which is based on achieving success in this world and the hereafter. Capitalist thought has nothing to do with the hereafter, which is why the concept of values and morality is less pronounced but centred upon the maximization of wealth of households and shareholders. Islamic economics conceives worldly activities as a path to live an eternal life of happiness in the hereafter (Ibrahim and Chek, 2020).

2.7.2 Achieving Falah through Distributive Justice

Another major goal of Islamic economic thought is wealth distribution, as Islam believes that success can be achieved in a society where there is fair and equitable distribution of wealth among the members of the society. Where wealth is accumulated in the hands of a few, it will undoubtedly cause deprivation of necessities in life. Unlike capitalism, Islam aims to balance the distribution of economic resources (Salimi, 2019).

Moreover, Islam guarantees the provision of basic human needs such as food, clothing, and shelter to everyone and, on the other hand, ensures fair and equitable distribution of wealth and economic resources among all and cannot endure the existence of wide differences among different economic class and strives to prevent from the concentration of money in few hands. To bridge the gulf and ensure an equitable distribution of wealth, Islam has taken many steps, such as *Zakāt* and *Ṣadaqah*, and bequests; some of them are voluntary charities, while some are compulsory contributions in the form of taxes and duties. To avert accumulating money in the hands of a few people, the Islamic economic code, like the abolition of interest, earning of wealth through haram, and hoarding of wealth, has been prohibited. At the same time, there is no such prohibition in capitalism (Salimi, 2019).

Islamic economics considers inequality in the distribution of wealth as a fundamental problem, which can only be solved by activities and transactions that can promote equitable distribution in society. Wealth should not be concentrated in one portion of the society. Wealth that is originally owned by Allah, should not be left to few hands because wealth has been made a source of sustenance to mankind. A just economy should aspire to create an economy that promotes the free and just circulation of wealth in society. The major objectives of distributive justice in Islamic economics could be summed in the following:

2.6.2.1 *The Objective of Achieving Effective Circulation of Wealth*

The objective of continuous wealth circulation describes the significance of preserving the transactional feature of financial activities so that a majority of the society can become a part of the wealth monetary cycle as well as eliminate wealth from being focused on just the elite few. Several verses of the Quran, as well as many hadith, mention this objective which calls for the offering of *Zakāt*, generous donations,

spending money in the name of Allah, and abstaining from monopolizing and hoarding wealth.

This spirit of distributive justice is summed up in the statement, “so that wealth is not circulated among the rich of you only [it should go to the whole segment of society]” (al-Hashr [59]: 7). The word *dûlah* becomes key-terminologies in Islamic distribution which means circulation of wealth, welfare, and income among society. Its opposite meaning is concentration, block, or prevention of wealth, welfare, and income in certain hands.

The following Hadith reveals the warning from the Prophet (SAW) against storing one's wealth and not spending it wisely:

Narrated by Abu Hurairah, Allah's Apostle said, "Whoever is made wealthy by Allah and does not pay the *Zakāt* of his wealth, then on the Day of Resurrection his wealth will be made like a bald poisonous male snake with two black spots over the eyes. The snake will encircle his neck and bite his cheeks and say, 'I am your wealth, I am your treasure.' “Then the Prophet recited the holy verses:- 'Let not those who withhold . . .' (to the end of the verse). (Bukhari, Hadith no. 486).

An ethical economy, the Islamic economic system aspires to establish distributive justice in society in a balanced perspective of recognizing both individual and public interests. Specifically, the Islamic economic system aims to achieve the following distribution objectives: fulfilling basic needs, establishing socioeconomic justice, and economic empowerment.

2.6.2.2 The Objective of Achieving Continuous Wealth Investment

Economic activities and financial transactions develop and increase as societies grow bigger. It is normal for societies to increase their wealth to prosper and benefit the members of society. However, for societies to become more prosperous, wealth investment must be carried out, and it should be made available to many people for investment and growth. Several verses that support this objective can be found in the Qur'an and the Hadith by the Prophet (SAW) that refer to the issues of obligation and the necessity of continuing wealth investment since it encourages all Muslims to start earning, striving, and continuing to expand themselves all over the world searching for Allah's bounty.

2.6.2.3 *The Objective of Achieving Holistic Communal Prosperity*

This objective is aimed at achieving fundamental material requirements for all the members of society by gaining individual satisfaction, security, and social harmony. Achieving this objective will also eliminate negative social attributes from society, such as population stratification of privileged and non-privileged statuses, a concept which would most certainly lead to hatred and animosity within a society. Quranic verses and Hadith urging Muslims to make *Zakāt* payments to help and cooperate in business dealings and ensuring that the objective of achieving prosperity for the whole society is achieved are evidence of this objective. It is impossible to achieve this objective if the two earlier-mentioned objectives of continuous wealth circulation and continuous wealth investment are not practised. The reason for this is that wealth distribution through investment is among the major determinants in reaching holistic societal prosperity.

The latter part of the chapter illuminated the theoretical foundations that drive the demand for a socially responsible *Qard*. As we move forward in the subsequent chapters, this solid foundation in the conceptual framework will continue to serve as a valuable lens through which we examine the evolving landscape of socially responsible *Qard*. By weaving together the principles of *Qard* and *Qard al-Hasan* with the imperative of social responsibility, we embark on a journey to uncover the inherent potential for Islamic finance to become a catalyst for positive change and communal well-being.

2.7 SUMMARY OF THE LITERATURE REVIEW

The literature review summary contains eighty-five pieces of literature comprising forty-three articles, with thirty-four adopting a qualitative method, six a quantitative method, three a mix of qualitative and quantitative methods, and one as a model. Additionally, sixteen books, one regulation, and 21 reports and web were reviewed. Table 14 summarises the findings of the literature review.

Table 14 Summary of Literature Review

<i>Subjects</i>	<i>Author(s)</i>	<i>Article Title</i>	<i>Mode of Research</i>	<i>Year</i>
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<i>Qard al-Hasan</i> Challenges and Risks	Aderemi & Ishak	<i>Crowdfunding as an Alternative Mode of Financing for Micro and Small Enterprises: A Proposed Qard al-Hasan Contract</i>	Qualitative	2020
	Al-Melahi, Sa'ad Alhabshi	Developing Repayment Risk Management Model of <i>Qard al-Hasan</i> Financing for SMEs in Islamic Banks	Qualitative	2021
	Utomo, Maharani, & Octavio	Financial Determinants of <i>Qardhul Hasan</i> Financing Growth: Evidence from Islamic Banks in Indonesia	Quantitative	2015
<i>Qard al-Hasan</i> Financing Sources	Aderemi & Ishak	Crowdfunding as an Alternative Mode of Financing for Micro and Small Enterprises: A Proposed <i>Qard al-Hasan</i> Contract	Qualitative	2020
	Fatima, Mustafaa & Kareemah	Tamwil almasharie almusagharat bisighat al <i>Qard</i> alhasan, dirasat halat sunduq al <i>Zakāt</i> satif	Qualitative	2019
	Wahjono, Sentot, Marina & Widayat	Islamic Crowdfunding: Alternative Funding Solution.	Qualitative	2015
	Wulandari	Enhancing the role of Baitul Maal in giving <i>Qardhul</i> Hassan financing to the poor at the bottom of the economic pyramid: A Case study of Baitul Maal wa Tamwil in Indonesia	Qualitative	2019
	Widiyanto, Mutamimah, & Hendar	Effectiveness of <i>Qard al-Hasan</i> Financing As a Poverty Alleviation Model	Qualitative	2011
	International Islamic Fiqh Academy	Resolution	Resolution	1986
	Baeaziz & Makhluifi	Tamwyl almsharye almusagharat bisyghat al <i>Qard</i> alhasan fi aljazayir. Majalat altanmiat alaiqtisadia	Qualitative	2018
	Hiba & Ibtasam	Dawr sunduq al <i>Zakāt</i> fi tamwil almuasasat almusgharati, dirasat halat sunduq al <i>Zakāt</i> biwilayat almsyla	Qualitative	2018

	Mohsin & Alhabshi	Microfinance through Islamic banks & <i>Zakāt</i> (A novel practice)	Qualitative	2015
	Riwaya	Aldawr altamwili lil <i>Zakāt</i> bisighat al <i>Qarḍ</i> alhasan wa'atharohu alaa altanmia “darisat muqaranah mae al Wakālah alwataniah litasyeer al <i>Qarḍ</i> almusghar” liwilayat albalida	Qualitative	2015
	Febianto & Ashany	The Impact of <i>Qarḍ</i> hul Hasan Financing Using <i>Zakāt</i> Funds on Economic Empowerment (Case Study of Dompet Dhuafa, West Java, Indonesia)	Quantitative	2012
	The Ministry of Religious Affairs and <i>Waqf</i>	Publication	Regulation	2004
	Al-Melahi, Sa'ad	<i>Qarḍ al-Ḥasan</i> for SMEs Financing Using Non-Permissible Earnings: Islamic FinTech Solutions for Yemeni IFIs	Qualitative	2022
<i>Qarḍ al-Ḥasan in SMEs</i>	Abu Mounes	<i>Namudhaj Muqtarah Lieamaliat Masrafiat Islamiat Qayimat Alaa AlQarḍ al-Ḥasan</i>	Qualitative	2019
	Naser & Muhsen	Tajribat aljazayir fi tamwil almasharie almusagharat bisighat al <i>Qarḍ</i> alhasan dirasat taqyimia.	Qualitative	2011
	Zada & Saba	The Potential Use of <i>Qarḍ</i> Hasan In Islamic Microfinance	Qualitative	2013
	Masyita	Sustainable Islamic Microfinance Institutions In Indonesia: An Exploration Of Demand & Supply Factors And The Role Of <i>Waqf</i>	Qualitative and quantitative	2012
	Khan & Nor Saeran	Promotion of Agricultural and Small Business Financing through <i>Qarḍ</i> hasan in Pakistan	Qualitative	2017
	Ismail & Possumah	<i>Qarḍ</i> hul Hasan Principles Applied to Micro Finance Facilities	Qualitative	2010

	Sadr	Gharzul-Hasaneh Financing and Institutions in Iran, Islamic Finance for Micro and Medium Enterprises	Qualitative and quantitative	2008
	Maggangka	Sharī'ah appraisal in Islamic microfinance institutions in Riau Archipelago Indonesia BMT's products and services	Qualitative and quantitative	2015
<i>Qard al-Hasan</i> in Sharī'ah	Al-Melahi	Opinions of ShaikhAliAl-Qaradaghi in the Issues of Debt Arrears in IFIsA Comparative Study with Institutional Ijtihād	Qualitative	2021
	Ministry of <i>Awqāf</i> and Islamic Affairs Kuwait	Almawsuat Alfiqhyyat Al-Kuwaityyah	Book	2006
	Zain, Engku Ali	An Analysis on Islamic Social Finance for Protection and Preservation of Maqāsid al-Sharī'ah	Qualitative	2017
	Abozaid & Saleem	Benefitting from a Loan (<i>Qard</i>) Contract: An Analysis of Juristic Opinions	Qualitative	2013
	Najeeb & Lahsasna	<i>Qard</i> Hasan: Its Sharī'ah Rules and Applications in Islamic Finance	Qualitative	2013
	Aljanadi	Al <i>Qard</i> ka'adat liltamwil fi al-Sharī'ah al'iislamia	Book	1996
	Alzuhaili	almuaamalat almaliat almuaasirah	Book	2006
	Alzuhaili	alfiqh al'islamy wadillatuh	Book	
		Sadr	<i>Qard</i> hasan financing in Islamic banks	Qualitative
<i>Qard al-Hasan</i> in Islamic Banks	Stela & Bardai	The feasible acceptance of Al <i>Qard</i> al-Hassan (Benevolent Loan) mechanism in the Libyan Banking system	Qualitative	2013
	Ariffin & Adnan	Malaysian Islamic bankers' perceptions of <i>al-Qard al-Hasan</i>	Quantitative	2010
	Saqib, Zafar, Khan, Roberts & Zafar	Local agricultural financing and Islamic banks: is <i>Qard</i> -al-Hassan a possible solution?	Qualitative	2015
	Al-Melahi & Sa'ad	<i>Qard al-Hasan</i> Funds as Islamic Social Finance Mode:	Qualitative	2021

		Analytical Study of Islamic Banks of Yemen		
<i>Qard al-Hasan</i> Model	Mohsin & Alhabshi	Hybrid Model of <i>Zakāt, Waqf, Qard-Hassan</i>	Qualitative	2016
		& Islamic Finance for a Just and Sustainable		
		Microfinance		
	El-Gari, Mohamed	The <i>Qard Hasan</i> Bank		2004
<i>Qard al-Hasan</i> Product	Jordan Islamic Bank	Annual Reports	Reports	2019
	Jordan Islamic Bank	Social Responsibility Reports	Reports	2019
	Kuwait Finance House (Malaysia)	Annual Reports	Reports	2019
	AL-Baraka Banking Group	Annual reports	Reports	2019
	Bank AlJazira	Annual CSR Activity Report	Reports	2019
	Saba Islamic Bank	Annual reports	Reports	2017
	Almagribi	al'iidarat al'iistiratijiat fi alibunuk al'iislatmiat	Book	2004
<i>Qard al-Hasan</i> Standard	AAOIFI	Sharī'ah Standards	Book	2017
	AAOIFI	Accounting Auditing and Governance Standards	Book	2015
<i>Qard al-Hasan</i> in Poverty Alleviation	Muneer & Khan	<i>Qard-Al-Hassan</i> As a Tool for Poverty Alleviation a Case of Fael Khair <i>Waqf</i> Program in Bangladesh	Qualitative	2019
	Junaidi, Lutfiyah & Adnan	The Effectiveness Of Interest-Free Loan Financing (<i>Qardhul Hasan</i>) As The Social Implementer Of Islamic Bank To Reduce Poverty In Surakarta	Qualitative	2017
	Hassan	The challenge in poverty alleviation: role of Islamic microfinance and social capital	Quantitative	2014
	Mojtahed & Hassanzadeh	The Evaluation of <i>Qard-al-Hasan</i> as a Microfinance Approach in Poverty Alleviation Programs (Case study of Iran.I.R.)	Qualitative	2009

<i>Zakāt of Qarḍ al-Ḥasan</i>	Mansuor	<i>Zakāt al-Qarḍ al-Ḥasan</i> drasat drasat fiqhiyah. Dirasat Auluom Alshariaah Wa Alqanoon	Qualitative	2016
	Yaseen	<i>Zakāt al-Qarḍ al-Ḥasan</i>	Quantitative	2014
Islamic FinTech via <i>Qarḍ al-Ḥasan</i>	Sa'ad, Pitchay	Financing SMEs Through the Islamic <i>Qarḍ al-Ḥasan</i> : A Proposal of Islamic FinTech Interest- Free Lending for Government Initiatives	Qualitative	2019
	Al-Melahi, and Sa'ad	Automating the Set-Aside Earnings for SMEs Financing using AI technology: A <i>Qarḍ al-Ḥasan</i> Fintech Solutions for Yemeni Islamic Banks	Qualitative	2021
	Khan et al.	An Artificial Intelligence-Based Islamic Fintech Model on Qardh-Al-Hasan for Covid 19 Affected SMES	Qualitative	2020
<i>Qarḍ al-Ḥasan</i> and monetary policy	Selim	The effectiveness of <i>Qarḍ</i> -al-Ḥasan (interest free loan) as a tool of monetary policy	Quantitative	2019
<i>Qarḍ al-Ḥasan</i> and Empowerment	Alhabshi, Sadr, Hamzah, Abdul Razak & Mohsin	Developing sustainable social benefit scheme for the hard core poor using Islamic finance- <i>Zakāt</i> , <i>Waqf</i> and <i>Qarḍ</i> hassan	Model	2016
Islamic CSR	Yusuf, Muhammad Yasir Bahari, Zakaria bin	Islamic corporate social responsibility in Islamic banking: Towards poverty alleviation	Book	2015
<i>Qarḍ al-Ḥasan</i> in enhancing social solidarity	Iqbal & Shafiq	Islamic finance and the role of <i>Qarḍ</i> -al-Hassan (Benevolent Loans) in enhancing inclusion: a case study of AKHUWAT	Qualitative	2015
CSR for Islamic banks	Ayash	Almasuliat al'ijtmaceut lilmasarif al'iislatmat tabieatuha wa'ahamiatuha	Book	2010
<i>Qarḍ al-Ḥasan</i> Definition	ISRA	Compendium for Islamic Finance Terms	Book	2010
Information	OIC	Charter of the Organisation of Islamic Cooperation (OIC)	Charter	2008

<i>Qard al-Hasan</i> Theory	Alhaj	nazariat al <i>Qard</i> fi alfiqhi al'iislami	Book	2008
CSR	Perrini, Pogutz & Tencati	Developing Corporate Social Responsibility A European Perspective	Book	2006
Research Methods	Sekaran	Research Methods For Business A Skill Building Approach	Book	2003
History of Islamic Banks and products	Al-gharib, Nasir	Usul Al-masrafiyat Al-'Islamiyat Wa Qadhaya Al-Tashghil	Book	1996
	Ibn Hisham	Alsiyarat Alnabawiyah	Book	1955
Overview of Islamic banks in OIC countries	ICD and REFINITIV	Islamic Finance Development	Report	2020
	Saba Islamic Bank	Annual Report	Report	2017
	Central Bank of Yemen	Islamic Banks law	law	2009
	Bank AlJazira	About the Bank	Web	2021
	Saudi Central Bank	Financial Stability Report	Report	2020
	Jordan Islamic Bank	Annual Report	Report	2020
	Central Bank of Jordan	Financial Stability Report	Report	2020
	Al Barakah Bank	CSR Report	Report	2021
	Kuwait Finance House (Malaysia)	Directors' Report and Audited Financial Statements	Report	2020

	Kuwait Finance House (Malaysia)	About the Kuwait Finance House	Web	2021
	Bank Negara Malaysia	Financial Stability Review for Second Half	Documents	2019
	IFSB	Prudential and Structural Islamic Financial Indicators (PSIFIs)	Report	2021
	IRTI	Blending Islamic Finance and Impact Investing for the Global Goals	Report	2021
	IRTI	Bridging Islamic Finance and Sustainability through Fintech	Report	2021
	IsDB	Annual Report	Report	2014
<i>Qard al-Hasan</i> , CSR and SDG	Man, Abd Wahab, Abu Hamid, Mansor & Bin Ahmad	promoting <i>Qard al-Hasan</i> as csr-based-product in Islamic banking institutions	Qualitative	
	Hasan, Hassan & Rashid	Qard Hasan (Interest-Free Loan) as a Tool for Sustainable Development—Global Evidence	Quantitative	2021

Source: Author's illustration

2.8 THE GAP OF THE STUDY

Upon reviewing the previous literature, the researcher found that it contains valuable information, whether theoretical or practical, which helped the researcher to prepare a general vision and an excellent plan to bridge the gap and develop the financing of *Qard*. The researcher realizes that some of the studies have so far remained, at best, a conceptual framework; they do not cover OIC countries and are not an integrated model.

This study attempts to fill this gap by studying the Sharī'ah and social responsibility perspectives, eliciting the principles from the practices, and exploring the challenges and risk exposures of *Qard*. It will also gather the experts' opinions on the suitability and development of the various financing models of *Qard* financing as a

socially responsible instrument in OIC countries. The study will investigate how Islamic banks could develop *Qarḍ* financing as a socially responsible instrument in OIC countries. This study will demonstrate a case for *Qarḍ* Islamic banks can develop for financing the community of Islamic countries.

To sum up, according to the literature review, Islamic bank reports, and interviews, the researcher will develop *Qarḍ* financing as a socially responsible instrument. The developed financing is subjected to the established principles of Shari'ah when talking about the financing for the study and the complementary relationship between the sources and financing of the *Qarḍ*. The development will be processed through four main components:

1. Sources of *Qarḍ*;
2. Risks associated with *Qarḍ*;
3. Mechanisms of *Qarḍ* financing disbursement, and
4. Purposes of *Qarḍ* Financing.

Figure 30 demonstrates the schematic presentation of developing *Qarḍ* conceptual financing.

Developing *Qarḍ* Financing



Figure 30 Structure of developing *Qarḍ* financing
Source: Author's illustration

2.9 CONCLUSION

This chapter has provided an examination of Islamic banking and the multifaceted concept of *Qard* and *Qard al-Hasan*, consolidating insights from the historical evolution, theoretical underpinnings, and contemporary practices. The overview of Islamic banking within OIC countries traced its rich history from its conceptual inception in the twentieth century to its current status as a prominent financial sector. The evolution was marked by two significant stages: the foundation stage (1965-1976) and the propagation stage (1977-present), highlighting the development of thought, establishment of key institutions, and significant growth in the number of Islamic banks globally.

The chapter delved into specific Islamic banks in various countries, providing an exploration of their establishment and evolution. Banks such as Saba Islamic Bank in Yemen, Bank Aljazira in Saudi Arabia, Jordan Islamic Bank in Jordan, Al-Baraka Bank in Algeria, and Kuwait Finance House in Malaysia were examined, illustrating the global spread and impact of Islamic banking.

In exploring the conceptual framework, the chapter focused on *Qard* and *Qard al-Hasan*, defining their fundamental principles, pillars, conditions, types, and rewards. *Qard*, in particular, was underscored for its Sharī'ah-compliant nature and potential for social responsibility. The theoretical underpinnings revealed the intersection of *Qard* with social responsibility, emphasizing the role of Islamic financial institutions in contributing to societal welfare and ethical objectives.

Contemporary practices surrounding *Qard* were scrutinized, revealing challenges, risks, diverse financing sources, and the integration of fintech innovations. The significance of *Qard* in supporting small and medium-sized enterprises (SMEs) and its broader social and economic impact were key themes. A literature review highlighted existing knowledge and identified a crucial research gap in developing and structuring *Qard* financing mechanisms.

The insights gathered from historical, theoretical, and contemporary perspectives provide a solid foundation for understanding and advancing the role of *Qard* within Islamic finance. This chapter sets the stage for further investigation into the development of robust financing structures, aiming to enhance the understanding and application of *Qard* in promoting positive societal change and communal well-being.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the methodology used in the research. The study employs a specific methodological approach that aligns with the research goals to address the research questions and meet the objectives. A qualitative approach is used in this study. The study used secondary and primary data in the fourth and fifth chapters. The secondary data were collected from the websites of Islamic banks, their annual financial reports, and social responsibility reports. In contrast, the primary data came from interviews with selected representatives from Islamic banks in the chosen OIC (Organization of Islamic Cooperation) countries. This diversity of secondary and primary data is designed to ensure the study collects ample information to answer the research questions and meet the study's goals.

3.2 DATA COLLECTED, SEMI-STRUCTURED INTERVIEW AND THE DOCUMENTS

The data collection process commences by gathering secondary data directly from Islamic banks, such as reports, policies, and procedures. This initial phase aims to comprehend the practices surrounding *Qard* financing, encompassing its sources, purposes, and disbursed amounts.

In addition to secondary data, semi-structured interviews serve as a crucial method for data collection in this study. This approach facilitates standardized yet flexible conversations, allowing pertinent issues to surface. According to Horton, Macve, and Struyven (2004), the semi-structured interview method allows both parties to express their perspectives on the researched topics freely. Notably, this method encourages the interviewees to share new insights and enriches the acquisition of information, as noted by O’Keeffe et al. (2016).

The interview questions are formulated carefully. Comments from two qualitative research experts in academia were solicited to ensure the validity and reliability of the questions. The research sample comprises ten experts from Islamic banks, Islamic

financial services, and esteemed academic research institutions specializing in Islamic banking and finance. The qualifications, background details, and recording timestamps of the interviewees were meticulously documented. All interviews were recorded using appropriate equipment and subsequently transcribed. Table 4 delineates the correlation between the research questions, the data sources, and the justifications for their selection. Table 15 outlines the link between the research questions, the data sources, and the justifications for their selection.

Table 15 The Correlation Between the Research Questions, Data Sources, and Justifications

No	Research Questions	Data Sources	Justifications
1	What are the theoretical constructs of social responsibility from the Sharī'ah perspective in developing a <i>Qard</i> financing?	Literature Review	To shed light on the background of <i>Qard</i> financing from the Sharī'ah perspective.
2	What are the principles of the practices of <i>Qard</i> financing for the selected Islamic banks in OIC countries?	Documents and interviews, Islamic Banks documents,	To understand the practices of <i>Qard</i> financing, including the sources, purpose of financing, and their amount.
3	What are the challenges and risks exposures of <i>Qard</i> financing in the selected Islamic banks in OIC countries?	Experts' interview	To determine the challenges and risks of <i>Qard</i> financing.
4	What are the experts' opinions of the suitability of <i>Qard</i> financing as a socially responsible instrument for the selected Islamic banks in OIC countries?	Interviews of Experts	To confirm and understand the current practices of <i>Qard</i> financing, get the rest of the information not found in the documents in Islamic banks. In addition, to develop the suitability of a <i>Qard</i> financing model during the expert interview.
5	How to develop <i>Qard</i> financing conceptual model for Islamic banks in OIC countries?	Experts' interviews and The Researcher's Model	To develop <i>Qard</i> financing model as a socially responsible instrument.

Source: Author's illustration

3.3 THE RESEARCH DESIGN

Studies on *Qard* financing are rare in OIC countries, especially concerning developments in the Islamic finance industry. The qualitative approach is appropriate for this topic as it allows for the exploration of the method of operation and analysis of *Qard al-Hasan*. As seen in case studies, qualitative studies can describe phenomena or provide solutions (Sekaran, 2003). A qualitative approach was chosen in this research, using primary and secondary data.

This study consists of three stages. The first stage involves a literature review to shed light on the background of *Qard al-Hasan* in Islamic banks. The second stage begins with secondary data collection directly from Islamic banks, such as documents, reports, and policies. Through this stage, the study seeks to understand the practices of *Qard* financing, including the sources, purposes, and amounts. The third stage involves interviews to confirm and understand the current practices of *Qard financing*, gather additional information not found in the documents from Islamic banks in OIC countries, and develop well-formulated questions for the interviews. This stage also aims to identify the challenges and risks associated with *Qard* financing.

Moreover, these stages allow the researcher to develop a *Qard* financing during interviews with experts. These stages also help with mechanisms to mitigate any challenges and risks involved in *Qard* financing operations. Figure 31 illustrates the study's research design.

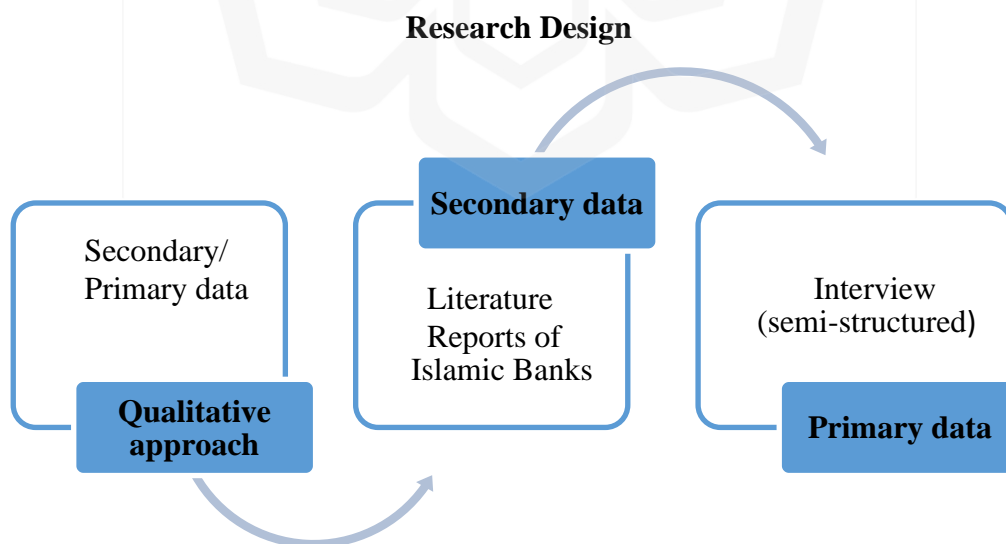


Figure 31 Research Design

Source: Author's illustration

3.4 SAMPLE SIZE

The sample size for this research comprises Islamic banks in OIC countries: Saba Islamic Bank in Yemen, Bank Aljazira in Saudi Arabia, Albaraka Bank in Algeria, Jordan Islamic Bank in Jordan, and Kuwait Finance House (Malaysia) Berhad in Malaysia. The study focus on OIC countries is crucial because these nations have a significant commitment to Islamic banking principles and provide a diverse and relevant context for studying and implementing *Qard* financing. This geographic focus allows the study to access specialized data and expertise, ensuring that research is deeply rooted in the practices and challenges specific to Islamic finance. These banks were selected based on several criteria. Firstly, these banks were chosen due to the transparency of *Qard* financing information available in their reports, which is essential for the accuracy and reliability of this research. Secondly, each bank represents a unique approach, a different model to *Qard* financing, and they are located in different regions, offering a diverse geographical perspective on the practice.

While it is acknowledged that the selected countries are not all the primary hubs of Islamic finance, two countries are all the primary hubs of Islamic finance, like Malaysia or Saudi Arabia; the inclusion of these banks provides insight into *Qard* financing practices in less-studied markets.

Moreover, the diversity of the selected banks extends to their cultural backgrounds and the extent of their experience in Islamic finance, with some banks being part of larger banking groups. This inclusion is advantageous because if specific data cannot be obtained directly from an individual bank, it may be accessible through group bank reports.

Additionally, these banks were chosen because they offer *Qard* financing with the highest percentage in their respective countries. This focus is crucial as it highlights banks that are leaders in social responsibility and *Qard* financing, compared to other major Islamic banks, which may not prioritize this type of financing.

Lastly, the selected banks provide a balanced view of regions and practices, reflecting both high-commitment and lower-profile institutions regarding social responsibility and *Qard* financing. This variation allows for an analysis of the *Qard* financing practices across different contexts. Future research should consider exploring why major Islamic banks in key Islamic finance countries may not practice *Qard* financing

extensively to understand the underlying reasons and barriers in these leading markets.

Figure 32 shows the sample size.

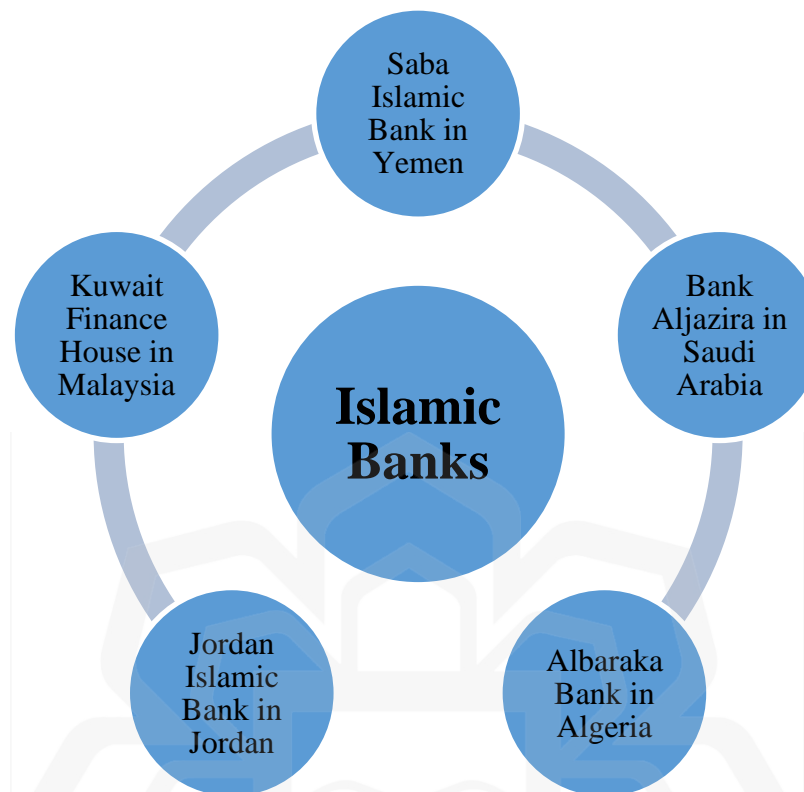


Figure 32 Sample size

Source: Author's illustration

3.5 RESPONDENTS

The respondents are taken from those who work directly with management in Islamic banks in OIC countries and experts in the Islamic finance industry. These individuals were selected because the researcher needed to collect specific information about *Qard* financing.

The researcher interviewed one to two executives in each Islamic bank selected in the OIC countries. Additionally, the researcher interviewed other experts in the Islamic finance industry who work in institutions that issue standards for Islamic financial institutions in the OIC countries, and prestigious academic research institutions focused on Islamic banking and finance. Among the experts, a woman was chosen for her extensive experience in academic work and industry in order not to overlook the representation of women in the respondents. The total respondents are ten experts in

the Islamic banking industry in the OIC countries. Dworkin (2012) noted that many studies and publications recommend having between five and fifty respondents. Therefore, interviewing ten participants and analyzing the documents should be enough to achieve saturation. Table 16 summarises the respondents of the interviewees.

Table 16 The Respondents Interviewees

Group	Sample Type	Bank & Institutions	Positions	NO
A	Experts of Executives, Managers, and Shari'ah Advisors	Bank A	Top Management and middle departments	2
		Bank B		1
		Bank C		2
		Bank D		1
		Bank E		1
B	Expert in Islamic Financial Services	IFSB	Middle departments	2
	An academic expert, Experts and Shari'ah Advisors	IIUM	Professor	1
Total of the Respondents Interviewees				10

Source: Author's illustration

3.6 DATA ANALYSIS

Data analysis within Islamic banking, particularly concerning *Qard* financing, follows a meticulous process intertwining secondary data examination and qualitative inquiry through semi-structured interviews. This multifaceted approach is integral to comprehensively understanding the intricacies of Islamic banking practices.

The researcher delves into secondary data repositories within Islamic banks to embark on the data analysis journey. These documents, comprising reports, policies, and procedures, serve as the bedrock for initiating the analysis. Here, the researcher meticulously scrutinizes the nuances surrounding *Qard* financing. They aim to dissect the multifaceted dimensions of this financing mechanism, including its sources, purposes, and the quantum of funds disbursed.

The examination of secondary data is not merely an information retrieval but rather a nuanced exploration aimed at unravelling the operational intricacies and contextual nuances of *Qard* financing. Through this process, the researcher gains insights into the

historical evolution of this financing model, the regulatory frameworks governing its implementation, and its alignment with Islamic financial principles.

However, the analysis does not culminate with examining secondary data alone. It extends further into the realm of qualitative inquiry through semi-structured interviews. These interviews serve as a conduit for capturing the perspectives, experiences, and insights of key stakeholders involved in *Qard* financing. According to Creswell (2014), qualitative analysis involves five main steps: first, prepare the data by transcribing interviews; second, record initial thoughts and impressions; third, code the data; fourth, find the most descriptive terms for your topics, then categorize and group related topics together; fifth, abbreviate and alphabetize these codes. The final step is to consolidate all data belonging to each category and conduct the analysis.

The integration of secondary data analysis and semi-structured interviews presents a holistic approach to data analysis and understanding of *Qard* financing and its broader implications within the Islamic banking landscape.

3.7 INSTRUMENTS

Primary and secondary data were analyzed to formulate the appropriate interview questions and achieve the study's objectives. This study uses qualitative research to discover the theoretical understanding of issues related to *Qard* financing, such as its concept, practices, and challenges. Due to political issues, visa restrictions, and the impact of COVID-19 in OIC countries, travel became difficult, leading the researcher to conduct the interviews via Zoom, Google Meet, WhatsApp, and mobile phone, where the conversations were recorded. The format of the questions is semi-structured interviews.

Semi-structured interviews refer to guided conversations in which the interviewer has a predetermined set of questions and topics to cover. However, the conversation can deviate depending on the participant's responses. While the interviewer clearly knows what information they want to obtain, the conversation may vary significantly between participants. Conducting interviews can be an engaging and fascinating method of gathering data, as the interviewer is often curious about people's thoughts and emotions. Through semi-structured interviews, the interviewer has the opportunity to engage with individuals and explore their experiences, thoughts, and emotions related to a topic of interest (Fylan, 2005). The study uses semi-structured interviews for its benefit in

allowing room for more exploration. The flexibility of semi-structured interviews also allows for a more comprehensive understanding of the research question. Furthermore, using this interview format can be particularly advantageous when discussing sensitive topics such as *Qard* financing.

3.8 CONCLUSION

The research methodology chapter designs the methodology and methods utilised to answer the questions and achieve the research objectives. The study selected the qualitative method because the research philosophy seeks to explore a phenomenon that is relevant to the interpretive approach due to the shortage of studies in this area. This research can explain changes such as organisational and managerial processes. The biggest challenge in conducting this research was arranging interviews with the interviewees, as this process is complicated and has taken a long time.

As we progress through the study, the methodology outlined in this chapter will serve as the guiding thread, steering the exploration of socially responsible *Qard* financing within Islamic banks. By adhering to the qualitative approach, the research aspires to paint a comprehensive portrait of the subject, offering a nuanced understanding that aligns with its complex and multifaceted nature.

CHAPTER FOUR

PRACTICES OF QARD IN THE SELECTED ISLAMIC BANKS: FINDINGS OF DOCUMENT ANALYSIS

4.1 INTRODUCTION

This chapter delves into the operational dynamics of *Qard* financing within selected Islamic banks, shedding light on how this form of financing is practised across different geopolitical and economic landscapes, particularly in Organisation of Islamic Cooperation (OIC) countries. The analysis presented here is instrumental in understanding both the theoretical frameworks and practical applications of *Qard* financing, which is pivotal in promoting and sustaining socio-economic development through interest-free financial instruments.

The first section of this chapter provides an overview of the current global financial environment, focusing on positive and negative interest rates and the principle of zero interest. This overview sets the stage by contextualizing the unique position of Islamic banking both globally and within OIC countries, where zero interest aligns with Sharia principles and offers a distinct contrast to conventional banking systems.

In section two, the study also provides a comparative overview of *Qard* financing practices in various countries. This section highlights the diverse methodologies and operational tactics employed by Islamic banks across different countries, offering insights into the adaptability and effectiveness of *Qard* financing in varying economic and regulatory environments.

Section three presents the results of a meticulous content analysis conducted on the annual reports and financial statements of the selected Islamic banks. This analysis critically evaluates the real-world application, effectiveness, and impact of *Qard* financing models, providing empirical data that supports a deeper understanding of their operational successes and challenges.

The findings from this chapter are intended to contribute significantly to the academic and practical knowledge of Islamic finance, specifically in enhancing the efficacy and outreach of *Qard* financing models. By exploring the nuances of these practices across different settings, the research aims to offer robust evidence and reasoned arguments

that support the development of more inclusive and socially responsible financial products.

4.2 OVERVIEW OF THE GLOBAL INTEREST RATES

This study presents a simple overview of the global positive and negative interest rates, zero interest in general, and the OIC countries in particular. It studies the world's highest, negative, zero countries in interest rates in 2019 and the highest interest rates in OIC countries in 2019. The interest rate is the percentage at which a central bank or other regulatory agency lends money to commercial banks and other financial institutions. Figures 33-36 summarize the world's interest rates in 2019.¹⁴

This overview is vital to address the significance of examining global interest rates and the principle of zero interest, particularly within OIC countries. Firstly, it provides necessary context by contrasting the unique non-interest-based framework of Islamic banking with conventional interest-based systems globally. This backdrop is crucial for understanding Islamic financial institutions' operational environment and challenges, especially in volatile economic climates with negative interest policies. Additionally, this discussion is pertinent for evaluating how Islamic banks maintain their competitive edge and integrity while adhering to Sharia principles. Ultimately, this analysis supports strategic decision-making and policy development for Islamic financial products in OIC countries, highlighting their stability and potential amidst global financial trends.

The data provided below represents the interest rates of various countries in 2019. The interest rate in Argentina was the highest among the countries listed at 57.3%. The next highest interest rate was in Suriname at 25%. The interest rates in Turkey and Venezuela were lower at 24% and 21%, respectively. Haiti and Iran had the lowest interest rates among the countries listed at 20% and 18%, respectively, and Ukraine also had an interest rate of 18%.

It is important to note that high-interest rates can make borrowing more expensive, slowing economic growth and making it more difficult for individuals and businesses to access credit. On the other hand, low-interest rates can stimulate economic growth

¹⁴ - The data is taken by (Abdullah, 2019). Based on data from the central banks of countries, the International Monetary Fund and the World Bank, and "Reuters" data

by making borrowing more affordable. The interest rates of these countries in 2019 reflect the monetary policy of the respective countries, and the OIC countries that had the highest interest rates may have been facing a high inflation rate or financial instability.

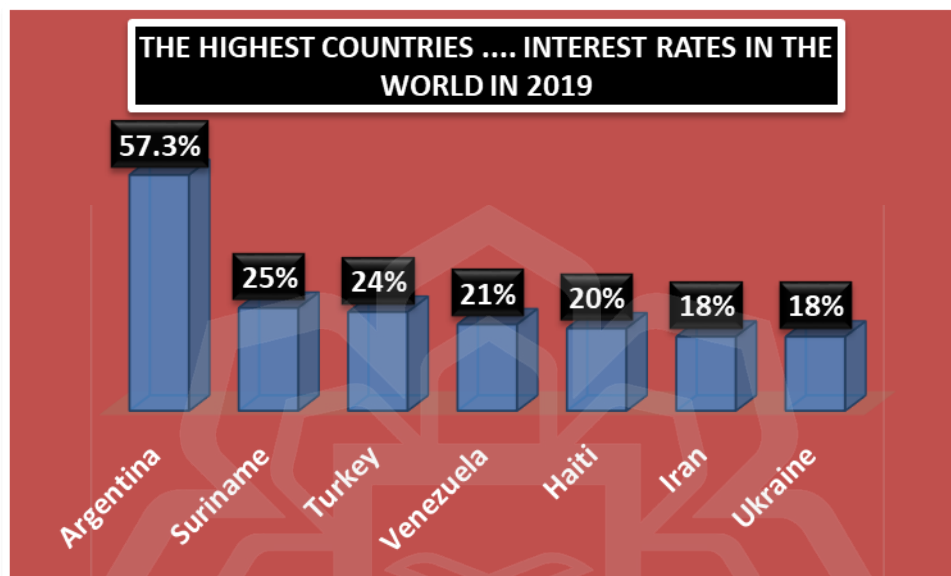


Figure 33 The highest countries in interest rates in the world in 2019

Source: Author's illustration

The data below provided represents the highest interest rates of various countries in the Organization of Islamic Cooperation (OIC) in 2019. The highest interest rate among the OIC countries listed was in Suriname at 25%, followed by Turkey at 24%. The interest rates in Iran, Egypt, Sierra Leone, Uzbekistan, Sudan, Yemen, and Djibouti were lower than those in Suriname and Turkey, but still relatively high compared to other countries. The interest rates in Lebanon, Tunisia, Mauritania, Iraq, Jordan, Algeria, Libya, Bahrain, Qatar, Saudi Arabia, Morocco, Oman, United Arab Emirates, Kuwait, and Comoros were relatively low, with the lowest being 1.1% in Comoros.

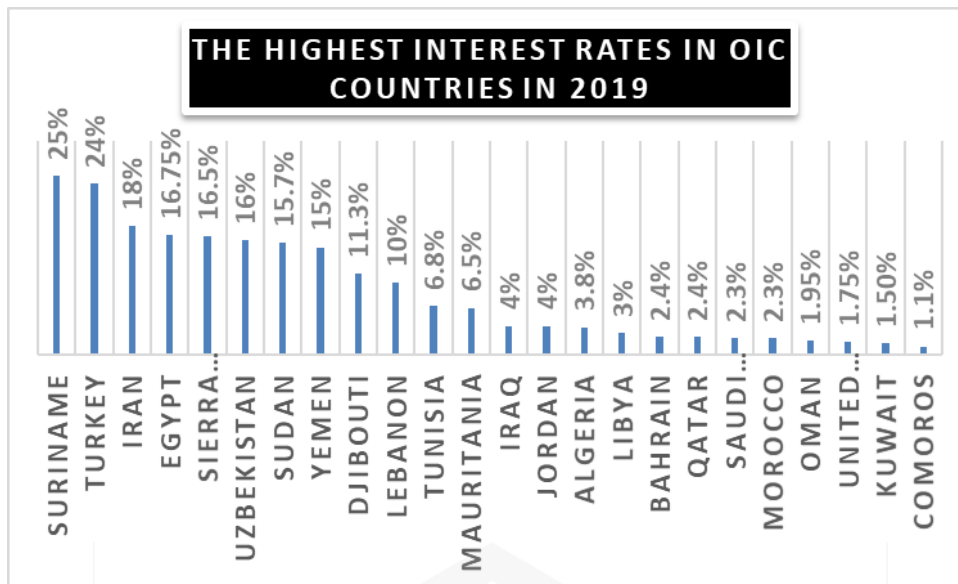


Figure 34 The highest interest rates in OIC countries in 2019

Source: Author's illustration

The data below provided represents the interest rates of various countries in 2019. The data shows that the interest rates in Germany, Italy, Spain, and 17 other European countries were all at 0%. A zero per cent interest rate means that the central bank has decided to reduce the rate to a very low level or even to zero. This is done as a monetary policy tool to stimulate economic growth by making borrowing cheaper and more available.

It is worth mentioning that zero interest rate policy (ZIRP) may be used as a last resort to stimulate economic growth when other monetary policy tools have been exhausted, and it is not a common occurrence. The decision to implement zero interest rate policy is usually taken by the central bank of the country, and it depends on the current economic conditions, such as high unemployment and low GDP growth. The zero-interest rate policy in these countries in 2019 may reflect the monetary policy of the European Central Bank (ECB) as well as the economic conditions in these countries at the time.

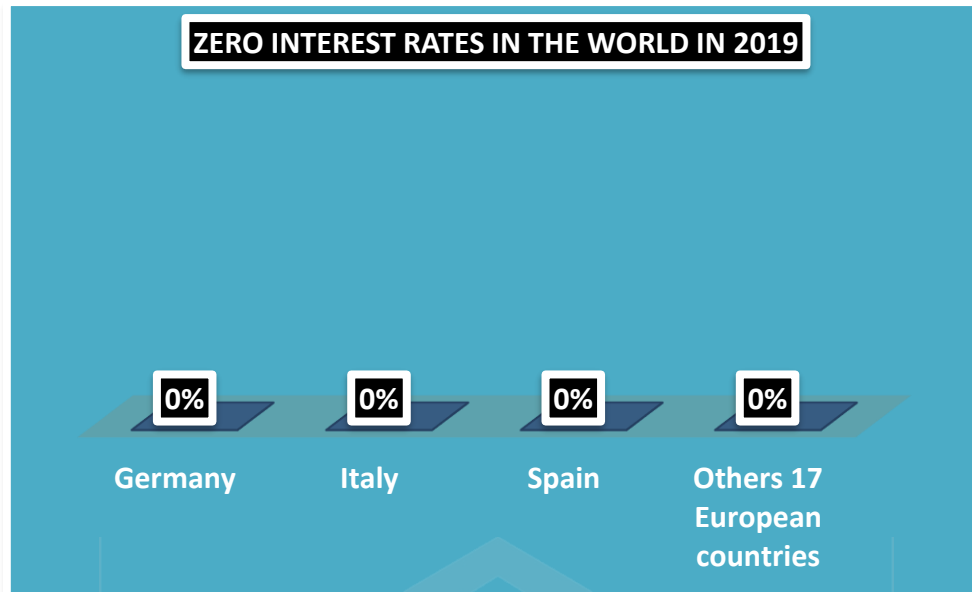


Figure 35 Zero interest rates in the world in 2019

Source: Author's illustration

The data provided below show the negative interest rates of various countries in 2019. Negative interest rates mean that commercial banks must pay the central bank to hold their deposits instead of receiving interest. The data shows that Japan had the lowest negative interest rate among the countries listed at -1%, followed by Sweden at -3%. Denmark had a negative interest rate of -7%, and Switzerland had the highest negative interest rate among the countries listed at -8%.

A negative interest rate is an unconventional monetary policy tool that central banks use to stimulate economic growth by making borrowing cheaper and more available. The country's central bank usually implements negative interest rates depending on current economic conditions, such as low inflation and low GDP growth. Negative interest rates may also be used to encourage banks to lend money to businesses and consumers instead of depositing it with the central bank.

The negative interest rates in these countries in 2019 may reflect the monetary policy of the respective countries and the economic conditions in these countries at that time. Some of the reasons for the negative interest rates in these countries could be a sluggish economy, low inflation rate and low growth rate.

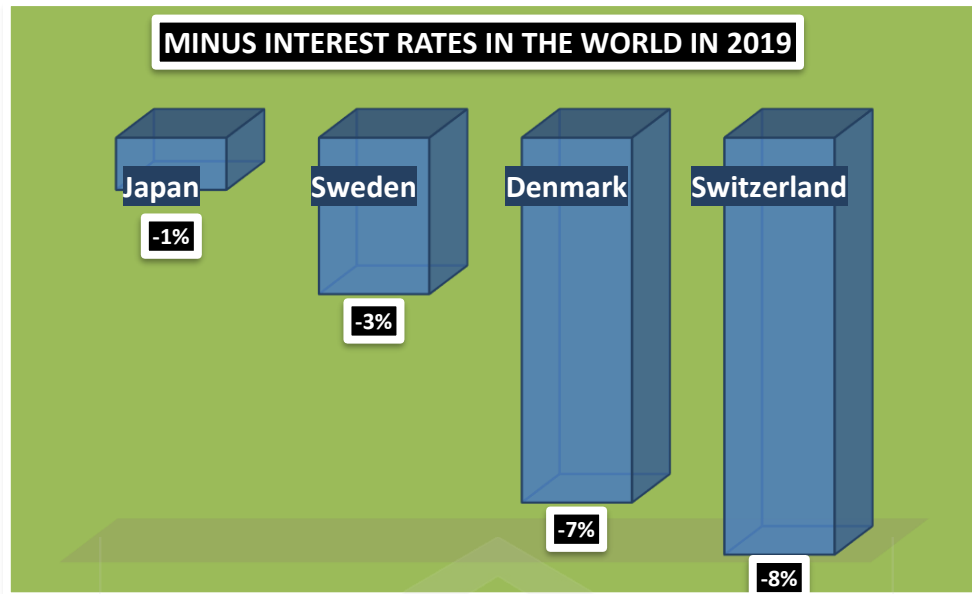


Figure 36 Negative interest rates in the world in 2019

Source: Author's illustration

4.3 QARḌ AL-ḤASAN IN VARIOUS COUNTRIES

Various OIC countries provide *Qarḍ al-Ḥasan* financing with different percentages and amounts. The table and figure below show the value and percentage of *Qarḍ al-Ḥasan* financing from various countries' Sharī'ah-compliant contracts in different years. The data shows that in 2020, Bangladesh had the highest value of *Qarḍ al-Ḥasan* financing at 61,909 million in the national currency, but it represented only 2% of the total financing. Iran had a *Qarḍ al-Ḥasan* financing percentage of 8% in 2018Q2, Iraq had a *Qarḍ al-Ḥasan* financing percentage of 0.1% in 2020Q3, and Nigeria had a *Qarḍ al-Ḥasan* financing percentage of 0.01% in 2020. In their respective years, Oman, Pakistan, Palestine, and Sudan also had low percentages of *Qarḍ al-Ḥasan* financing.

It is important to note that the percentage of *Qarḍ al-Ḥasan* financing may vary depending on the country's economic conditions and the development of the Islamic finance industry. The data also shows that these countries have a low percentage of *Qarḍ al-Ḥasan* financing compared to other types of financing. However, it is worth mentioning that the Islamic finance industry is rapidly growing, and the percentage of

Qarḍ al-Ḥasan financing may increase in the future. Table 17 and Figure 37 show the percentage of *Qarḍ* Hassan financing from Sharī`ah-compliant contracts.¹⁵

Table 17 The percentage of *Qarḍ* Hassan financing from Sharī`ah-compliant contracts

Countries	Currency	Units	Year	<i>Qarḍ al-Ḥasan</i> financing	Total financing	The percentage of QHF from total financing
Bangladesh	NC	M	2020	61,909	2,818,758	2%
Iran	NC	M	2018 Q2			8%
Iraq	NC	M	2020 Q3	2,497	2,557,533	0.1%
Nigeria	NC	T	2020	6,200	99,425,731	0.01%
Oman	NC	T	2020	2,003	1,742,748	0.1%
Pakistan	NC	M	2020	659	1,056,732	0.06%
Palestine	USD	M	2020	28	2,043	1.4%
Sudan	NC	M	2020	321	395,169	0.1%

Source: Author's illustration

¹⁵ - The data is taken by (IFSB, 2021b). NC Indicates National Currency, USD United States dollar, GBP British Pound, M Indicates Millions, T Indicates Thousand.

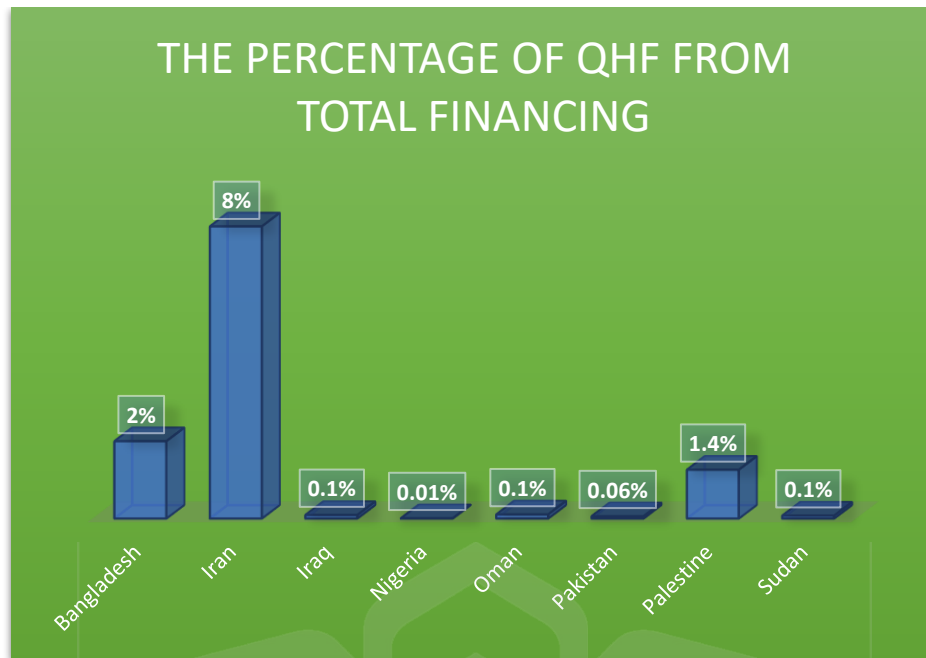


Figure 37 The percentage of *Qard* Hassan financing from Sharī`ah-compliant contracts

Source: Author's illustration

According to the Prudential and Structural Islamic Financial Indicators (PSIFIs), the percentage of *Qard al-Hasan* financing was 0.1% of all types of Sharīah-compliant contracts in the second quarter of 2018. Figure 38 summarizes this distribution by type of Sharīah-compliant contract in that period.

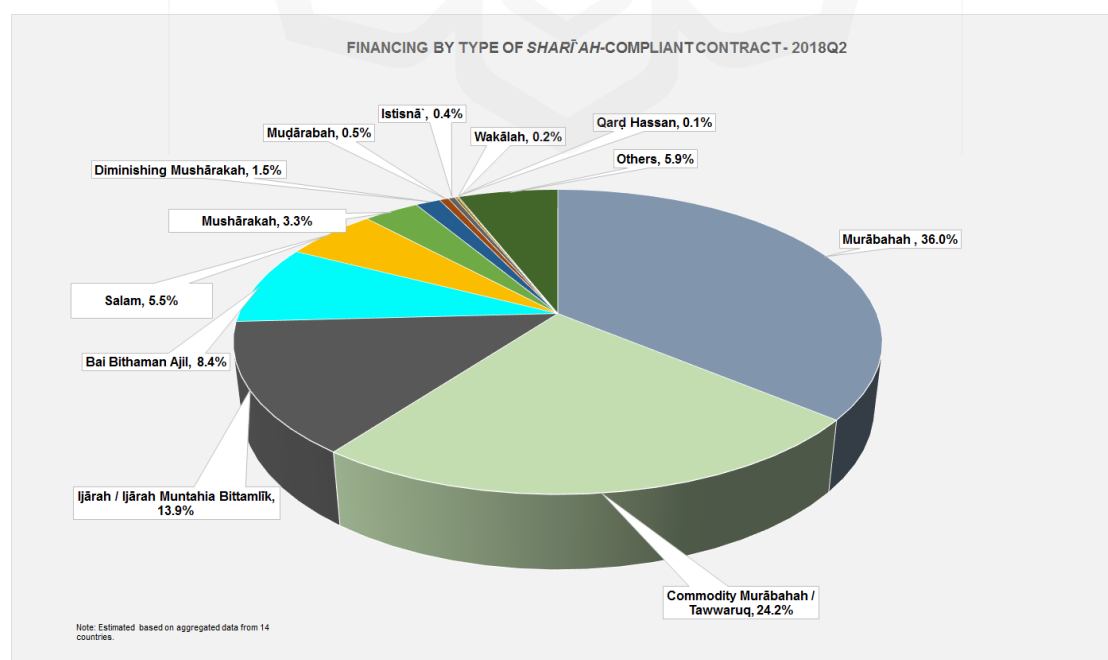


Figure 38 *Qard al-Hasan* Financing by type of Shari'ah-compliant Contract in 2018Q2¹⁶

Source: IFSB

The data in the table below provides the total corporate social responsibility (CSR) funds disbursed by Islamic financial institutions (IFIs) in 2019. The data is divided into two categories: *Zakāt* and charity funds and *Qard al-Hasan* funds. *Zakāt* and charity funds represent 89% of the total CSR funds disbursed, with a total of 1,030,000,000 USD. *Qard al-Hasan* funds, on the other hand, represent 11% of the total CSR funds disbursed, with a total of 129,000,000 USD. The total CSR funds disbursed by IFIs in 2019 were 1,159,000,000 USD.

It is worth mentioning that Islamic finance institutions follow the principles of ethical investing and corporate social responsibility, and they often use a portion of their profits to fund charitable and social projects. The data suggests that a higher percentage of CSR funds are disbursed as *Zakāt* and charity funds, compared to *Qard al-Hasan* funds, which may reflect the priorities of the IFIs in terms of social and community development. Table 18 summarises the total CSR Funds disbursed by IFIs in 2019.

Table 18 Total CSR Funds disbursed by IFIs in 2019¹⁷

Total CSR Funds disbursed by IFIs	Amount (US\$)	Percentage
Total <i>Zakāt</i> and charity funds disbursed	1,030,000,000	89%
Total <i>Qard al-Hasan</i> funds disbursed	129,000,000	11%
Total CSR Funds disbursed	1,159,000,000	100%

4.4 THE DOCUMENT ANALYSIS RESULT OF *QARD* FINANCING

The selected Islamic banks in OIC countries consist of Saba Islamic Bank in Yemen, Bank Aljazira in Saudi Arabia, Albaraka Bank in Algeria, Jordan Islamic Bank in Jordan, and Kuwait Finance House (Malaysia) Berhad in Malaysia have different models for *Qard* financing. This chapter discusses the document analysis of Islamic

¹⁶ - (IFSB, 2021a).

¹⁷ - The data is taken by ICD & REFINITIV report 2019.

banks selected in the OIC countries Yemen, Saudi Arabia, Algeria, Jordan and Malaysia. Islamic Banks use various aspects of *Qarḍ* financing offered by these banks, including *Qarḍ* financing sources, the purpose of the grant, the type of clients, the amount of *Qarḍ* financing, and its percentage.

4.3.1 *Qarḍ al-Ḥasan* financing in Yemen

Islamic banks in Yemen have been using *Qarḍ al-Ḥasan* financing, and they distinguish by showing the amounts of *Qarḍ al-Ḥasan* which are distributed each year and its financing sources. These Islamic banks have been using *Qarḍ al-Ḥasan* for several options, such as they use it between each other, overdrafts between the Islamic banks and their clients, and low-income needy for education, marriage, and treatment. The amount of *Qarḍ al-Ḥasan* financing disbursed by the three biggest Islamic Banks in Yemen reached around 15 billion over a period of ten years from 2010 to 2019. The percentage of *Qarḍ al-Ḥasan* financing disbursed by Saba Islamic Bank (SIB), Shamil Bank of Yemen & Bahrain (SBYB), and Tadhamon Bank (TB) were 66%, 33%, and 1%, respectively (Al-Melahi, Sa’ad, & Uthman, 2021). Figure 39 summarizes the percentage of *Qarḍ al-Ḥasan* financing disbursed by the three biggest Islamic Banks in Yemen: Saba Islamic Bank, Tadhamon Bank, and Shamil Bank of Yemen and Bahrain.

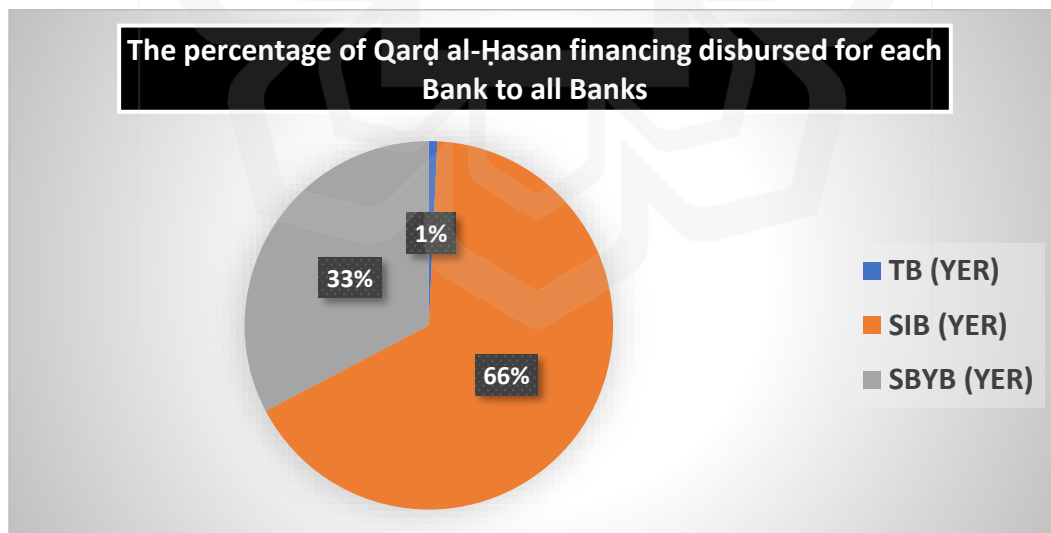


Figure 39 The percentage of *Qarḍ al-Ḥasan* financing disbursed by the biggest three Islamic Banks in Yemen from 2010 to 2019¹⁸

Source: Author’s illustration

¹⁸ - The data is taken by Saba Islamic Bank, Tadhamon Bank, and Shamil Bank of Yemen and Bahrain annual reports from 2010 to 2019.

4.3.1.1 Qard al-Ḥasan Financing in Saba Islamic Bank

4.3.1.1.1 Overview of Social Responsibility in Saba Islamic Bank

There is no social responsibility report for Saba Islamic bank. However, Saba Islamic Bank supports sustainable financing for SME and youth projects on concessional terms and empowering existing projects to continue via programs funded by international and regional organizations such as the ICD programme (BREF). Furthermore, Saba Islamic Bank supports convocations of graduate students and youth events, social initiatives, and sponsoring economic and social conferences (Saba Islamic Bank, 2021d).

4.3.1.1.2 Qard al-Ḥasan Model in Saba Islamic Bank

Due to the limited information available from documents like annual reports, the *Qard al-Ḥasan* Financing Model at Saba Islamic Bank presents certain constraints. Nevertheless, the study can draw general conclusions based on the information at hand.

Firstly, the financing sources for *Qard al-Ḥasan* in Saba Islamic Bank include current accounts or demand deposits, which indicates that the bank is using customer deposits to fund its interest-free loans. However, the model may include "unknown sources of financing". Secondly, the mechanism of *Qard al-Ḥasan* financing disbursement is unknown. It is possible that Saba Islamic Bank uses a direct disbursement mechanism, where the bank lends money directly to the borrower without involving any intermediaries. Finally, the purpose of the loans is unknown, but it is likely that they are provided to support social welfare and promote financial inclusion, as is the case with most *Qard al-Ḥasan* financing programs.

Overall, while the lack of information makes it challenging to analyze the *Qard al-Ḥasan* Financing Model in Saba Islamic Bank in depth, it is clear that the bank is using a traditional Islamic finance model to provide interest-free loans. The study will discover the model via interviews with experts. Figure 40 summarises the *Qard al-Ḥasan* financing model in Saba Islamic Bank.

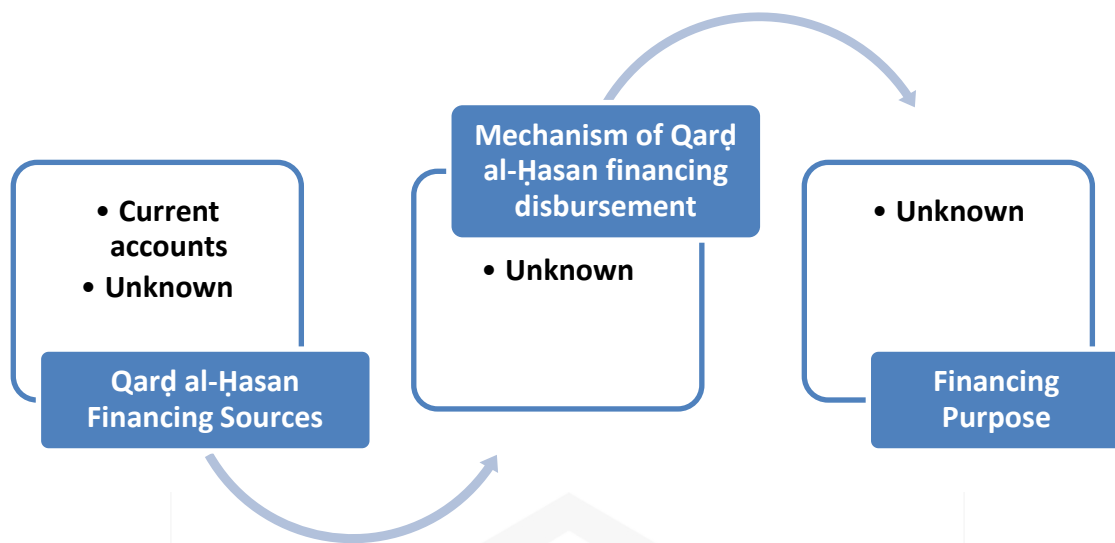


Figure 40 *Qard al-Hasan* financing model in Saba Islamic Bank¹⁹

Source: Author's illustration

4.3.1.1.3 *Qard al-Hasan* Financing amount Disbursed by Saba Islamic Bank

The data provided shows the amount of *Qard al-Hasan* financing disbursed in Yemen by Saba Islamic Bank over the years 2010 to 2019. The data shows that the total amount of *Qard al-Hasan* financing disbursed over the years is 10,119,782,000 YER (43,619,750) USD, with an average of approximately 1 billion over the ten years.

A quick analysis of the data shows that there is a significant variation in the amount of financing disbursed each year by Saba Islamic Bank. For example, in 2013, the amount disbursed was 4,345,019,000 YER, which is more than four times the amount disbursed in 2011, which was 24,049,000 YER. This variation could be due to a number of factors, such as changes in the economy, political stability, profit rates, and the availability of funds. Additionally, it may be due to the bank's own internal policies and strategies. For example, the bank may have focused on expanding its customer base or increasing its loan portfolio during certain years, leading to a higher disbursement of funds. An interesting point to note is that 66% of the *Qard al-Hasan* financing disbursed by Saba Islamic Bank is from the total amount of three Yemeni Islamic Banks. This is a significant portion and indicates that Saba Islamic Bank plays a significant role in the

¹⁹ - The data taken by (Saba Islamic Bank, 2017).

Islamic banking sector of Yemen. This could be due to the bank's reputation, reliability, and the services it offers. The high percentage of financing disbursed from other Islamic banks also indicates that Saba Islamic Bank is considered a reputable and reliable financial institution by its peers in the industry.

In conclusion, the data provided shows that the amount of *Qard al-Hasan* financing disbursed by Saba Islamic Bank in Yemen has varied significantly over the years, with the highest amount disbursed in 2013 and the lowest in 2015. It also shows that 66% of the financing was disbursed from three other Yemeni Islamic Banks, which indicates that Saba Islamic Bank plays a significant role in the Islamic banking sector of Yemen and is trusted by other Islamic banks. The variation in the amount disbursed over the years may be due to various external and internal factors, which are worth studying in more depth in order to understand the bank's performance over the years. Table 19 and figure 41 summarize the amount of *Qard al-Hasan* Financing disbursed by Saba Islamic Bank for ten years, from 2010 to 2019.

Table 19 The amount of *Qard al-Hasan* Financing disbursed by Saba Islamic Bank²⁰

Years	Amount of <i>Qard al-Hasan</i> Financing (YER)
2010	86,626,000
2011	24,049,000
2012	953,719,000
2013	4,345,019,000
2014	1,824,487,000
2015	74,745,000
2016	768,441,000
2017	809,922,000
2018	640,250,000
2019	592,524,000
The total amount of <i>Qard al-Hasan</i> Financing disbursed	10,119,782,000
The Average	1,011,978,200
The total amount of <i>Qard al-Hasan</i> Financing disbursed (USD)	43,619,750
The percentage of <i>Qard al-Hasan</i> financing disbursed from the biggest three banks in Yemen	66%

Source: Author's illustration

²⁰ - The data taken by Saba Islamic Bank Reports from 2010 – 2019.

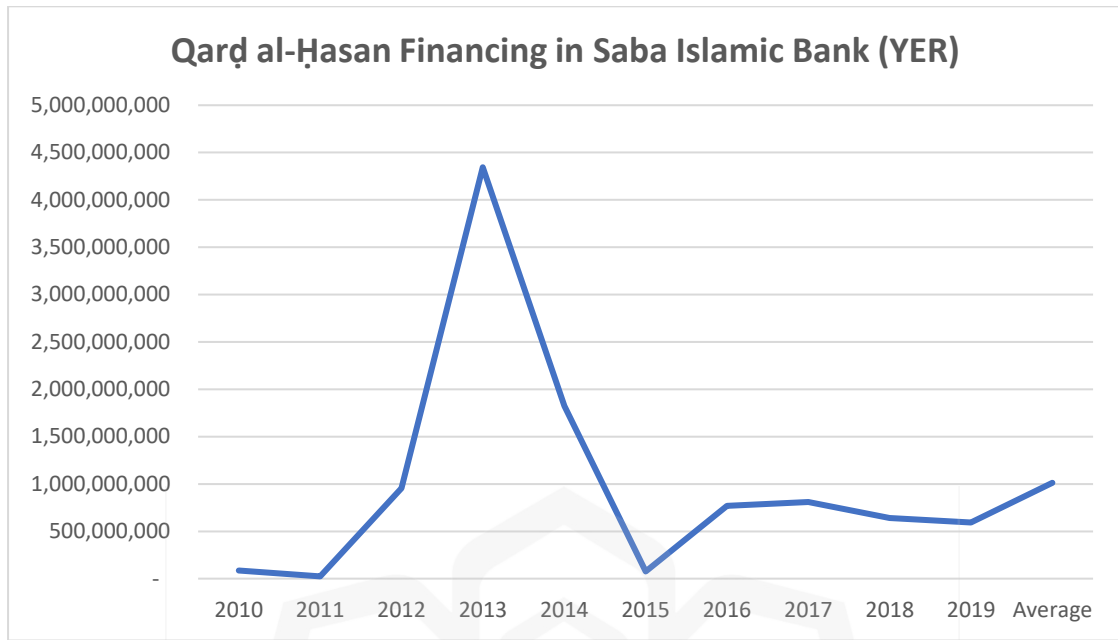


Figure 41 The amount of *Qard al-Hasan* Financing disbursed by Saba Islamic Bank²¹
Source: Author's illustration

4.3.2 *Qard al-Hasan* financing in Saudi Arabia

Several Islamic banks include Bank Albilad, Ainma Bank, Bank Aljazira, and Al Rajhi Bank. Some of them and one government bank provide *Qard al-Hasan*, such as Bank Aljazira (BAJ) and the government bank which is Social Development Bank (SDB). Islamic window in conventional Bank also provides Islamic Banking products such as Saudi National Bank (SNB) and Riyadh Bank (RB).

Saudi National Bank has Ahalina Programs under CSR. It includes the Productive Families Financing programme (Microfinance programme). The Productive Families Financing Program is a socio-economic project that provides interest-free financing services (*Qard al-Hasan*) for women to establish commercial projects that guarantee them to improve their material income and empower women, thus reducing poverty and unemployment in society (Saudi National Bank, 2021). The total number of beneficiaries was 11,251 women, with a financing portfolio of around 42 million Saudi Riyal (SAR) until the end of 2019 (Saudi Central Bank, 2019).

Riyadh Bank provides the educational fee instalment service with educational institutions through personal finance product with non-charge of service or

²¹ - The data taken by Saba Islamic Bank Reports from 2010 – 2019.

administrative fees and non-profit margin. *Qard* amounts start from SAR 5 thousand to SAR 20 thousand. The Education Finance program is considered to be a form of personal finance, and the maximum should not exceed around 33% of the net monthly income of the client. It is under Shari'a compliance, has a flexible repayment period from 6 months to 36 months, and exempts heirs from the amounts due in the event of death (Riyad Bank, 2021a, 2021b).

In 1971, The Social Development Bank was established with the objective focused on social loans, and then the services expanded to include business loans. The Bank is one of the important governmental pillars in the field of offering social development loans to less privileged citizens to empower and enable them to play an effective role in national development plans. Furthermore, the social development Bank was established to support SMEs as key players in the economy of the Kingdom. The Bank has adopted plans and strategies to develop the SME ecosystem, accelerating and facilitating the loaning process via different interest-free programs (Social Development Bank, 2021).

The table provided below pertains to two Islamic banks, one window and one government bank in Saudi Arabia: Bank Aljazira, Saudi National Bank, Riyad Bank, and Social Development Bank. Bank Aljazira and Saudi National Bank offer a product called *Qard al-Hasan*. Social Development Bank also offers a product called Interest-free. Social Development Bank provides *Qard al-Hasan* financing directly to clients and through the institution of charities, while Bank Aljazira provides it through the institutions of charities. The distribution method used by Saudi National Bank is not specified. All four banks except Riyad Bank offer *Qard al-Hasan* financing under their Social Responsibility department or program. Social Development Bank grants *Qard al-Hasan* financing for personal and small and medium-sized enterprise (SME) purposes, while Bank Aljazira and Saudi National Bank only grant it for SME purposes. Riyad Bank grants *Qard al-Hasan* financing for educational purposes. It should be noted that these banks do not charge service fees for *Qard al-Hasan*. Bank Aljazira, Saudi National Bank, Riyad Bank, and Social Development Bank grant *Qard al-Hasan* financing to all genders, except Saudi National Bank, which only grants it to females.

Overall, *Qard al-Hasan*, also known as interest-free, is a type of interest-free financing offered by Islamic banks in Saudi Arabia that is meant to support personal and SME needs and educational purposes. Bank Aljazira, Saudi National Bank, Riyad Bank, and Social Development Bank provide it. The distribution method varies among

the banks, but the financing is usually provided through the institution's charities and under the Social Responsibility department or program. The banks do not charge service fees for the loans, and some only grant *Qard al-Hasan* financing for specific genders. Table 20 summarizes *Qard al-Hasan* in Islamic Banks, Islamic windows, and Government Bank in Saudi Arabia.

Table 20 *Qard al-Hasan* in Islamic Banks, Islamic windows, and Government Bank in Saudi Arabia

<i>Qard al-Hasan</i> in Saudi Arabia					
Subjects	Types	Islamic Banks		Islamic windows	Government Bank
		BAJ	SNB	RB	SDB
Name	<i>Qard al-Hasan</i>	√	√		
	Interest-free				√
Providing QH (through)	Direct to the clients				√
	Institution's charities	√			√
	Unknown		√		
QH Under Social Responsibility		√	√		√
Purpose of granted	Personal <i>Qard</i>				√
	SME <i>Qard</i>	√	√		√
	Educational <i>Qard</i>			√	
Charge Services	Non-Charge Service	√	√	√	√
Gender	Female		√		√
	Female and Male	√		√	√

Source: Author's illustration

4.3.2.1 Qard al-Hasan financing in Bank Aljazira

4.3.2.1.1 Overview of Social Responsibility in Bank Aljazira

Bank Aljazira started a social responsibility program in 2006. "Khair Aljazira Le Ahl Aljazira" started with a 100 million SR fund to support Bank Aljazira's social

responsibility for the community. Since that time, Bank Aljazira has implemented a series of activities designed to support the community. Bank Aljazira has been providing financial aid to different charitable societies (Bank AlJazira, 2021c). Bank Aljazira has several programmes and products under social responsibility, which are *Qard al-Hasan* portfolio, a program for training and qualifying the youth for the labour market (Tamkeen), a program for support of handicapped persons, a program of advocating innovation “Mubtakiroon”, a program for building non-profit sector capacities, Program for release of prisoners’ affliction “Tafreej” and National and Islamic functions participation program.

The first one “Tamkeen Programme” purposes of which is to prepare female and male youth for the labour market by focusing on the knowledge and professional skills of the community. The programme provides training courses to empower the youth and provides in collaboration with the national societies and institutes in all the country's regions. The second program is for the support of the handicapped, and it is related to the sufferance of special-needs people; it is related to family, health, and economic factors. This programme collaborates with governmental and non-profit parties, charitable health societies, and centres specialized in disability fields. The program aims to help disabled persons to get the necessary skills and professional experience. The third programme is an innovation programme for entrepreneurship and creativity skills. This program provides female and male citizens training to get skills via a specific project representing a business incubator for entrepreneurs and their innovative economic, technical, and industrial fields. Next is the program for building non-profit sector capacities; the bank supports the non-profit sector to be the closest to the needs of the community and concerns by contributing to the building of institutional and human capacities, social development work leaders, and enhancing the infrastructure of national societies. The other Program is for the release of prisoners, “Tafreej”. The bank participates in releasing the insolvent plight financial-rights prisoners. The bank also aims to participate in the national and Islamic functions program and sponsor them, particularly for social responsibility and Islamic banking. Furthermore, the programme supports research and studies specialized in the same field. The final programme is *Qard al-Hasan* portfolio, which aims to assist needy families in establishing their micro-projects, increasing their income, and promoting their social establishment by availing them of interest-free *Qard* to finance their project capitals under easy repayment terms in cooperation with the charitable societies (Bank AlJazira, 2021e).

4.3.2.1.2 *Qarḍ al-Ḥasan Model in Bank Aljazira*

Qarḍ al-Ḥasan is considered a successful treatment to reduce the problem of poverty by moving from pastoral solutions to developing solutions to the origin of the problem. Bank Aljazira has established a *Qarḍ al-Ḥasan* portfolio for this purpose through which it signs the *Qarḍ al-Ḥasan* agreement with charities and social development committees located in the regions and governorates of the Arab Saudi Kingdom for young people and girls, financing their small-capital, and repaying them in convenient instalments without any profits or benefits (Bank AlJazira, 2019).

Bank Aljazira provides *Qarḍ al-Ḥasan* financing using an unknown source of funds. The disbursement mechanism is through Microfinance Centre and Charities, which implies that the bank partners with these organizations to distribute the financing. The purpose of the granted *Qarḍ al-Ḥasan* is to support Small and Medium-sized Enterprises (SMEs). It is worth noting that more information is needed to fully understand the specifics of the *Qarḍ al-Ḥasan* financing model in Bank Aljazira, such as *Qarḍ al-Ḥasan* financing sources. Figure 42 summarises the *Qarḍ al-Ḥasan* financing model in Bank Aljazira.

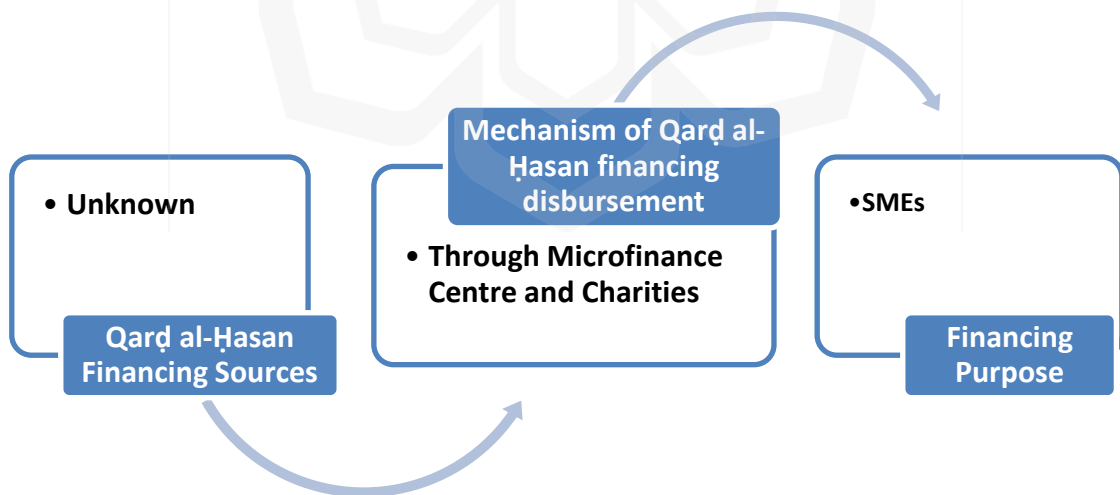


Figure 42 *Qarḍ al-Ḥasan* financing model in Bank Aljazira²²

Source: Author's illustration

²² - The information is taken by Bank Aljazira.

4.3.2.1.3 *Qard al-Hasan Financing Amount Disbursed by Bank Aljazira*

One of the social responsibility objectives of Bank Aljazira is to finance small entrepreneurs to support people in need in the community (Bank AlJazira, 2021f). According to (Saudi Central Bank, 2019), the total number of beneficiaries of the *Qard al-Hasan* portfolio was 5,217 women and men with a financing portfolio of around 32 million and 700 thousand Saudi Riyal (SAR) at the end of 2019.

The data provided in the table below is for ten years, from 2010-2019. It shows that Bank Al-Jazira disbursed 11,000,000 SAR in *Qard al-Hasan* financing in 2015 and 2019. The total amount of *Qard al-Hasan* financing disbursed by the bank over the two years is 22,000,000 SAR. This data suggests that the bank has a consistent performance in terms of disbursing *Qard al-Hasan* financing, as the amount disbursed is the same in both years. It could be that the bank has a specific target or strategy for *Qard al-Hasan* financing, which could be influenced by various factors such as market conditions, regulations, and internal policies.

In 2020, the payment of instalments of *Qard al-Hasan* portfolio for beneficiary associations had been deferred for one year. Table 21 summarises the amount of *Qard al-Hasan* Financing disbursed by Bank Aljazira.

Table 21 The amount of *Qard al-Hasan* Financing disbursed by Bank Aljazira²³

Years	<i>Qard al-Hasan</i> Financing disbursed (SAR)
2010	
2011	
2012	
2013	
2014	
2015	11,000,000
2016	
2017	
2018	
2019	11,000,000
The total amount of <i>Qard al-Hasan</i> Financing disbursed	22,000,000

Source: Author's illustration

²³ - The data taken by Bank AlJazira (Bank AlJazira, 2010, 2011, 2020a, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

4.3.2.1.4 *Qarḍ al-Ḥasan Financing Indicators Disbursed by Bank Aljazira*

The data provided below is for *Qarḍ al-Ḥasan* Financing Indicators disbursed by Bank Aljazira from 2011 to 2019. It includes the number of portfolios disbursed for the years 2016, 2017, 2018, and 2019 and the percentage of *Qarḍ al-Ḥasan* Financing Portfolio from the Social Responsibility Portfolio (SRP) in 2014. The data also includes the number of associations for 2011-2019.

From the data provided, it can be seen that the number of portfolios disbursed by the bank has increased over time. In 2016 and 2017, the bank disbursed 24 portfolios, which increased to 27 in 2018 and 29 in 2019. This indicates a steady growth in the bank's performance in disbursing *Qarḍ al-Ḥasan* Financing. The data also shows that 34% of the *Qarḍ al-Ḥasan* Financing Portfolio was from the Social Responsibility Portfolio in 2014. This suggests that the bank has a significant portion of its *Qarḍ al-Ḥasan* Financing focused on social responsibility. The number of associations the bank has with *Qarḍ al-Ḥasan* financing has fluctuated over time. The number of associations was 4, 5, 3, 3 and 1 from 2011 to 2015, respectively, and 15 in each year of 2017, 2018 and 2019. This fluctuation could be due to various reasons, such as the bank's internal policies, market conditions and regulations.

In summary, the data provided shows that Bank Aljazira has seen an increase in the number of portfolios disbursed over the years 2016-2019, indicating a steady growth in performance. Additionally, a significant portion of the *Qarḍ al-Ḥasan* Financing Portfolio is focused on social responsibility in 2014. The number of associations the bank has for *Qarḍ al-Ḥasan* financing fluctuated over the years 2011-2019. Table 22 and Figures 43 to 45 summarise the amount of *Qarḍ al-Ḥasan* Financing disbursed by Bank Aljazira.

Table 22 Indicators on *Qarḍ al-Ḥasan* Financing by Bank Aljazira

Information	Indicator	Year
Number of Portfolios	24	2016
	24	2017
	27	2018
	29	2019
The percentage <i>Qarḍ al-Ḥasan</i> Financing Portfolio from Social Responsibility Portfolio (SRP)	34%	2014
Number of Associations	4	2011
	5	2012

	3	2013
	3	2014
	1	2015
	15	2017
	15	2018
	15	2019

Source: Author's illustration

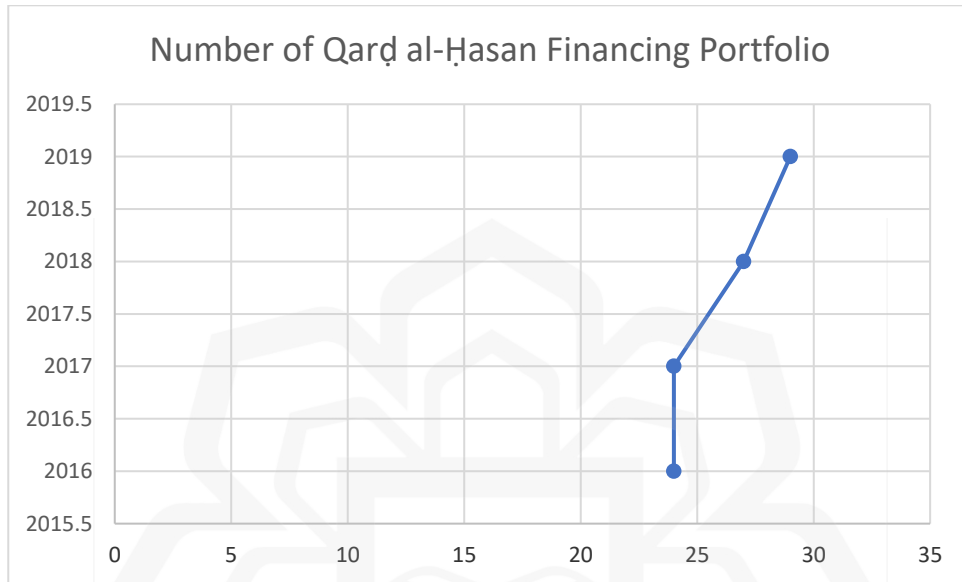


Figure 43 Number of *Qarḍ al-Ḥasan* Financing Portfolio by Bank Aljazira

Source: Author's illustration

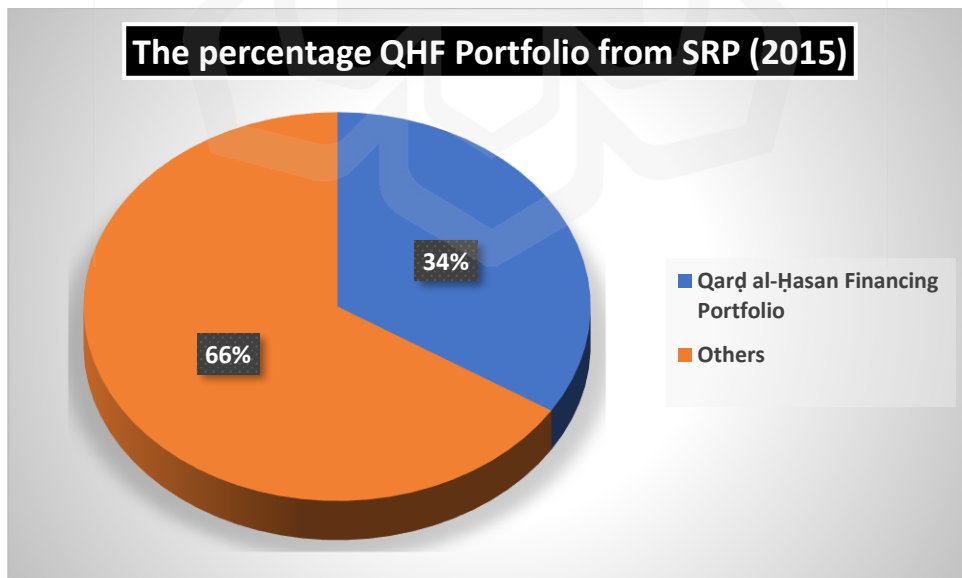


Figure 44 The percentage of *Qarḍ al-Ḥasan* Financing Portfolio from Social Responsibility Portfolio (SRP) by Bank Aljazira in 2015

Source: Author's illustration

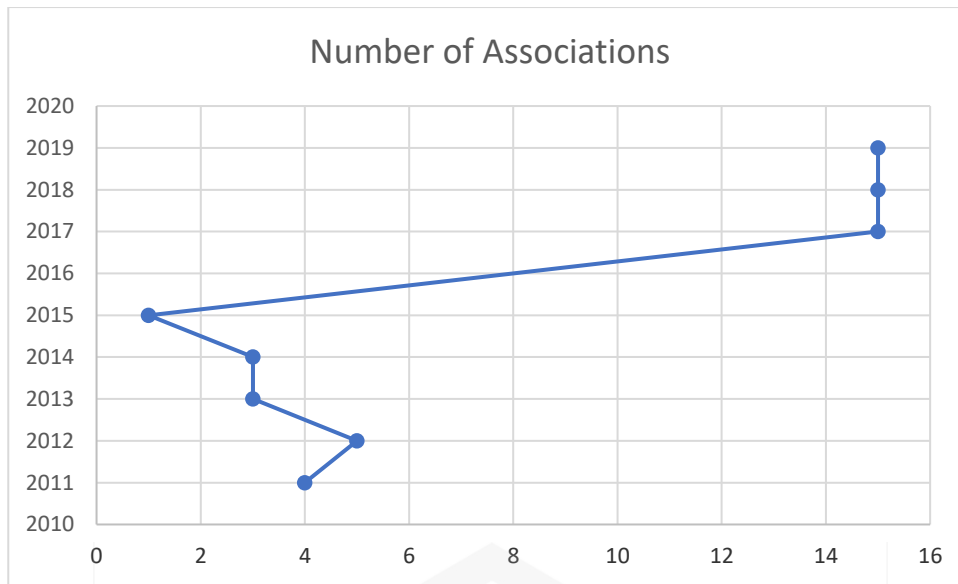


Figure 45 Number of Associations financed *Qarḍ al-Ḥasan* by Bank Aljazira

Source: Author's illustration

4.3.2.1.5 *Qarḍ al-Ḥasan Financing Purpose Disbursed by Bank Aljazira*

The data provided below is for *Qarḍ al-Ḥasan* Financing purposes disbursed by Bank Aljazira. It includes the number of productive families and beneficiaries for the years 2015, 2017, 2018, and 2019, as well as the gender and sector breakdown of the beneficiaries in 2015, 2017, 2018, and 2019.

From the data, it can be seen that the number of productive families has significantly increased from 2,500 in 2015 to 7,536 in 2019. This indicates a strong growth in the bank's performance in providing *Qarḍ al-Ḥasan* financing to support productive families. Additionally, the number of beneficiaries also increased from 1,000 in 2012, 1,260 in 2015, 1,710 in 2017, and 1,769 in 2018, 1,710 in 2019, showing a steady growth in the number of people being helped by the bank. The data also shows that most beneficiaries were female, with 90% being female in 2015 and 2017, and 85% in 2018. This suggests that the bank may have a focus on providing *Qarḍ al-Ḥasan* financing to support women and their families. Additionally, the data shows that the majority of the *Qarḍ al-Ḥasan* financing disbursed in 2019 was for the commercial sector (60%), followed by services (20%) and industry (20%). This indicates that the bank's focus is on the commercial sector.

In summary, the data provided shows that Bank Aljazira has seen a significant increase in the number of productive families and beneficiaries over the years,

indicating strong growth in performance. Additionally, most beneficiaries are female, and the bank focused on the commercial sector for its *Qarḍ al-Ḥasan* Financing disbursement. Table 23 and figures 46 to 50 summarise the amount of *Qarḍ al-Ḥasan* Financing disbursed by Bank Aljazira.

Table 23 *Qarḍ al-Ḥasan* Financing Purpose Disbursed by Bank Aljazira²⁴

Information		Indicator	Year
Number of Productive Families		2,500	2015
		7,536	2019
Number of beneficiaries		1,000	2012
		1,260	2015
		1,710	2017
		1,769	2018
		1,710	2019
Type of Gender Beneficiaries	Male	10%	2015
	Female	90%	
	Male	10%	2017
	Female	90%	
	Male	15%	2018
	Female	85%	
Type of Sector	Commercial	60%	2019
	Services	20%	
	Industrial	20%	

Source: Author's illustration

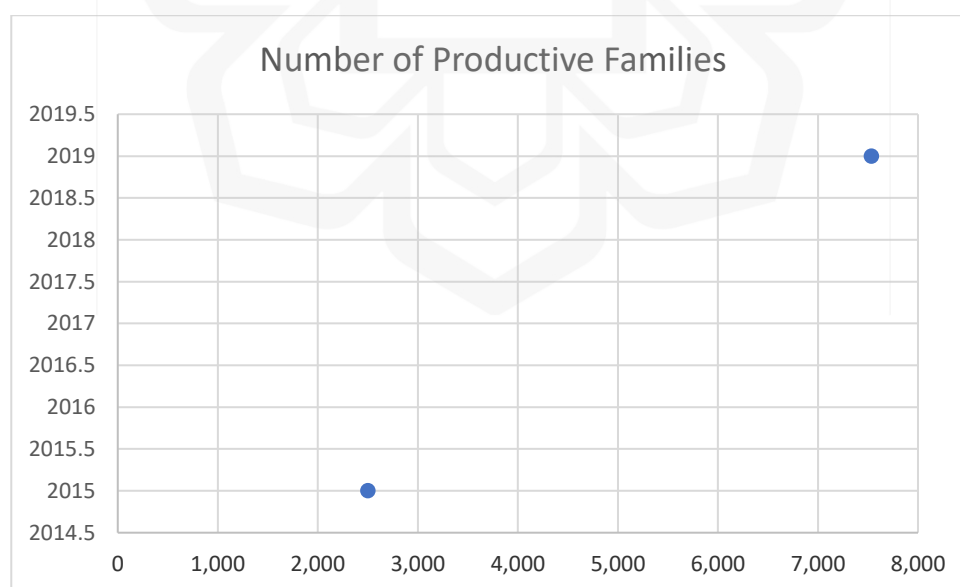


Figure 46 Number of Productive Families financed *Qarḍ al-Ḥasan* by Bank Aljazira

Source: Author's illustration

²⁴ - The data is taken by Bank Aljazira (Bank Aljazira, 2010, 2011, 2020a, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

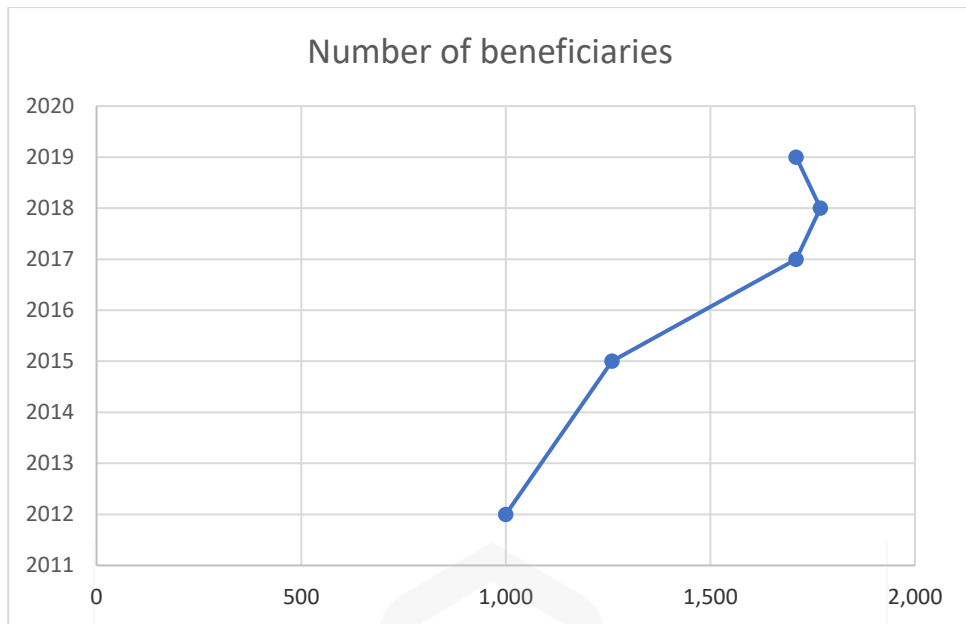


Figure 47 Number of beneficiaries financed *Qard al-Hasan* by Bank Aljazira
 Source: Author's illustration

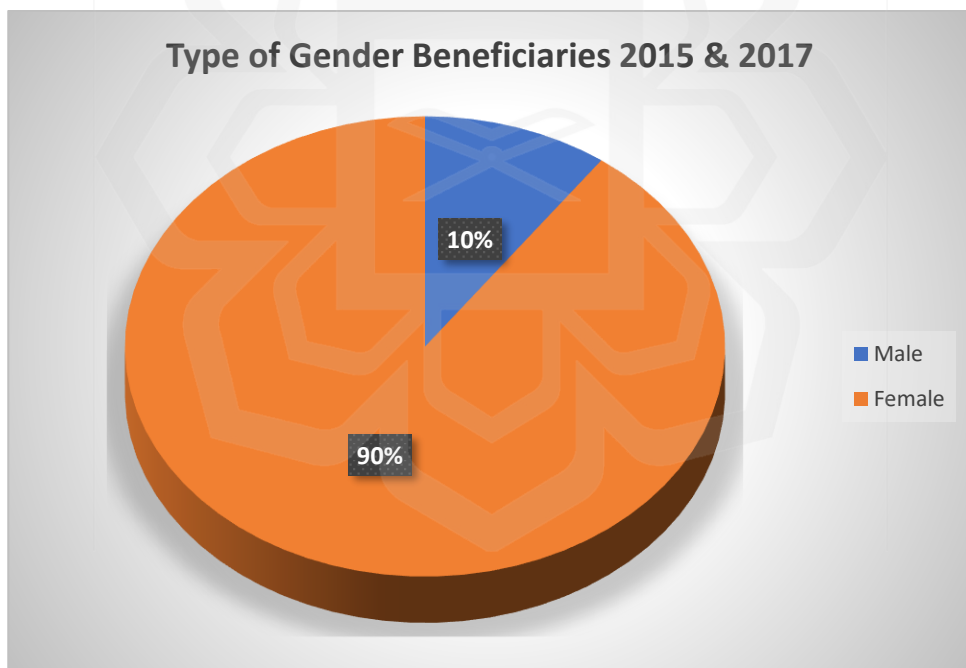


Figure 48 Type of Gender Beneficiaries financed *Qard al-Hasan* by Bank Aljazira in
 2015 & 2017

Source: Author's illustration

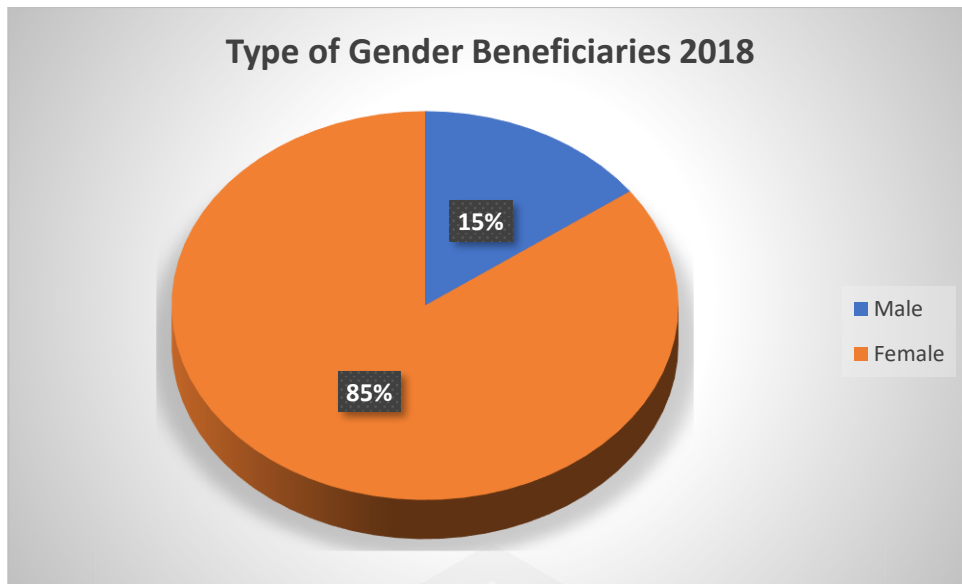


Figure 49 Type of Gender Beneficiaries financed *Qarḍ al-Ḥasan* by Bank Aljazira in 2018

Source: Author's illustration

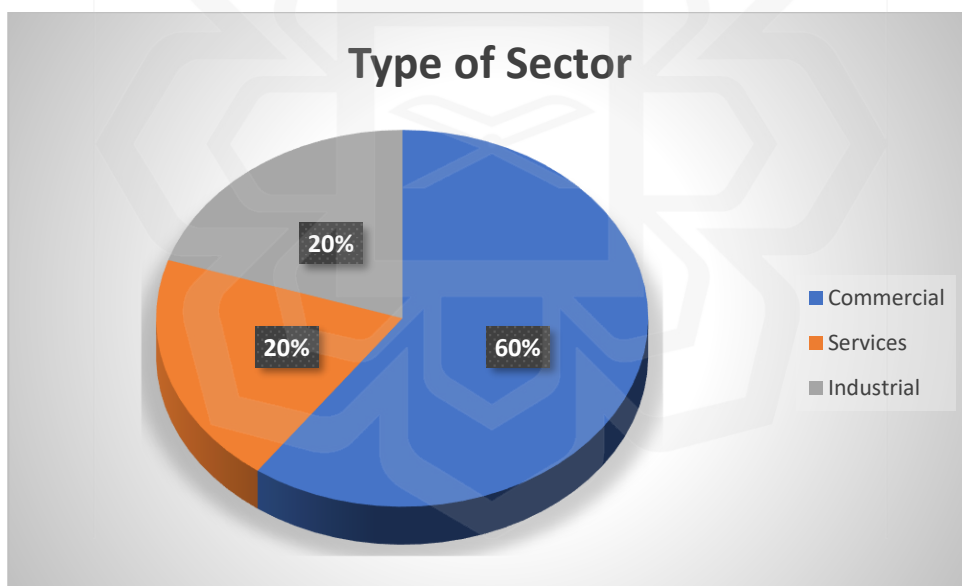


Figure 50 Type of Sector financed *Qarḍ al-Ḥasan* by Bank Aljazira

Source: Author's illustration

4.3.3 *Qarḍ al-Ḥasan* financing in Jordan

According to the Islamic Finance Development Report, 2020, Jordan was the top country in *Qarḍ al-Ḥasan* funds disbursed in 2019. Figure 51 summarizes the top countries in *Qarḍ al-Ḥasan* funds disbursed in 2019 (ICD and REFINITIV, 2020).

**Top Countries in Qardh Al Hasan Funds Disbursed 2019
(US\$ Million)**



Figure 51 The top countries in *Qard al-Hasan* funds disbursed in 2019

Source: ICD and REFINITIV

The data provided below is for *Qard al-Hasan* financing in Jordan from 2013 to 2020. It shows the value of *Qard al-Hasan* financing in millions of Jordanian Dinars (JOD) for each year ending in the fourth quarter (Q4) except in 2013; it is annually.

From the data, it can be seen that the value of *Qard al-Hasan* financing has been steadily increasing over time. In 2013, the value was 12.8 million JOD, which increased to 12.9 million JOD in 2014, 19.5 million JOD in 2015, 32.2 million JOD in 2016, 42.0 million JOD in 2017, 55.8 million JOD in 2018, 69.4 million JOD in 2019 and 135.2 million JOD in 2020. This indicates a strong growth in the market for *Qard al-Hasan* financing in Jordan over the years. The increase is quite steep from 2019 to 2020, indicating a significant increase in the demand and accessibility of *Qard al-Hasan* financing in the country. This could be due to various reasons, such as an increase in awareness of *Qard al-Hasan* financing, the availability of more options in the market, favourable regulations, and overall economic conditions. It is worth noting that 2020 was an unprecedented year due to the COVID-19 pandemic, which affected the global economy, and this might have influenced the increase in the *Qard al-Hasan* financing in Jordan.

In summary, the data provided shows that the market for *Qard al-Hasan* financing in Jordan has been steadily increasing over the years from 2013 to 2020, with a

significant increase in 2020. The data suggests that there is a growing demand and accessibility of *Qarḍ al-Ḥasan* financing in the country. However, it's important to consider the context of 2020 being unprecedented due to the COVID-19 pandemic. Figure 52 summarizes *Qarḍ al-Ḥasan* financing for eight years in Jordan from 2013 to 2020.

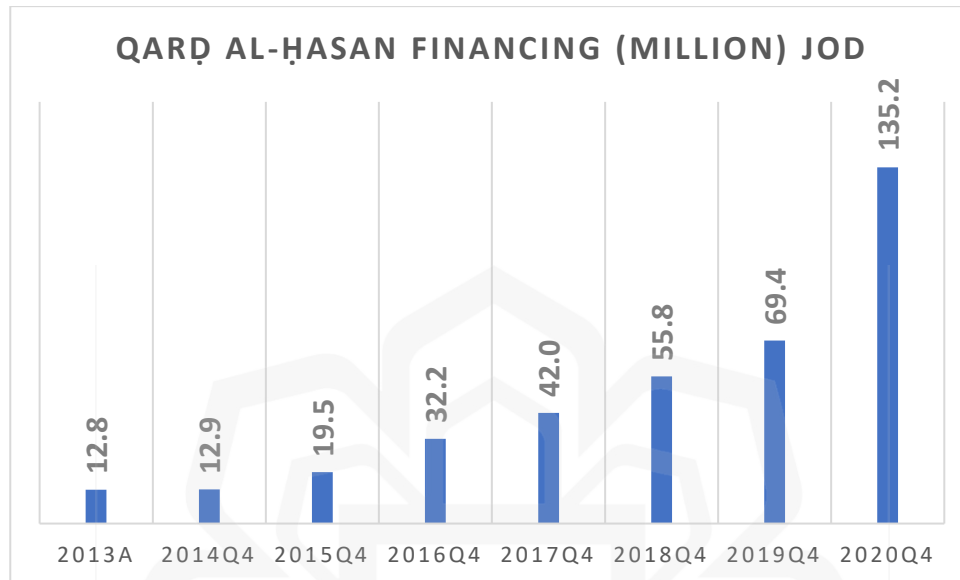


Figure 52 *Qarḍ al-Ḥasan* financing in Jordan from 2013 to 2020²⁵

Source: IFSB

The chart below illustrates the percentage of *Qarḍ al-Ḥasan* financing from total Sharīah-compliant contracts in Jordan for the years 2013 to 2020. It shows the percentage of *Qarḍ al-Ḥasan* financing as a proportion of the total Sharīah-compliant contract for each year.

From the data, it can be seen that the percentage of *Qarḍ al-Ḥasan* financing in relation to the total Sharīah-compliant contract has been relatively consistent over the years, ranging from 0.3% to 0.4%. This suggests that the market share of *Qarḍ al-Ḥasan* financing in the context of the whole Sharīah-compliant contract market has been relatively stable. It is worth noting that the percentage is relatively low; this could indicate that the market for *Qarḍ al-Ḥasan* financing is not as developed or popular as other forms of Sharīah-compliant financing in Jordan, or it could reflect the overall size of the market for Sharīah-compliant contract.

²⁵ - The data is taken by (IFSB, 2021b).

In summary, the data provided shows that the market share of *Qarḍ al-Ḥasan* financing in relation to the total Sharīah-compliant contract in Jordan has been relatively stable over the years, ranging from 0.3% to 0.4%. Despite the relatively low percentage, this could indicate that the market for *Qarḍ al-Ḥasan* financing is not as developed or popular as other forms of Sharīah-compliant financing in Jordan, or it could reflect the overall size of the market for Sharīah-compliant contracts. Figure 53 summarizes *Qarḍ al-Ḥasan* financing percentage from the total Sharīah-compliant contract for eight years in Jordan from 2013 to 2020.

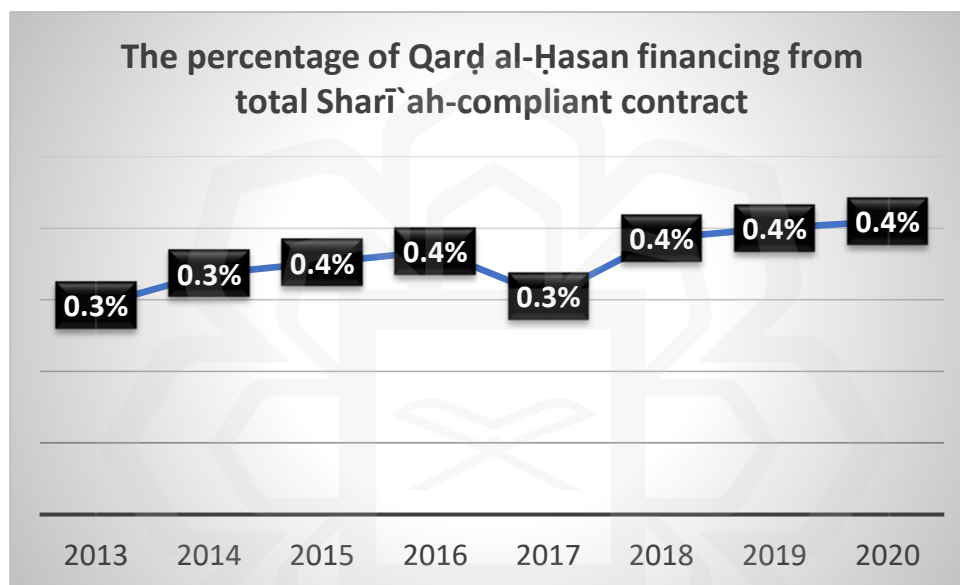


Figure 53 The percentage of *Qarḍ al-Ḥasan* financing from total Sharīah-compliant contracts in Jordan for eight years²⁶

Source: IFSB

4.3.3.1 *Qarḍ al-Ḥasan* financing in Jordan Islamic Bank

4.3.3.1.1 Overview of Social Responsibility in Jordan Islamic Bank

Throughout 2019, Jordan Islamic Bank has upheld its social obligations by integrating Islamic principles into its banking practices and actively engaging in socially-oriented initiatives. These efforts have included organizing conferences and seminars, supporting scientific research and professional development, making charitable donations, providing *Qarḍ al-Ḥasan* financing, funding skilled workers, establishing a

²⁶ - The data is taken by (IFSB, 2021b).

mutual insurance fund, fostering community interaction, and promoting environmental sustainability (Jordan Islamic Bank, 2019b).

4.3.3.1.2 *Qarḍ al-Ḥasan Model in Jordan Islamic Bank*

The Jordan Islamic Bank receives deposits as *Qarḍ al-Ḥasan* from those wishing to lend such deposits through the bank as *Qarḍ al-Ḥasan*. The bank has two sources of financing *Qarḍ al-Ḥasan*. The first is a *Qarḍ* account, and the second is the amount that the bank authorised for *Qarḍ al-Ḥasan*. The bank provides personal necessary *Qarḍ al-Ḥasan* for social purposes, such as education, medical treatment, and marriage. It also provides *Qarḍ al-Ḥasan* financing for commercial purposes and its employees. It is worth mentioning that the bank has been granting such *Qarḍ al-Ḥasan* since its establishment. Figure 54 summarises the *Qarḍ al-Ḥasan* financing model in the Jordan Islamic Bank.

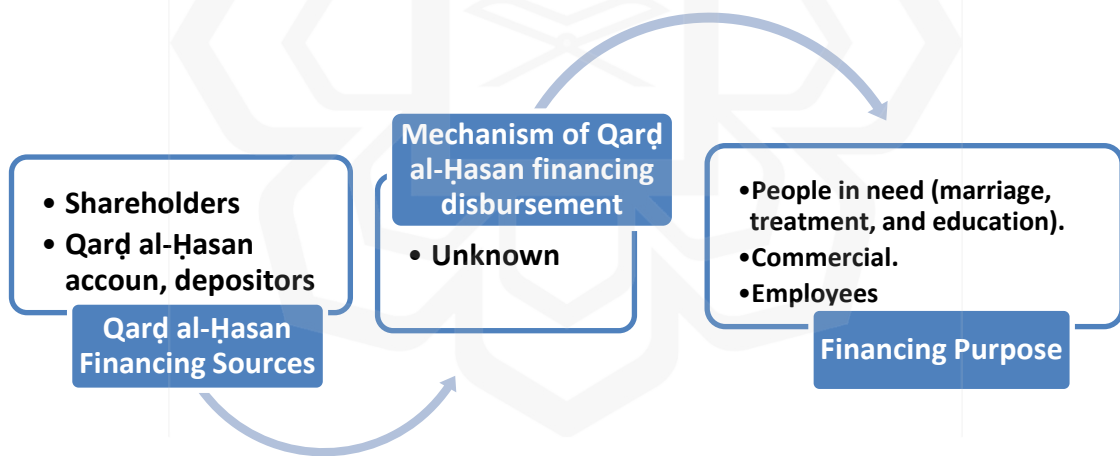


Figure 54 *Qarḍ al-Ḥasan* financing model in the Jordan Islamic Bank²⁷

Source: Author's illustration

²⁷ - The information is taken by Jordan Islamic Bank report (Jordan Islamic Bank, 2019b, 2019a, 2020a).

4.3.3.1.3 *Qard al-Hasan Sources in Jordan Islamic Bank*

The data provided below is a table and Figures of financial information for two types of sources at the Jordan Islamic Bank: bank authorized and *Qard al-Hasan* account. The table shows the total sources, the percentage of the bank authorized, and the percentage of the *Qard al-Hasan* account for each year from 2010 to 2019.

The total sources for each year range from 22,669,737 JOD in 2010 to -14,540,116 JOD in 2019. The percentage of bank-authorized sources ranged from 97% in 2010 and 2011 to 87% in 2019, with an overall average of 92%. The percentage of *Qard al-Hasan* account sources ranges from 3% in 2010 and 2011 to 13% in 2019, with an overall average of 8%. These numbers indicate that bank-authorized sources are the primary funding source for the Jordan Islamic Bank, making up, on average, 92% of total sources, while *Qard al-Hasan* account sources make up only a tiny percentage of 8% on average. The percentage of *Qard al-Hasan* account sources has been increasing over the years, but it is still a minor source compared to the bank-authorized sources. It is worth noting that the total sources in 2017, 2018, and 2019 are negative, indicating that the bank may have experienced financial difficulties during those years. It is also worth noting that the percentage of bank-authorized is decreasing, and the percentage of the *Qard al-Hasan* account is increasing, this could be indicating a shift in the bank's funding strategy. Table 24 and Figures 55 to 57 summarize the total and types of *Qard al-Hasan* sources in Jordan Islamic Bank and their percentage.

Table 24 *Qard al-Hasan* Sources in Jordan Islamic bank²⁸

Years	Bank authorized	<i>Qard al-Hasan</i> account	Total Sources	The percentage of Bank authorized	The percentage of QH account
2010	22,058,363	611,374	22,669,737	97%	3%
2011	22,216,654	770,537	22,987,191	97%	3%
2012	22,329,117	832,499	23,161,616	96%	4%
2013	19,797,522	847,502	20,645,024	96%	4%
2014	19,380,040	1,046,101	20,426,141	95%	5%
2015	17,252,411	1,331,983	18,584,394	93%	7%
2016	13,372,351	1,787,393	15,159,744	88%	12%
2017	-10,852,602	-1,725,402	-12,578,004	86%	14%

²⁸ - The data is taken by Jordan Islamic bank report (Al Baraka Banking Group, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019; Jordan Islamic Bank, 2012b, 2012a, 2013, 2014a, 2014b, 2015a, 2015b, 2016a, 2016b, 2017a, 2017b, 2018a, 2018b, 2019a, 2010, 2011).

2018	-11,367,227	-2,255,054	-13,622,281	83%	17%
2019	-12,717,686	-1,822,430	-14,540,116	87%	13%
Average	10,146,894	142,450	10,289,345	92%	8%

Source: Author's illustration

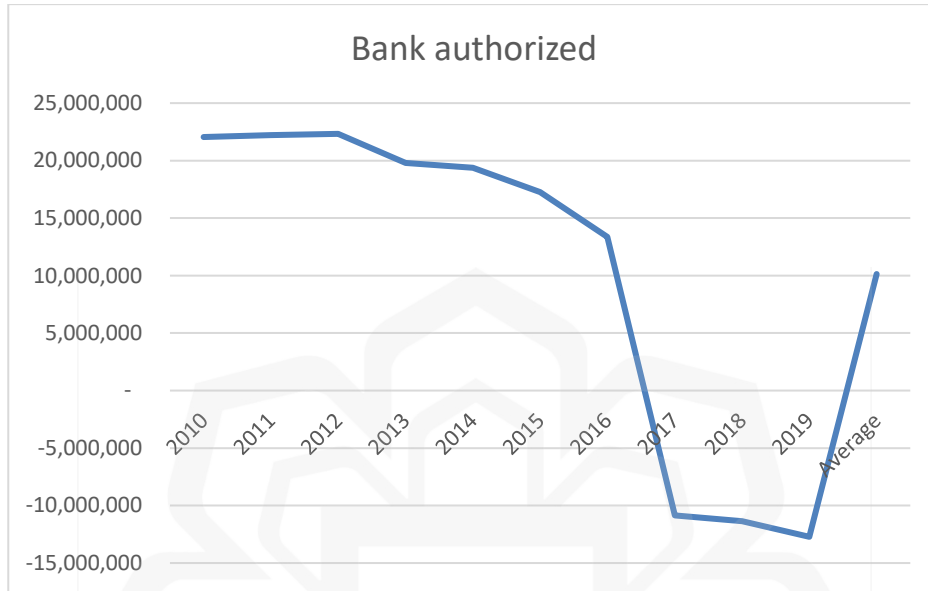


Figure 55 Bank authorized for *Qard al-Hasan*

Source: Author's illustration

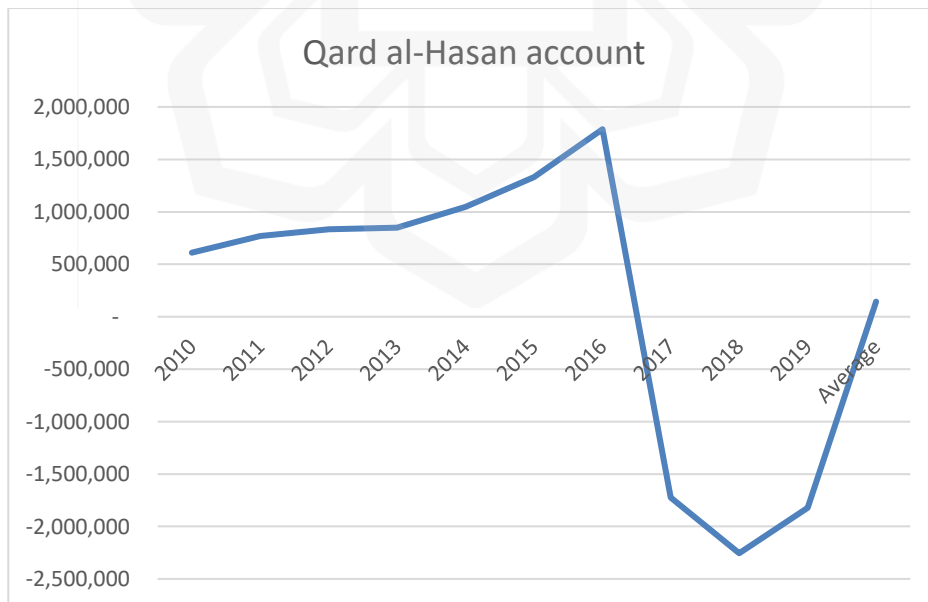


Figure 56 The amount of *Qard al-Hasan* account from 2010 to 2019

Source: Author's illustration

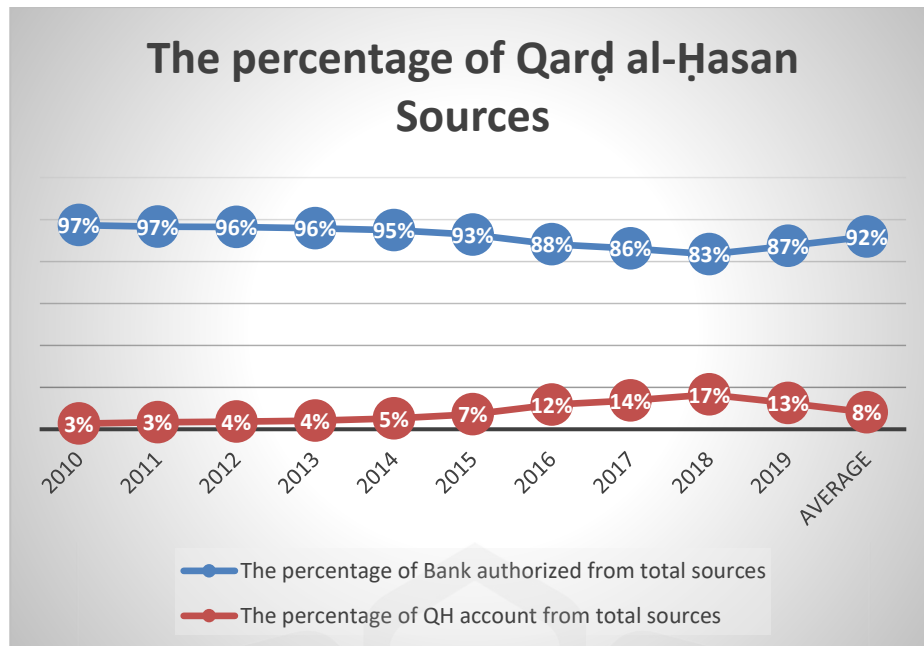


Figure 57 The percentage of *Qarḍ al-Ḥasan* Sources in Jordan Islamic bank
 Source: Author’s illustration

4.3.3.1.4 *Qarḍ al-Ḥasan Financing Disbursed by Jordan Islamic Bank*

The data provided is a table and figure of financial information for *Qarḍ al-Ḥasan* sources in Jordan Islamic Bank. The table shows the total sources, the total of *Qarḍ al-Ḥasan* Financing, and the percentage of *Qarḍ al-Ḥasan* Financing from the total sources for each year from 2010 to 2019.

The total sources for each year range from 22,669,737 JOD in 2010 to -14,540,116 JOD in 2019. The total of *Qarḍ al-Ḥasan* financing ranged from 21,612,483 JOD in 2010 to 20,373,838 JOD in 2019. The percentage of *Qarḍ al-Ḥasan* financing from the total sources ranges from 95% in 2010 to -140% in 2019, with an overall average of 36%. It is worth noting that the total sources in 2017, 2018, and 2019 are negative, indicating that the bank may have experienced financial difficulties during those years. Additionally, the percentage of *Qarḍ al-Ḥasan* financing from the total sources is much higher than 100% in some years, which suggests that the bank may have over-allocated funds to *Qarḍ al-Ḥasan* financing and might have led to the financial difficulties. Table 25 and Figures 58 and 59 summarize *Qarḍ al-Ḥasan* Financing from 2019 to 2020.

Table 25 *Qard al-Hasan* Financing by Jordan Islamic bank from 2010 to 2019²⁹

Years	Total Sources (provision)	<i>Qard al-Hasan</i> Financing	The percentage of QHF from Total Sources (provision)
2010	22,669,737	21,612,483	95%
2011	22,987,191	23,417,640	102%
2012	23,161,616	20,456,620	88%
2013	20,645,024	22,278,538	108%
2014	20,426,141	19,392,704	95%
2015	18,584,394	19,251,312	104%
2016	15,159,744	18,577,019	123%
2017	-12,578,004	13,608,688	-108%
2018	-13,622,281	14,405,240	-106%
2019	-14,540,116	20,373,838	-140%
Average	10,289,345	19,337,408	36%

Source: Author's illustration

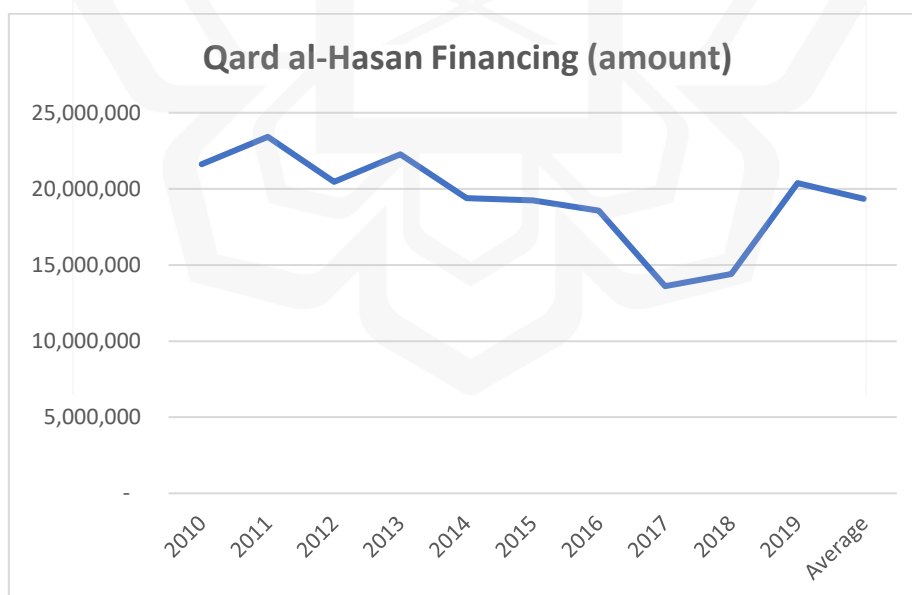


Figure 58 *Qard al-Hasan* Financing by Jordan Islamic bank for ten years from 2010 to 2019

Source: Author's illustration

²⁹ - The data is taken by (Al Baraka Banking Group, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019; Jordan Islamic Bank, 2012b, 2012a, 2013, 2014a, 2014b, 2015a, 2015b, 2016a, 2016b, 2017a, 2017b, 2018a, 2018b, 2019a, 2010, 2011).

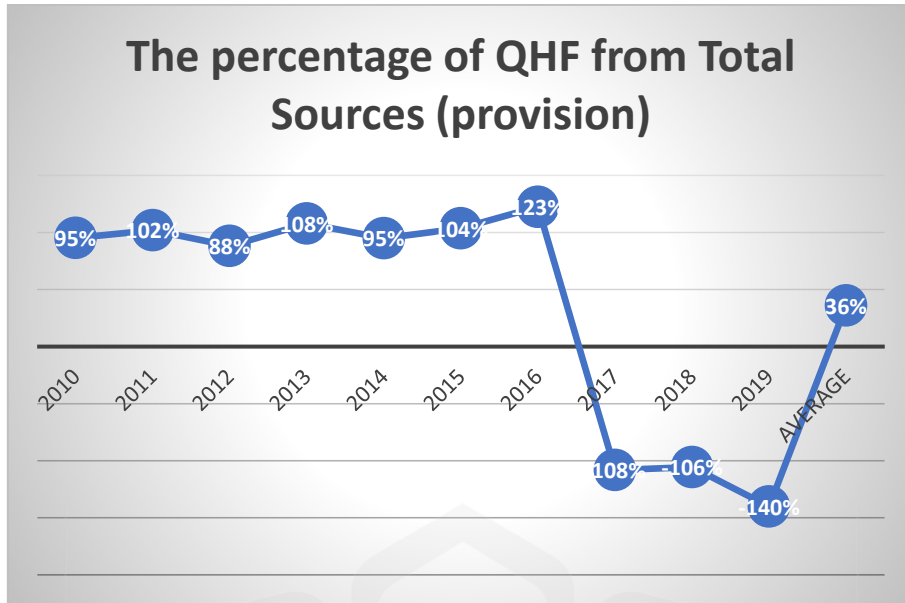


Figure 59 The percentage of *Qard al-Hasan* Financing by Jordan Islamic bank from total sources (provision)

Source: Author's illustration

4.3.3.1.5 *Qard al-Hasan Financing Purpose Disbursed by Jordan Islamic Bank*

The data provided is a table of *Qard al-Hasan* financing, the number of beneficiaries, and the average amount per beneficiary for the Jordan Islamic bank for each year from 2010 to 2019.

The table shows that the total of *Qard al-Hasan* financing ranges from 21,612,483 JOD in 2010 to 20,373,838 JOD in 2019, with an average of 19,337,408 JOD over the 10-year period. The number of beneficiaries ranges from 28,000 in 2010 to 24,100 in 2019, with an average of 25,730 over the 10-year period. The average amount per beneficiary ranges from 772 in 2010 to 845 in 2019, with an average of 761 over the 10-year period. It appears that the bank has been providing a consistent number of *Qard al-Hasan* financing recipients over time. The average amount per beneficiary also fluctuates over the years, but it is relatively stable. Table 26 and Figures 60 and 61 summarize *Qard al-Hasan* financing, the number of beneficiaries, and the average amount per beneficiary are financed by Jordan Islamic bank.

Table 26 Number of beneficiaries and average per beneficiary financed *Qarḍ al-Ḥasan* by Jordan Islamic bank³⁰

Years	<i>Qarḍ al-Ḥasan</i> Financing	Number of beneficiaries	Average amount per beneficiary
2010	21,612,483	28,000	772
2011	23,417,640	27,000	867
2012	20,456,620	22,000	930
2013	22,278,538	33,000	675
2014	19,392,704	34,000	570
2015	19,251,312	23,000	837
2016	18,577,019	21,900	848
2017	13,608,688	20,900	651
2018	14,405,240	23,400	616
2019	20,373,838	24,100	845
Average	19,337,408	25,730	761

Source: Author's illustration

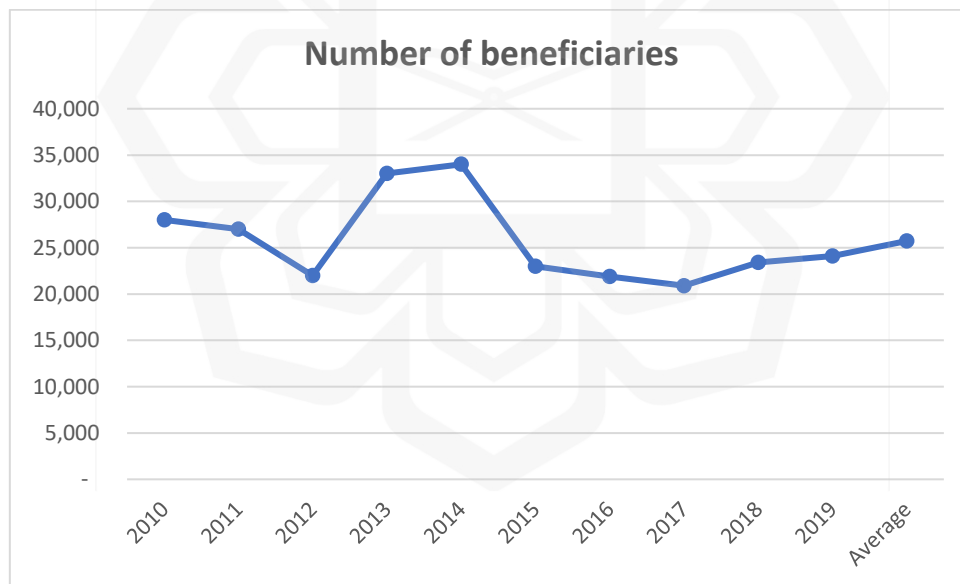


Figure 60 Number of beneficiaries financed *Qarḍ al-Ḥasan* by Jordan Islamic bank

Source: Author's illustration

³⁰ - The data is taken by (Al Baraka Banking Group, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019; Jordan Islamic Bank, 2012b, 2012a, 2013, 2014a, 2014b, 2015a, 2015b, 2016a, 2016b, 2017a, 2017b, 2018a, 2018b, 2019a, 2010, 2011).

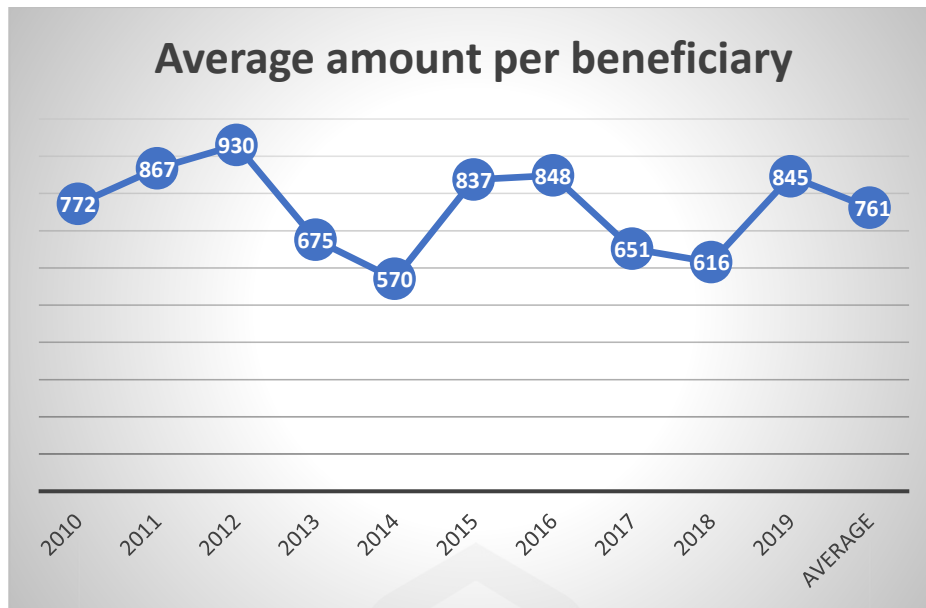


Figure 61 Average amount per beneficiary financed *Qarḍ al-Ḥasan* by Jordan Islamic bank

Source: Author's illustration

The data provided is a table of *Qarḍ al-Ḥasan* financing, and the percentage breakdown of the financing by category for the Jordan Islamic bank for each year from 2010 to 2019.

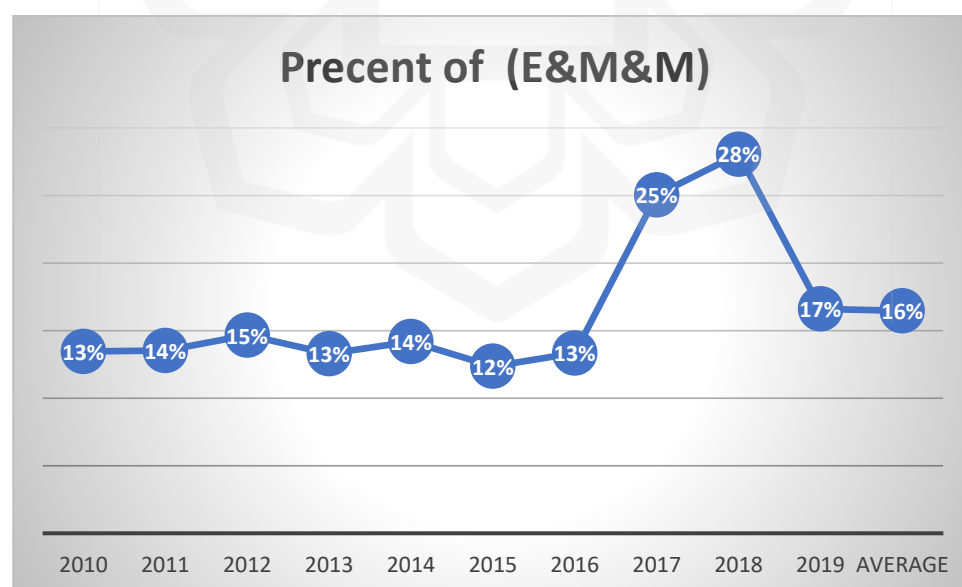
The table shows that the total of *Qarḍ al-Ḥasan* financing ranges from 21,612,483 JOD in 2010 to 20,373,838 JOD in 2019, with an average of 19,337,408 JOD over the 10-year period. The percentage breakdown of financing by category includes education, medical treatment, and marriage, which ranged from 13% in 2010 to 28% in 2018, with an average of 16%. Overdrawn Accounts range from 78% in 2010 to 71% in 2019, averaging 70%. Bank Employees range from 8% in 2010 to 17% in 2017, with an average of 11%. Guarantee from *Qarḍ al-Ḥasan* Financing ranges a 16% range in 2016, with an average of 16%. It appears that the bank is providing a consistent amount of *Qarḍ al-Ḥasan* financing over the years. The percentage breakdown of financing by category fluctuates over the years, with education, medical treatment and marriage having the lowest percentage, while Overdrawn Accounts and Bank Employees have the highest percentage. *Qarḍ al-Ḥasan* is a type of Islamic financing, it is usually used for social and economic development purposes. Therefore, the bank is providing the financing mainly for overdrawn accounts and its employees, and a relatively small percentage for education, medical treatment and marriage from *Qarḍ al-Ḥasan*

Financing. Table 27 and Figure 62 summarize *Qard al-Hasan* financing purposes and their percentage.

Table 27 *Qard al-Hasan* Financing purposed³¹

Years	<i>Qard al-Hasan</i> Financing	The percentage of (E&M&M)	The percentage of overdrawn Accounts	The percentage of Bank Employees	The percentage of Guarantee from QHF
2010	21,612,483	13%	78%	8%	
2011	23,417,640	14%	79%	8%	
2012	20,456,620	15%	75%	10%	
2013	22,278,538	13%	76%	11%	
2014	19,392,704	14%	74%	12%	
2015	19,251,312	12%	77%	11%	
2016	18,577,019	13%	59%	12%	16%
2017	13,608,688	25%	58%	17%	
2018	14,405,240	28%	55%	17%	
2019	20,373,838	17%	71%	12%	
Average	19,337,408	16%	70%	11%	16%

Source: Author's illustration



³¹ - The data is taken by (Al Baraka Banking Group, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019; Jordan Islamic Bank, 2012b, 2012a, 2 013, 2014a, 2014b, 2015a, 2015b, 2016a, 2016b, 2017a, 2017b, 2018a, 2018b, 2019a, 2010, 2011).

Figure 62 Percentage of education, medical treatment marriage (E&M&M) financed *Qarḍ al-Ḥasan* by Jordan Islamic bank

Source: Author’s illustration

4.3.4 *Qarḍ al-Ḥasan* financing in Algeria

Zakāt finances income-generating activities, “small and micro projects” by *Qarḍ al-Ḥasan* through the *Zakāt* fund of Algeria when the collected funds exceed DZD 5 million. Algeria is the only Maghreb country with a *Zakāt* fund. It was established in 2003 under the Ministry of Religious Affairs and *Waqf*. The total *Zakāt* collection amounted to DZD 1267.2 million (circa USD 11.5 million) in 2016. (IRTI, 2021). Figure 63 summarizes the distribution of Algerian *Zakāt* funds.

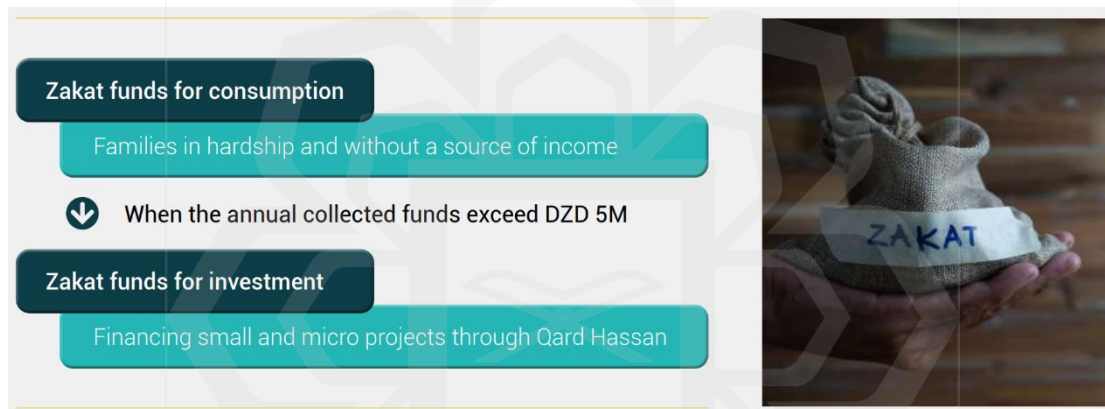


Figure 63 Distribution of Algerian *Zakāt* funds

Source: IRTI

4.3.4.1 *Qarḍ al-Ḥasan* financing in AL-Baraka Bank of Algeria

4.3.4.1.1 Overview of Social Responsibility in AL-Baraka Bank

AL-Baraka Bank of Algeria has different social responsibility programs, such as humanitarian programs, economic opportunities, and social investment programs. AL-Baraka Bank is granting microfinance to several small enterprises. AL-Baraka Bank Supports and donates to many organizations and people in need. It is also launching the Qafat Ramadan and Al-Rahmah restaurant programmes. Moreover, it is sponsoring various schools. AL-Baraka Bank of Algeria established two types of endowments. One of them is an endowment of 10,000,000 Algerian dinars to establish an Islamic

Finance Training Institute (IRFFI). The second endowment of 100,000,000 Algerian dinars for the establishment of a centre for medical research SARL SMART DIAGNOSTIX PHARM (Al Barakah Bank, 2021e).

4.3.4.1.2 Qard al-Hasan Model in AL-Baraka Bank

AL-Baraka Bank of Algeria adopted *Qard al-Hasan* as a socially responsible product. Additionally, it grants and manages the *Zakāt* loan and *Zakāt* Fund for the Ministry of Religious Affairs and Endowments. AL-Baraka Algeria has participated in the sustainability and social responsibility programme through the Albaraka *Qard al-Hasan* programme. Albaraka *Qard al-Hasan* programme covers benevolent *Qard* based on *Qard al-Hasan* (Al Baraka Banking Group, 2019). Besides this, the Ministry of Religious Affairs and *Waqf* signed a cooperation agreement with the Algerian AL-Baraka Bank to be its technical agent to invest zakāt funds and support youth employment projects, especially small ones. The fund would finance some projects. The *Zakāt* funds are 37.5% of the total of *Zakāt* which means 12.5% of three each part of *Zakāt* banks which attracts the hearts of those who have been inclined (towards Islām), and to free captives, and for those in debt. It is called the *Zakāt* Investment Fund (Hiba & Ibtasam, 2018, The Ministry of Religious Affairs and *Waqf*, 2004).

The *Qard al-Hasan* financing model in AL-Baraka Bank in Algeria seems to lack specific information regarding its financing sources, financing disbursement mechanism, and purpose of grants. As such, it is difficult to analyze the model's effectiveness in meeting the needs of its customers or community. It is essential for the bank to provide clear and transparent information regarding the *Qard al-Hasan* financing model to ensure that it is fulfilling its social responsibility and promoting Islamic values in its operations. The study tries to get *Qard al-Hasan* financing information model via the interview. Figure 64 summarises the *Qard al-Hasan* financing model in Albaraka Bank in Algeria.

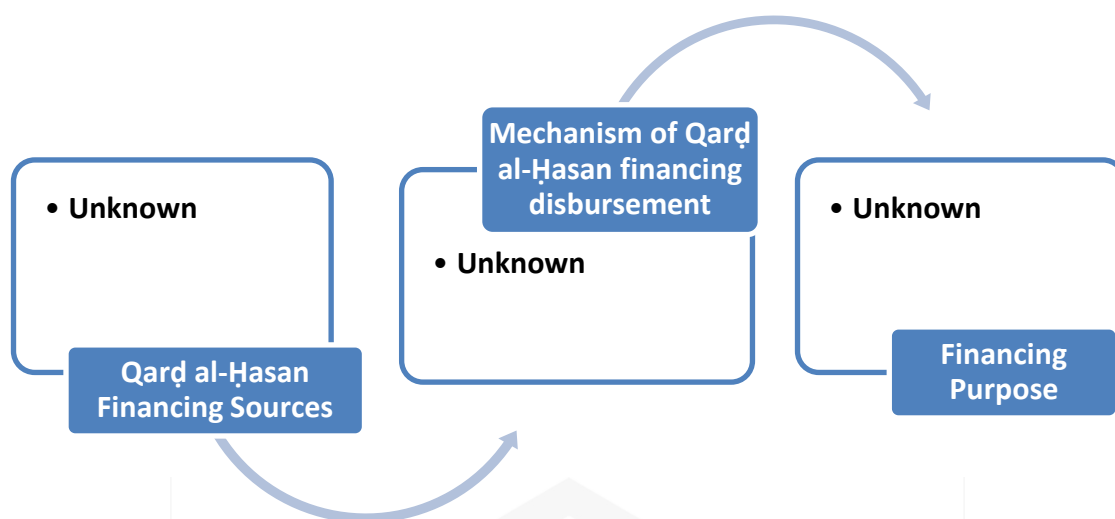


Figure 64 *Qard al-Hasan* financing model in AL-Baraka Bank in Algeria

Source: Author's illustration

4.3.4.1.3 *Qard al-Hasan* Procedures in AL-Baraka Bank

AL-Baraka Bank has identified a set of important procedures for this product, such as properties, *Qard al-Hasan* amount, and the repayment period. Table 28 summarises the procedures of *Qard al-Hasan* product (Al Barakah Bank, 2016, 2021b).

Table 28 Procedures of *Qard al-Hasan* product

Type of Procedure	The Procedures
Proposed	To finance SMEs (the source comes from the Ministry of Religious Affairs and <i>Waqf</i> of Algeria), The role of the bank here is only to manage <i>Zakāt</i> accounts and financing clients.
Gender	Female Group
Properties or Conditions	<ol style="list-style-type: none"> 1. Female business. 2. A home business. 3. The business is not carried out within the framework of structured institutions. 4. The women do not have a Bank account. 5. The women who need finance are living in very modest conditions. 6. There is no staff in this business. 7. The profit of the business is less than a minimum salary. 8. There is no formal accountability. 9. There is no separation between the business and the family level. 10. In the end, it is a simple business.

The repayment period	12 months
The maximum financing amount	50,000 DA for one woman, but if the number of members is up to 15 women, the financing amount is around 750 thousand
Advantages	<ol style="list-style-type: none"> 1. No profit margin, no charge service, and no delay penalties. 2. Financial inclusion. 3. A method for poverty elevation.
The required documents	<ol style="list-style-type: none"> 1. Feasibility study. 2. Opening a current account in a branch of AL-Baraka Bank. 3. Signing an agreement to open a savings account. 4. Provide an agency of a member to clients (members of the group feminist) providing a valid identification card. 5. Providing residence certificate (less than 3 months). 6. Birth certificate (less than 03 years). 7. Applying a financing request.
Charge of Services	Non-charge of service
The legitimacy formula	<i>Qard al-Hasan</i>

Source: Author's illustration

4.3.4.1.4 *Qard al-Hasan Financing Amount Disbursed by AL-Baraka Bank*

The data provided shows the philanthropic program funding (in US dollars) and *Qard al-Hasan* financing for the years 2010 through 2019 at AL-Baraka Bank in Algeria. The *Qard al-Hasan* financing is a specific program within the CSR program of the bank.

For some years, the *Qard al-Hasan* financing data has been missing. For the years where data is available, the percentage of *Qard al-Hasan* financing compared to the total philanthropic program ranges from 0% to 61%, with an average of 29% over the years. Overall, it seems that the *Qard al-Hasan* financing program is a significant part of the bank's philanthropic program, although its proportion varies from year to year. The data also shows that the funding for the philanthropic program and the *Qard al-Hasan* financing program fluctuates yearly. In 2012, the philanthropic program funding was \$433,000, and there was no *Qard al-Hasan* financing, resulting in 0% of the total program coming from *Qard al-Hasan* financing. In 2013, the philanthropic program

funding was \$619,000, and *Qard al-Hasan* financing was \$973,000, resulting in 61% of the total program coming from *Qard al-Hasan* financing.

In 2015, the philanthropic program funding was \$4,564,000, and *Qard al-Hasan* financing was \$563,000, resulting in only 11% of the total program coming from *Qard al-Hasan* financing. In 2016, the philanthropic program funding was \$594,861, and *Qard al-Hasan* financing was \$584,460, resulting in 50% of the total program coming from *Qard al-Hasan* financing. It can be inferred that the bank's allocation of funding for the philanthropic program and the *Qard al-Hasan* financing program changes from year to year, and it is not consistent.

In conclusion, the data provided shows that the *Qard al-Hasan* financing program is a significant part of the overall philanthropic program at AL-Baraka Bank in Algeria, with the percentage of funding allocated to *Qard al-Hasan* financing varying from year to year. On average, 29% of the total philanthropic program funding was allocated to *Qard al-Hasan* financing. Table 29 and figures 65 and 66 summarize *Qard al-Hasan* Financing and its percentage from the total SR programme.

Table 29 *Qard al-Hasan* Financing and its percentage from the CSR total programs³²

Years	Philanthropic Program (US\$)	<i>Qard al-Hasan</i> Financing	Total Program	The percentage of QHF from total CSR programs
2010		-		
2011		-		
2012	433,000	-	433,000	0%
2013	619,000	973,000	1,592,000	61%
2014	753,000	977,000	1,730,000	56%
2015	4,564,000	563,000	5,127,000	11%
2016	594,861	584,460	1,179,321	50%
2017	722,000	193,000	915,000	21%
2018	1,743,000		1,743,000	0%
2019	773,000	328,000	1,101,000	30%
Average	1,275,233	516,923	1,727,540	29%

Source: Author's illustration

³² The data is taken by (Al Baraka Banking Group, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

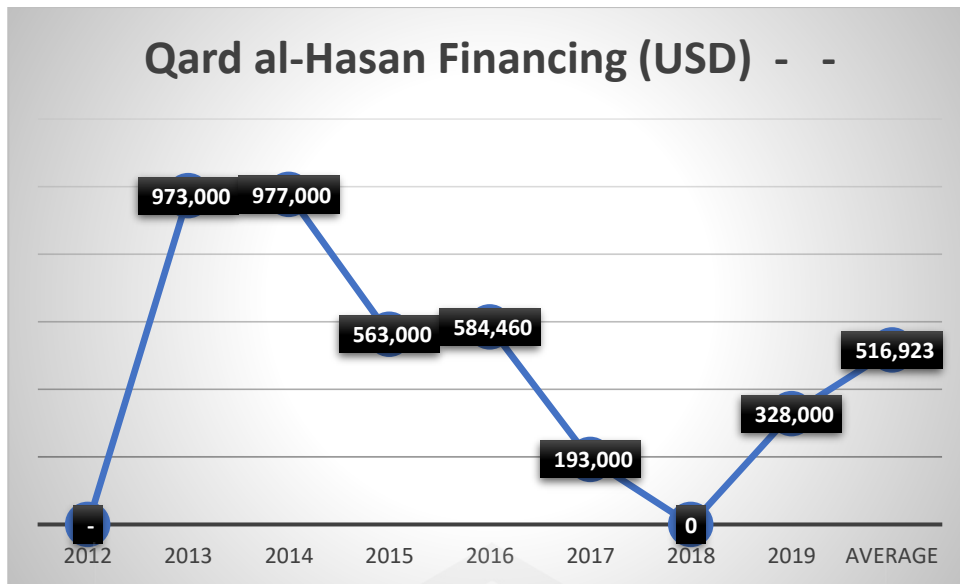


Figure 65 *Qard al-Hasan* Financing (USD)

Source: Author's illustration

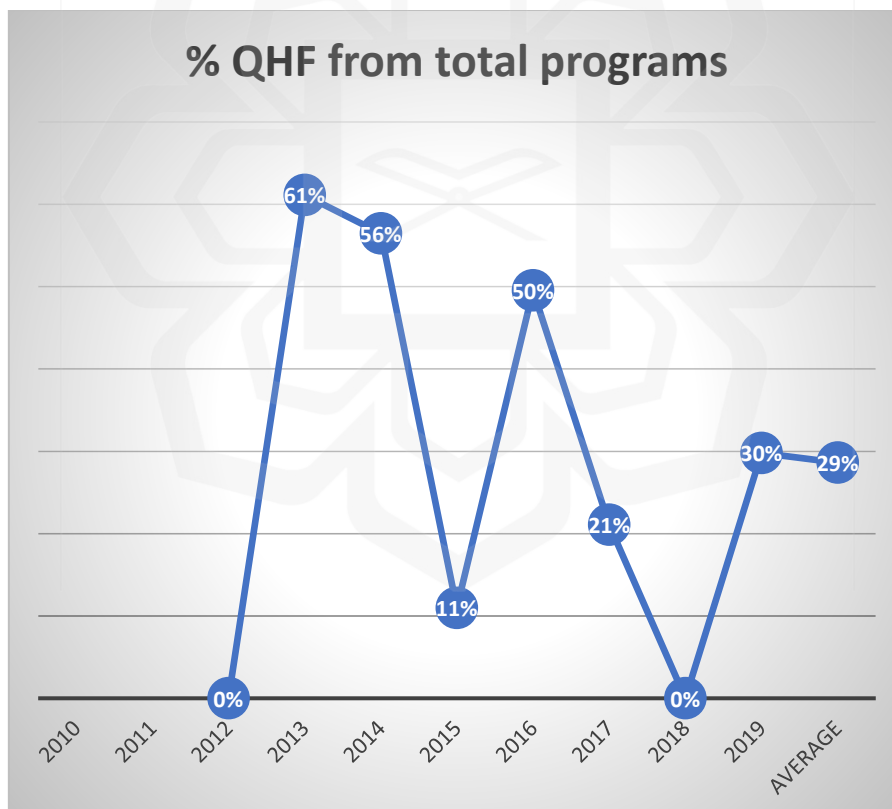


Figure 66 The percentage of *Qard al-Hasan* financing from the total CSR programs

Source: Author's illustration

4.3.4.1.5 *Qard al-Hasan Financing Purpose Disbursed by AL-Baraka Bank*

The data provided shows the *Qard al-Hasan* financing program funding (in US dollars) and the number of beneficiaries for the years 2013-2019 at AL-Baraka Bank in Algeria. The data also shows the average amount per beneficiary for the years 2016-2019. It appears that the data for the years 2010-2012 and 2018 is missing.

In 2016, the *Qard al-Hasan* financing program funding was \$584,460, and there were 132 beneficiaries, resulting in an average amount per beneficiary of \$4,428. In 2017, the *Qard al-Hasan* financing program funding was \$193,000, and there were 131 beneficiaries, resulting in an average amount per beneficiary of \$1,473. In 2019, the *Qard al-Hasan* financing program funding was \$328,000, and there were 68 beneficiaries, resulting in an average amount per beneficiary of \$4,824.

In conclusion, the data provided shows that the *Qard al-Hasan* financing program at AL-Baraka Bank in Algeria provided funding to a varying number of beneficiaries over the years 2013-2019, and the average amount per beneficiary was \$3,575 over the years 2016-2019. Table 30 summarizes the beneficiaries of *Qard al-Hasan* Financing and its average amount.

Table 30 The beneficiaries of *Qard al-Hasan* Financing and the average amount³³

Years	<i>Qard al-Hasan</i> Financing	Number of beneficiaries	Average of the amount per beneficiary
2010	-		
2011	-		
2012	-		
2013	973,000		
2014	977,000		
2015	563,000		
2016	584,460	132	4,428
2017	193,000	131	1,473
2018			
2019	328,000	68	4,824
Average	516,923	110	3,575

Source: Author's illustration

³³ - The data is taken by (Al Baraka Banking Group, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

4.3.5 *Qard* financing in Malaysia

During the early stages of Islamic banking in the country, several products were introduced that were based on the concept of *Qardh Hasan*, including government investment certificates and benevolent loans. Properly using the *Qardh Hasan* concept in a Shari'ah-compliant manner can benefit both parties involved. However, if used inappropriately, it could potentially create problems and harm the reputation of the Islamic financial system. As a result, the council decided in its 51st meeting on July 28th, 2005/ 21st Jamadil Akhir 1426, to remove the word "*Hasan*" from the word *Qardh*, implying that *qardh* is an obligation for borrowers to repay their loans to lenders (Bank Negara Malaysia, 2005).

4.3.5.1 *Qard* financing in the Kuwait Finance House (Malaysia)

4.3.5.1.1 *Overview of Social Responsibility in the Kuwait Finance House*

KFH Malaysia recently launched its flagship Corporate Social Responsibility (CSR) initiative. The Bank introduced its new CSR emblem, 'Creating Footsteps,' which embodies the Bank's top practices in CSR. KFH Malaysia has implemented numerous programmes and activities over the past six years since its establishment, such as offering a microfinancing scheme for small business owners, educating school students about Islamic banking, providing basic business skills to low-income groups, helping new converts, supporting Islamic religious schools in Johor, contributing to Tabung Haji hajj pilgrims, planting trees, and encouraging staff volunteerism in the local community (Kuwait Finance House (Malaysia), 2022).

4.3.5.1.2 *Qard Finance Model in the Kuwait Finance House*

The Kuwait Finance House has the depositors' bank accounts as non-investment deposits in the form of current accounts. These deposits are not entitled to any profits or bear any risk of loss as the bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered *Qard* from depositors to the bank under Islamic Shari'ah. It also constitutes basic savings which is based on *Qard* (Kuwait Finance House (Malaysia), 2019).

The *Qard* Financing Model in Kuwait Finance House (Malaysia) utilizes depositors' and shareholders' funds as sources of financing. However, the mechanism of financing disbursement and the financing purpose are unknown. Without further information, it is not easy to analyze the effectiveness or impact of this financing model in fulfilling the Islamic principle of helping those in need through interest-free loans. More details are required via the interview to assess the contribution of this model towards the economic development and social welfare of the community. Figure 67 summarises the *Qard* financing model in the Kuwait Finance House.

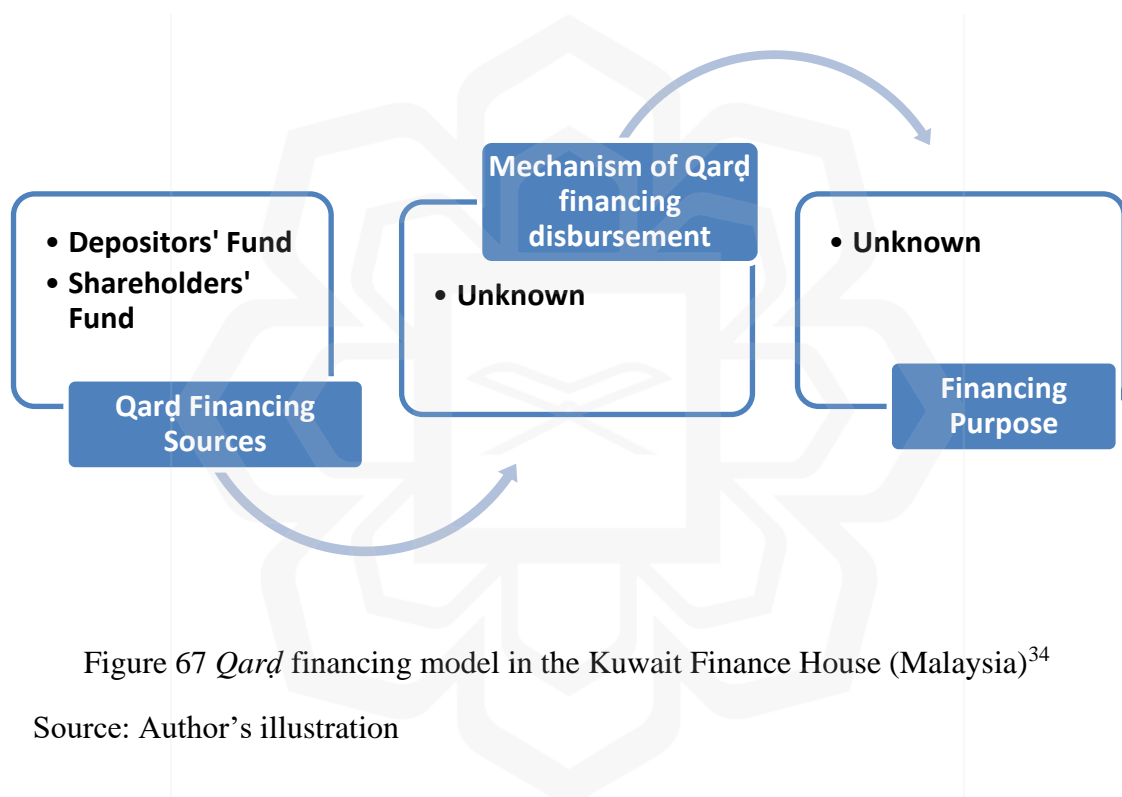


Figure 67 *Qard* financing model in the Kuwait Finance House (Malaysia)³⁴

Source: Author's illustration

4.3.5.1.3 *Qard Financing Sources in Kuwait Finance House*

The table shows the sources of *Qard* funds in the Kuwait Finance House (Malaysia) from 2010 to 2019. The *Qard* fund is made up of two sources: Depositors' *Qard* Fund and Shareholders' *Qard* Fund. The total amount of the fund is the sum of the two sources.

The Depositors' *Qard* Fund is the primary source of the *Qard* fund, making up an average of 82% of the total fund. The Shareholders' *Qard* Fund, on the other hand,

³⁴ - The information is taken by Kuwait Finance House (Malaysia).

makes up an average of 18% of the total fund. The total source of *Qard* fund has been relatively consistent over the years, with an average of 846,000 MYR. It is also notable that the Depositors' *Qard* Fund was the highest in 2018, reaching 1,193,000 MYR, while the Shareholders' *Qard* Fund was the highest in the same year, reaching 271,000 MYR.

In conclusion, it can be seen that the Kuwait Finance House (Malaysia) relies heavily on the Depositors' *Qard* Fund as a source of the *Qard* fund, with an average of 82% of the total fund coming from this source. The Shareholders' *Qard* Fund, while still present, is a relatively minor source of the *Qard* fund, with an average of 18% of the total fund coming from this source. The total *Qard* fund has been relatively consistent over the years, averaging around 846,000 MYR. Table 31 and figures 68 and 69 summarize the sources of *Qard* fund.

Table 31 Sources of *Qard* fund (MYR)³⁵

Years	Depositor' <i>Qard</i> Fund	Shareholders' <i>Qard</i> Fund	Total Source	The Percentage of Depositors' funds from the total fund	Percentage of Shareholders' funds from the total fund
2010			-		
2011			-		
2012	701,000	143,000	844,000	83%	17%
2013	360,000	81,000	441,000	82%	18%
2014	504,000	117,000	621,000	81%	19%
2015	1,084,000	229,000	1,313,000	83%	17%
2016	915,000	189,000	1,104,000	83%	17%
2017	1,104,000	243,000	1,347,000	82%	18%
2018	1,193,000	271,000	1,464,000	81%	19%
2019	1,062,000	264,000	1,326,000	80%	20%
Average	865,375	192,125	846,000	82%	18%

Source: Author's illustration

³⁵ - The data is taken by (Kuwait Finance House (Malaysia), 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

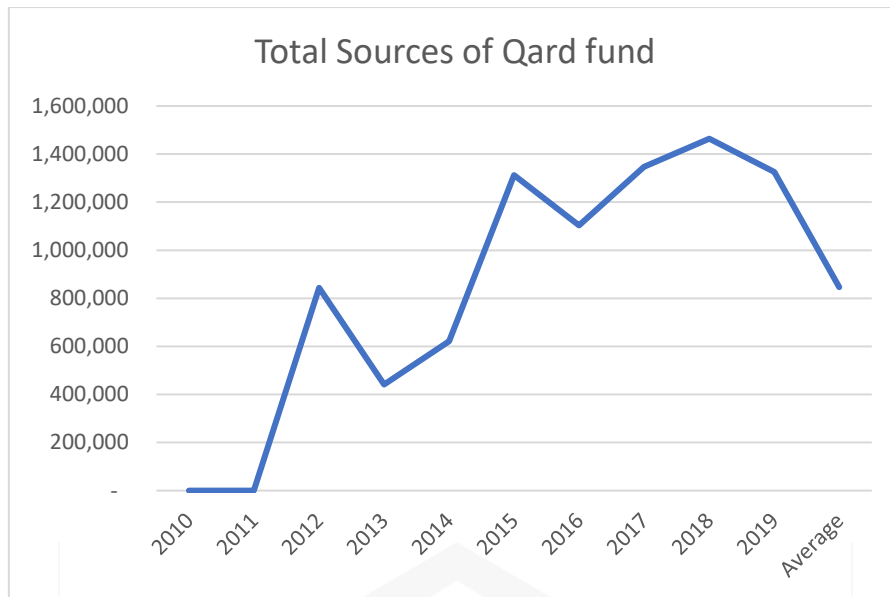


Figure 68 Total Sources of *Qard* fund

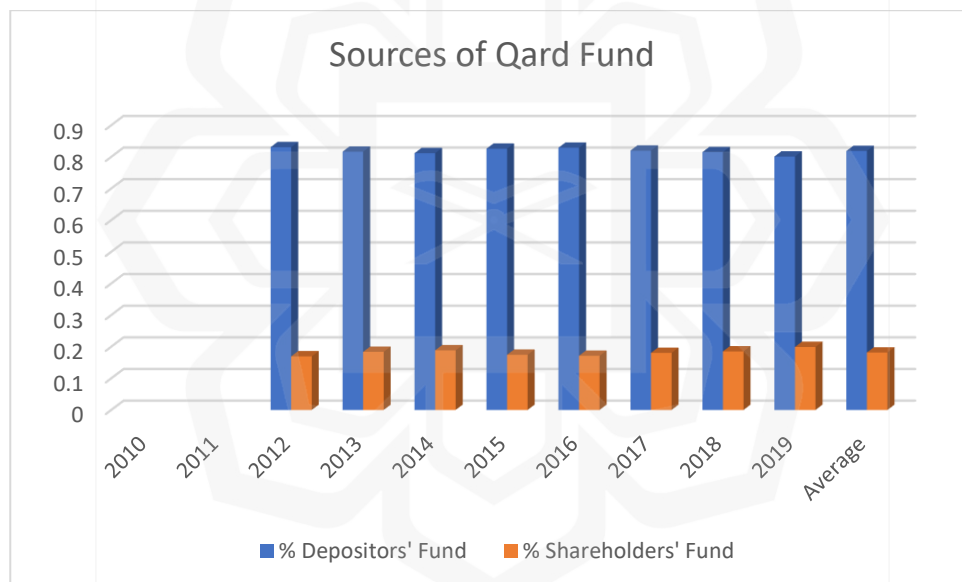


Figure 69 Sources of *Qard* fund percentage

Source: Author's illustration

4.3.5.1.4 *Qard Financing Disbursed by Kuwait Finance House*

The table shows the percentage of *Qard* funds used from total sources disbursed by Kuwait Finance House (Malaysia) for the years 2010-2019. The data shows that for the years 2010 and 2011, the natural source of *Qard* fund is not provided, which makes it impossible to calculate the percentage of *Qard* fund used from total sources for those

years. From 2012-2019, the percentage of *Qard* funds used from total sources varies greatly, with the highest being 183% in 2013 and the lowest being 43% in 2014. Overall, the average percentage of *Qard* fund used from total sources is 102%, which indicates that the total uses of *Qard* fund are slightly more than the total sources of *Qard* fund.

The data provided shows that there is a significant variation in the percentage of *Qard* funds used from total sources disbursed by Kuwait Finance House (Malaysia) over the years. This could be due to several factors, such as changes in regulations, market conditions, or the bank's policies. It is also worth noting that the percentage of *Qard* funds used from total sources is above 100%.

Overall, the data suggests that Kuwait Finance House (Malaysia) has been actively using *Qard* funds as a source of financing. The average percentage of *Qard* funds used from total sources is 102%, indicating that the bank is using *Qard* funds slightly more than other funding sources. However, the bank's funding sources and the percentage of *Qard* funds used from total sources may have changed significantly over the years. Table 32 and Figures 70 and 71 show the percentage of *Qard* fund financing.

Table 32 The percentage of *Qard* funds used from total sources (MYR)³⁶

Years	Total Source of <i>Qard</i> fund	Total uses of <i>Qard</i> fund	The percentage of <i>Qard</i> funds used from total sources
2010	-		
2011	-		
2012	844,000	975,000	116%
2013	441,000	805,000	183%
2014	621,000	269,000	43%
2015	1,313,000	1,322,000	101%
2016	1,104,000	1,208,000	109%
2017	1,347,000	1,459,000	108%
2018	1,464,000	1,020,000	70%
2019	1,326,000	1,161,000	88%
Average	846,000	1,027,375	102%

Source: Author's illustration

³⁶ - The data is taken by (Kuwait Finance House (Malaysia), 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

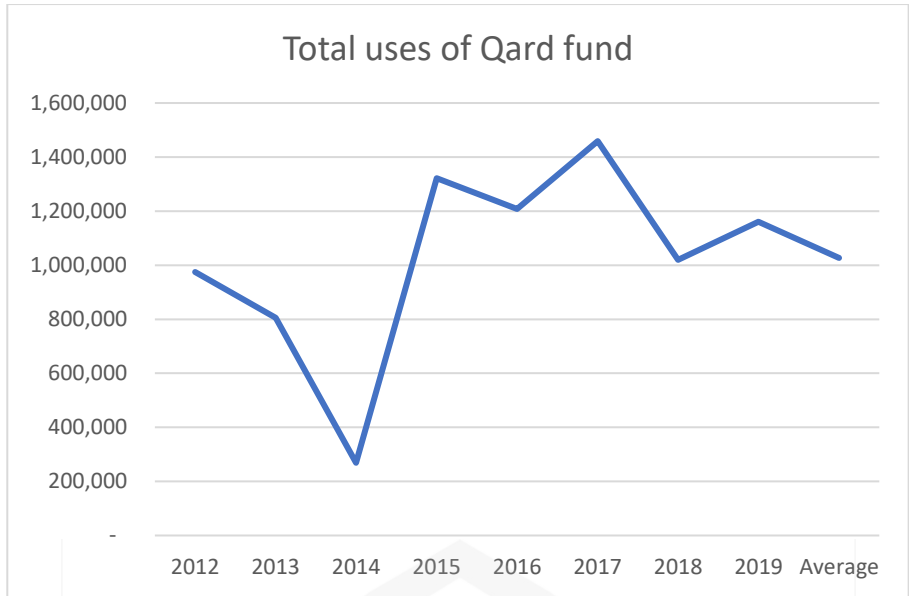


Figure 70 *Qard* funds disbursed

Source: Author's illustration

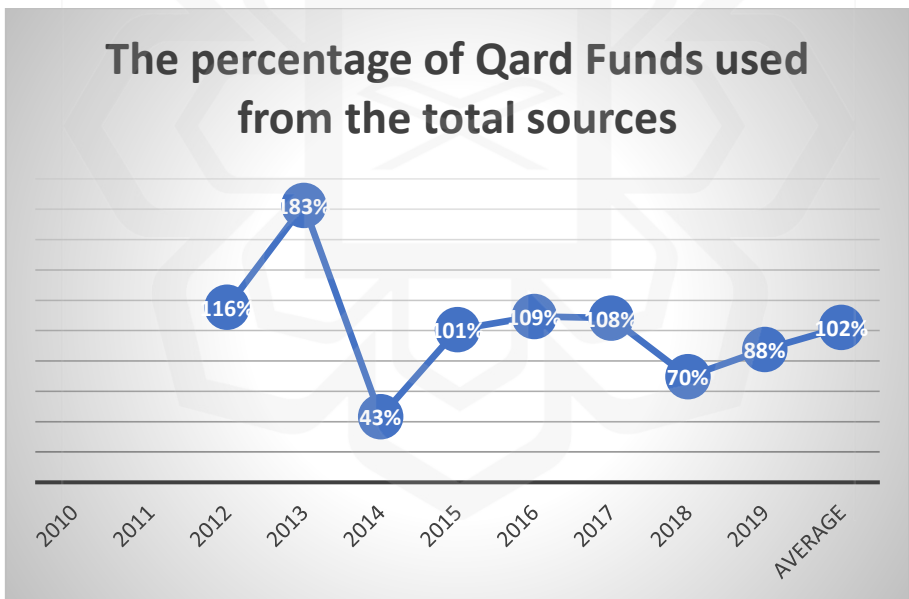


Figure 71 The percentage of *Qard* funds used from total sources

Source: Author's illustration

4.3.5.1.5 *Qard* Financing Purpose Disbursed by Kuwait Finance House

The table shows the purpose of *Qard* Fund disbursed by Kuwait Finance House (Malaysia) for the years 2010-2019. The *Qard* fund financing is for two purposes: financing asset purchases and staff benevolence, noting that financing asset purchases

is also for bank employees.³⁷ The data shows that for the years 2010 and 2011, the total uses of *Qard* funds are not provided. Therefore, it is impossible to calculate the percentage of financing for asset purchases from the total *Qard* fund and the percentage of staff benevolent from the total of *Qard* funds for those years. From 2012-2019, the table shows that the majority of the *Qard* Fund is used for financing asset purchases. On average, 85% of the total uses of *Qard* fund is used for financing asset purchases. The remaining 15% is used for staff benevolent purposes. It is worth noting that these percentages are consistent across all the years shown in the table, indicating that the bank has a consistent policy for the use of *Qard* funds.

Overall, the data suggest that Kuwait Finance House (Malaysia) primarily uses *Qard* funds for financing asset purchases, with an average of 85% of total uses of *Qard* funds being used for this purpose. Additionally, a consistent 15% of the total uses of *Qard* funds are used for staff benevolent purposes. Table 33 and figure 72 show the purpose of *Qard* fund from 2010 to 2019.

Table 33 Purpose of *Qard* fund from 2010 to 2019 (MYR)³⁸

Years	Total uses of <i>Qard</i> fund	Financing for asset purchase	Staff Benevolent	The percentage Financing for asset purchase from a total of <i>Qard</i> fund	Percentage of Staff Benevolent from total of <i>Qard</i> fund
2010					
2011					
2012	975,000	939,000	36,000	96%	4%
2013	805,000	775,000	30,000	96%	4%
2014	269,000	218,000	51,000	81%	19%
2015	1,322,000	1,092,000	230,000	83%	17%
2016	1,208,000	1,001,000	207,000	83%	17%
2017	1,459,000	1,197,000	262,000	82%	18%
2018	1,020,000	831,000	189,000	81%	19%
2019	1,161,000	930,000	231,000	80%	20%
Average	1,027,375	872,875	154,500	85%	15%

Source: Author's illustration

³⁷ - According to the clarification from one of the bank's staff on November 9, 2021.

³⁸ - The data is taken by (Kuwait Finance House (Malaysia), 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

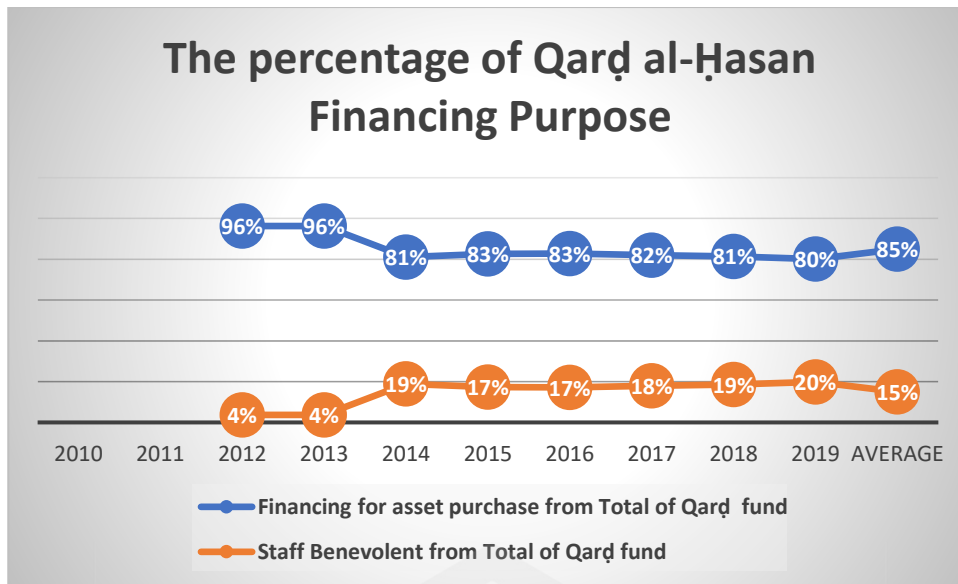


Figure 72 The percentage of *Qard* fund Financing Purpose

Source: Author's illustration

4.3.6 The average percentage of *Qard* financing from the total financing

This part explores the average percentage of *Qard* financing within the total financing portfolio of five selected Islamic banks: Saba Islamic Bank, Bank Aljazira Jordan Islamic Bank, AL-Baraka Bank, and Kuwait Finance House (Malaysia).

The figure below provides information about the average percentage of *Qard* financing from the total financing for five Islamic banks (Saba Islamic Bank, Bank Aljazira, Albaraka Bank, Jordan Islamic Bank, and Kuwait Finance House) during the period from 2010 to 2019. It also shows the average percentage of *Qard* financing from the total financing for all Islamic banks over the same period.

Looking at the table, Saba Islamic Bank has the highest average percentage of *Qard* financing from the total financing, with 1.3%. This indicates that Saba Islamic Bank used non-permissible earnings sources for *Qard* financing. Jordan Islamic Bank comes second with 0.8%, indicating that it also places a significant emphasis on *Qard* financing and uses *Qard al-Hasan* account that the clients' depositors support.

On the other hand, the Kuwait Finance House has the lowest average percentage of *Qard* financing from the total financing, with only 0.002%. This suggests that the bank is less focused on social responsibility and charity by using *Qard* financing compared to other banks on the list. The average percentage of *Qard* financing from the total financing for all Islamic banks over the period from 2010 to 2019 was 0.4%.

This indicates that, on average, Islamic banks place some emphasis on social responsibility and charity through *Qard* financing, but the level of commitment varies significantly between banks. Figure 73 summarizes the average percentage of *Qard* financing from the total financing from 2010 to 2019

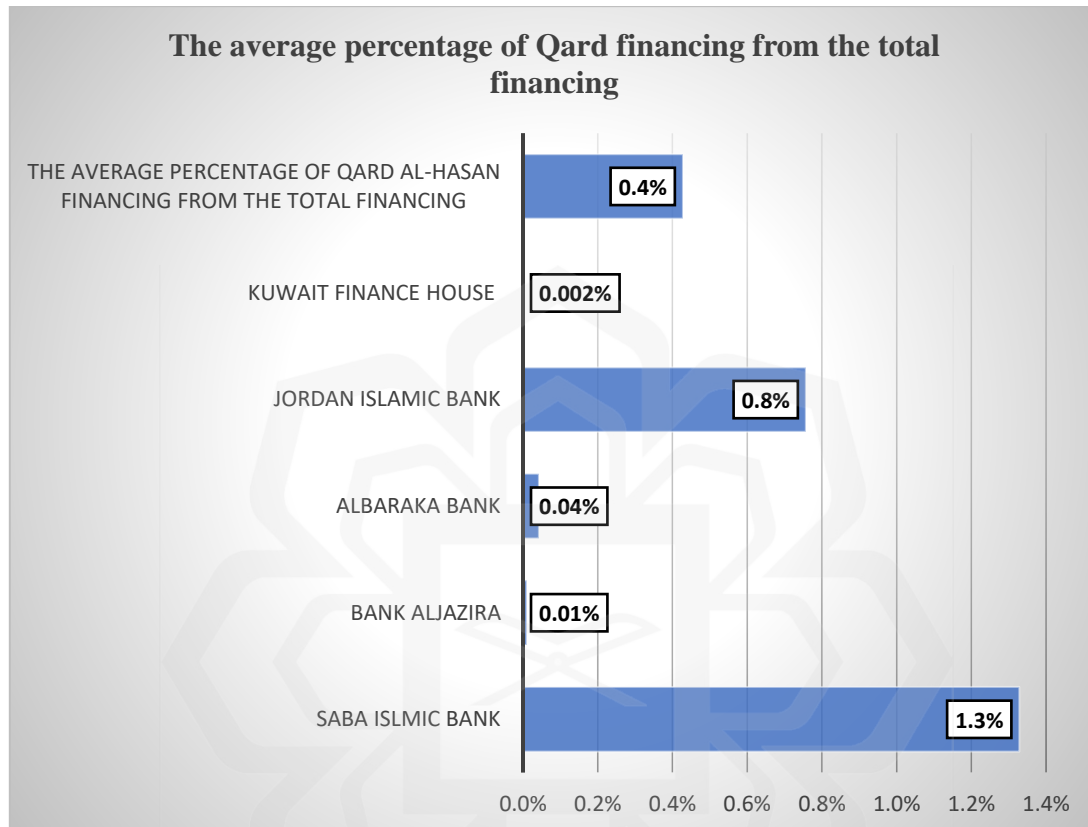


Figure 73 The average percentage of *Qard* financing from the total financing from 2010 to 2019

Source: Author's illustration

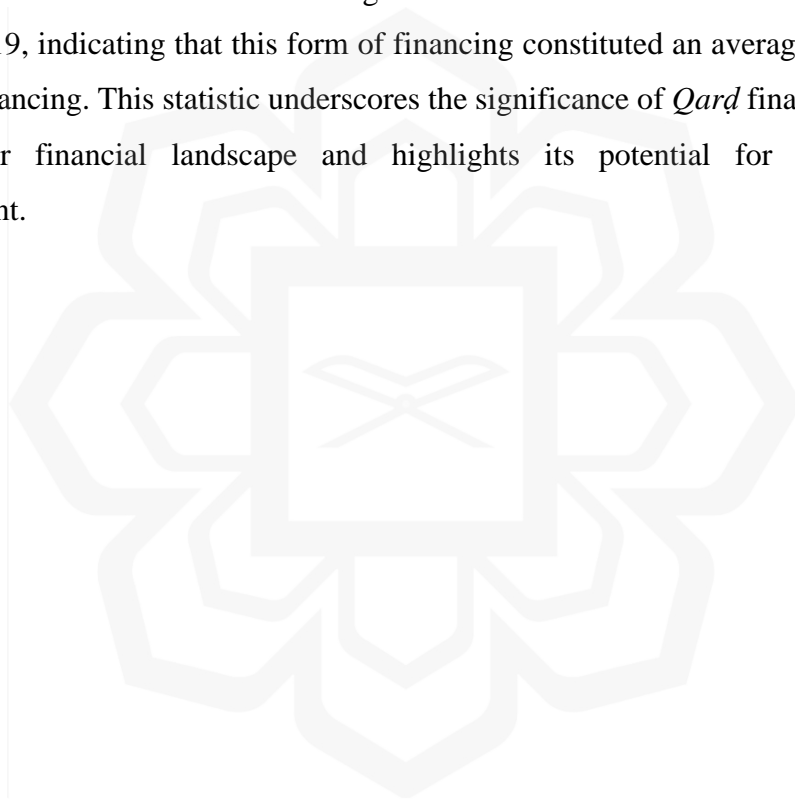
4.5 CONCLUSION

This chapter discussed the document analysis of Islamic banks selected in the OIC countries: Yemen, Saudi Arabia, Algeria, Jordan, and Malaysia. The Islamic banks selected are Saba Islamic Bank in Yemen, Bank Aljazira in Saudi Arabia, Albaraka Bank in Algeria, Jordan Islamic Bank in Jordan, and Kuwait Finance House (Malaysia) Berhad, which have different models for *Qard* financing. These models vary in terms of the sources of *Qard* financing, the purpose of the grant, the type of clients, the amount of financing, and their percentage. These Islamic banks have been using *Qard* financing for several options, such as overdrafts between the Islamic banks and their

clients, staff, low-income needy (education, treatment, and marriage), and SMEs. This chapter also provided an overview of the global positive and negative interest rates and zero interest in general and in the OIC countries in particular.

Moreover, the chapter provided a valuable backdrop by comparing the nuances of *Qard* financing across the examined banks. By exploring similarities and differences in funding sources, the use of pooled funds, grant purposes, gender considerations, legitimacy formulas or names, product types, and the specific *Qard* financing products offered, the study illuminated the dynamic nature of these practices.

A key finding of the chapter was the revelation of the average percentage of *Qard* financing in relation to the total financing across all Islamic banks over the period from 2010 to 2019, indicating that this form of financing constituted an average of 0.4% of the total financing. This statistic underscores the significance of *Qard* financing within the broader financial landscape and highlights its potential for growth and enhancement.



CHAPTER FIVE

FINDINGS OF INTERVIEW ANALYSIS

5.1 INTRODUCTION

The study conducted a series of semi-structured interviews with experts in Islamic Banks to explore the practices, challenges, risks, and development of the *Qard* financing model. Interviewees were divided into two sections: the first targeted seven experts working in Islamic Banks selected from OIC countries, while the second targeted practitioners in Islamic banking services. This chapter contains an analysis of these interviews, organized into twelve themes.

To achieve research objectives number two and three, namely, **“to elicit principles from *Qard* financing practices in selected Islamic banks in OIC countries”** and **“to determine the challenges and risks exposures of *Qard* financing in the selected Islamic banks in OIC countries”**, a semi-structured interview was conducted with experts in Islamic banks. The themes emerging from these interviews address various aspects of *Qard* financing practices, challenges, and risks in Islamic banks in OIC countries. The study explores whether the banks have *Qard* financing and how it is managed, aiming to understand the practices of *Qard* financing in the selected Islamic banks. It seeks to identify the sources used by banks to mobilize *Qard* financing, delving into the significant challenges, risks, and problems faced in the repayment of *Qard* financing. Additionally, the study examines whether the disbursement comes directly from the bank or through a foundation, contributing to the understanding of *Qard* financing practices, and determining the purposes for which *Qard* financing is disbursed or to whom it is provided.

The study also involved semi-structured interviews with the experts to address objective four, namely, **to elicit the experts’ opinions of the suitability of *Qard* financing as a socially responsible instrument for the selected Islamic banks in OIC countries**. The themes identified in this part seek to understand experts' views on the potential and societal impact of *Qard* financing, to investigate whether *Qard* financing should be included in Islamic banks' social responsibility programs, and to explore experts' preferences for allocating *Qard* financing within Islamic banks. The study aims to understand experts' preferred sources of financing for *Qard* financing and

to identify strategies for Islamic banks to hedge the risks associated with *Qard* financing. It also seeks to understand the preferred mechanisms and purposes for *Qard* financing disbursement in Islamic banks. These findings help the researcher to address the fifth objective, which is **to develop the *Qard* financing conceptual model for the selected Islamic banks in OIC countries.**

Overall, the themes and interview questions provide a structured approach to understanding the practices, challenges, risks, and repayment issues of *Qard* financing in Islamic banks in OIC countries, as well as exploring the experts' perceptions of *Qard* financing as a socially responsible instrument and its implementation within these banks. Table 34 shows the themes and interview questions.

Table 34 Themes and Interview Questions

Themes and Interview Questions			
NO.	Themes	Interview Questions	Justification
1	<i>Qard al-Hasan</i> fund and its management	Does the Bank have <i>Qard al-Hasan</i> financing, and under what management does it operate?	The theme is designed to achieve research objective two: "To elicit the principles from practices of <i>Qard al-Hasan</i> for the selected Islamic banks in OIC countries."
2	Sources of <i>Qard al-Hasan</i>	What type of sources is the bank using to mobilize the sources of <i>Qard al-Hasan</i> financing?	The theme is designed to achieve research objective three: "To determine the challenges, risks, and problems of repayment of <i>Qard al-Hasan</i> for the selected Islamic banks in OIC countries."
3	The challenges, Risks and Problems of repayment of <i>Qard al-Hasan</i> financing	What are the most significant challenges faced by the <i>Qard al-Hasan</i> financing in the bank?	The theme is designed to achieve research objective two: "To understand the practices of <i>Qard al-Hasan</i> for the selected Islamic banks in OIC countries."
		What are the risks involved in <i>Qard al-Hasan</i> fund/financing in the Bank?	
		What are the problems that could be associated with the repayment of <i>Qard al-Hasan</i> in the Bank?	
4	mechanism of <i>Qard al-Hasan</i> financing disbursement	Is <i>Qard al-Hasan</i> financing disbursement coming directly from the Bank or through the foundation?	This theme is designed to achieve research objective two: "To understand the practices of <i>Qard al-Hasan</i> for the selected Islamic banks in OIC countries."
5	Purposes of <i>Qard al-Hasan</i> financing	What are the purposes of the <i>Qard al-Hasan</i> financing in the bank? Or who are the beneficiaries of <i>Qard al-Hasan</i> financing in the bank?	The themes are designed to achieve research objectives
6	The vital role of <i>Qard al-Hasan</i>	Do you think that <i>Qard al-Hasan</i> financing in Islamic Banks could	

	financing and its impact on society	play a vital role and impact on society?	number four and five: “To explore the experts’ perception of the suitability of Qard al-Hasan financing as a socially responsible product for the selected Islamic banks in OIC countries.” “To develop the Qard al-Hasan financing conceptual model for the selected Islamic banks in OIC countries.”
7	<i>Qard al-Hasan</i> financing is a socially responsible product	Should an Islamic bank include <i>Qard al-Hasan</i> financing product under the social responsibility programme?	
8	Creating <i>Qard al-Hasan</i> fund	Would you prefer to allocate <i>Qard al-Hasan</i> fund inside the Islamic Bank separately?	
9	Preferring <i>Qard al-Hasan</i> sources	What type of sources do you prefer for <i>Qard al-Hasan</i> financing in the Islamic bank?	
10	Hedge of <i>Qard al-Hasan</i> financing risks	How can Islamic banks hedge the financing risk while providing <i>Qard al-Hasan</i> ?	
11	Preferring Mechanism of <i>Qard al-Hasan</i> financing disbursement	Do you prefer <i>Qard al-Hasan</i> financing disbursement coming directly from Islamic Banks (fund) or through the foundation?	
12	Preferring <i>Qard al-Hasan</i> financing Purposes	For what purpose do you prefer to disburse <i>Qard al-Hasan</i> financing in Islamic Banks?	

Source: Author’s illustration

5.2 QARD AL-HASAN FUND AND ITS MANAGEMENT

In the interviews, participants responded to questions concerning the *Qard al-Hasan* fund and its management. The experts in the interview were asked the following question to address this theme: “Does the Bank have *Qard al-Hasan* financing, and under what management does it operate?”.

Based on the given responses, seven experts were interviewed about the *Qard al-Hasan* fund and its management. However, only six experts (86%) responded to the topic, which is that *Qard al-Hasan* is an account or program operated by the finance, investment, or banking department. One expert (14%) responded differently, stating that *Qard al-Hasan* is a social responsibility program. This suggests that there may be

some varying perceptions or interpretations of *Qarḍ al-Ḥasan*, which could be important for stakeholders to consider this issue in order to ensure *Qarḍ al-Ḥasan* management.

The average similarity percentage of the responses was 50%, indicating that there is some variation in expert opinions about *Qarḍ al-Ḥasan*. Below are some experts' responses, Table 35 and Figure 74 summarising the responses to the *Qarḍ al-Ḥasan* fund and its management.

“Yes, there is a fund for *Qarḍ al-Ḥasan*; it is under the management of financing individuals and small and medium enterprises. It is granted for the purposes of education, illness, or marriage.” (AY2).

“Yes, there is a fund in the bank called *Qarḍ al-Ḥasan* fund, which is an account used to achieve social solidarity and cooperation within the community. The bank is authorized to use the money deposited in this account to lend it as *Qarḍ al-Ḥasan* to meet social needs. It is as *Qarḍ al-Ḥasan* account. It is under Finance and Investment Department, Finance Committees. A robust risk management department supervises this fund. The reports are submitted to management and the board of directors.” (MJ4)

“The Bank has only *Qarḍ al-Ḥasan* program, operated by the Financing department. Except for employee financing, it is the prerogative of human resources. Product development is under the jurisdiction of the Bank's Marketing Directorate.” (GA6).

“Yes, *Qarḍ al-Ḥasan* is a program of social responsibility program. It has nothing to do with business. The Bank has several programs under our responsibility, which are *Qarḍ al-Ḥasan*; the activities include preparing young people for employment, assisting people with disabilities, promoting innovation, strengthening non-profit organisations, improving the reintegration of released prisoners, and participating in national and religious events. Moreover, one of these programs is *Qarḍ al-Ḥasan* Portfolio. It is under social responsibility management; the opening balance of the portfolio started at 10 million, and today it has reached about 64 million, and the number of beneficiary families is 10 million and 956.” (FS3).

Table 35 Responses to the *Qarḍ al-Ḥasan* Fund and its Management

Responses to the <i>Qarḍ al-Ḥasan</i> Fund and its Management			
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	<i>Qarḍ al-Ḥasan</i> is an account or program operated by the finance, investment, or Banking department	6	86%
AY2			
MJ4			
AJ5			

GA6			
EsM7			
FS3	<i>Qard al-Hasan</i> is a program of social responsibility programs	1	14%
Total		7	100%
Average Similar Responses		50%	

Source: Author’s illustration

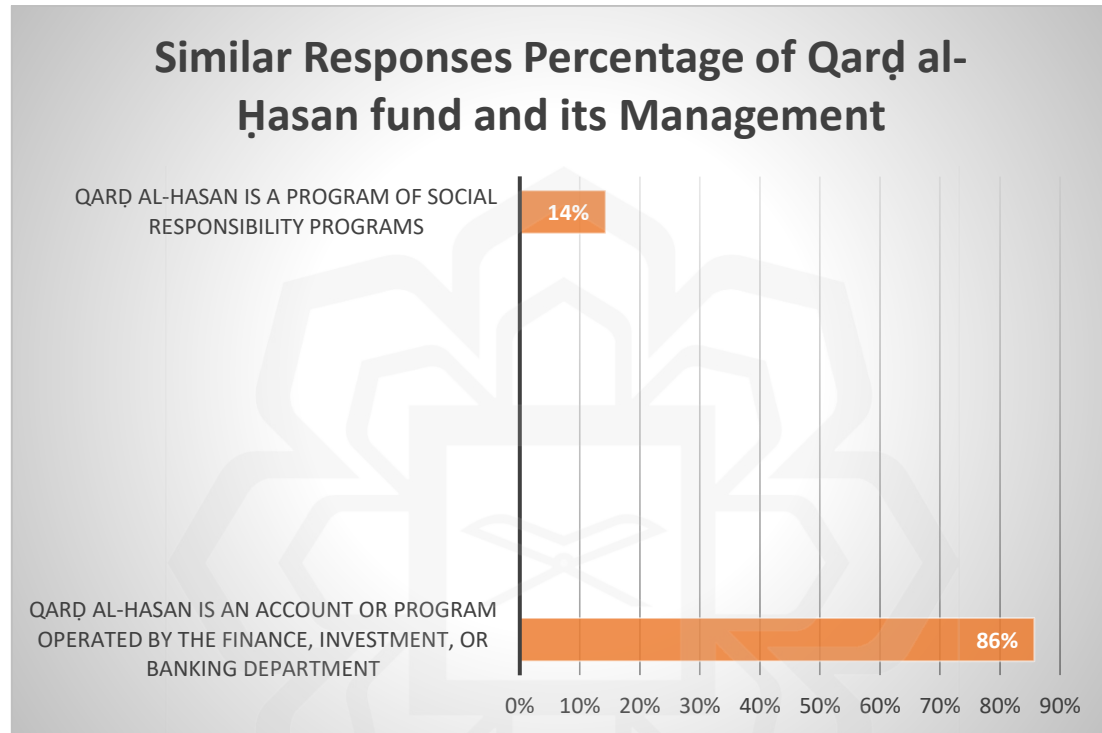


Figure 74 Responses to the *Qard al-Hasan* fund and its management

Source: Author’s illustration

5.3 SOURCES OF QARD AL-HASAN

The interviewees responded to the questions related to sources of *Qard al-Hasan*. The experts in the interview were asked the following question to address this theme: “What type of sources is the Bank using to Mobilize the sources of *Qard al-Hasan* financing?”.

Based on the given responses, seven experts were interviewed about the sources of *Qard al-Hasan*. However, only six experts (86%) responded to the topic.

Among those five experts, LY1 (10%) explained that non-permissible earnings were used to lend to those in need. LY1 also indicated that current accounts (demand deposits) were used to lend to commercial purposes, which was also supported by two experts, including GA6 and EsM7, totalling three experts (30%). Four experts (40%)

identified shareholders as a source of *Qarḍ al-Ḥasan*, including FS3, MJ4, AJ5, and EsM7. MJ4 and AJ5 (20%) also showed that the *Qarḍ al-Ḥasan* account (depositors) was a source of funds.

It is worth noting that the average similarity percentage of the responses was 25%, indicating some variation in expert opinions on the sources of *Qarḍ al-Ḥasan*. This suggests that there may be some ambiguity or differing perceptions among experts about the sources of funds for the program. It may be helpful for stakeholders to clarify and communicate the sources of funds for *Qarḍ al-Ḥasan* to ensure in order to ensure *Qarḍ al-Ḥasan* management. Below are some experts' responses, Table 36 and Figure 75 summarising responses to the *Qarḍ al-Ḥasan* Sources.

“*Qarḍ al-Ḥasan* sources for the low-income and the needy are from the Central Bank proceeds from the legal reserves (non-permissible Earnings); Part of it was allocated to the *Qarḍ al-Ḥasan* and the other part to humanitarian aid. Nevertheless, now the Bank has stopped granting *Qarḍ*. For non-permissible Earnings, it is lent and rotated again by returning *Qarḍ*. In the end, *Qarḍ* becomes a disbursement in charitable causes if the customer does not pay the *Qarḍ* or becomes insolvent, which is considered without reward. As for the benefit, the bank does not benefit from it intentionally as revenues, distribution of profits, or payment of expenses, but rather it came as a means of disposing of this money that came through the Central Bank and was spent in this way. Perhaps the matter may not be favourable to the social role that the Islamic bank should have, but this is what happened, and this is what we witnessed from the beginning of the establishment of the bank, as well as many Islamic banks. At the beginning of its establishment in the nineties, the Central Bank wanted to embarrass Islamic banks by taking an interest. Unfortunately, the Central Bank used this method that Islamic banks withdraw or receive interest from the Central Bank, and Islamic banks were not serious about Islamic banking and finance. We used to prove to them and argue that we had to take it and not leave it to the Central Bank and spend it on charitable causes, considering it money that is non-permissible earnings or not Ḥasan. In any case, there was not a single riyal that was returned to the bank as revenue or benefited from; rather, it was recycled more than once as *Qarḍ al-Ḥasan* is repaid and then re-lent and forgiven those who default until the balance of *Qarḍ al-Ḥasan* becomes zero. For the second type of *Qarḍ al-Ḥasan*, its sources are available money in the Bank, such as undrawn stable current accounts.” (LY1).

“The types of *Qarḍ al-Ḥasan* financing sources are two sources. The first source is from shareholders. It comes from the shareholders' bank, and there is no percentage of the year, but it is a cumulative amount reported. The second source is deposited by the clients for *Qarḍ al-Ḥasan* (*Qarḍ al-Ḥasan* account).” (MJ4).

“The types of *Qard al-Hasan* financing sources are the Bank's regular resources, which are current or investment accounts.” (GA6).

“Yes, The sources of *Qard al-Hasan* come from shareholders, and also current accounts because it is based on *Qard al-Hasan*. It can be entitled to lend from it because it is guaranteed.” (EsM7).

“Nice question, Information; The Bank allocated 100 million years ago for social responsibility by a Board of Directors decision, including 10 million was taken for *Qard al-Hasan*. In general, the social responsibility group or social responsibility programs are fed annually with 1% of the profits.” (FS3).

Table 36 Responses to the *Qard al-Hasan* Sources

Responses to the <i>Qard al-Hasan</i> Sources			
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	Non-permissible earnings to lend to the needy	1	10%
LY1	Current accounts (demand deposits) to lend to the commercial	3	30%
GA6	The Bank's regular resources, which are current or investment accounts		
EsM7	Current accounts (demand deposits)		
FS3	Shareholder	4	40%
MJ4			
AJ5			
EsM7			
MJ4	<i>Qard al-Hasan</i> account (depositors)	2	20%
AJ5			
AY2			
Total		10	100%
Average Similar Responses		25%	

Source: Author's illustration

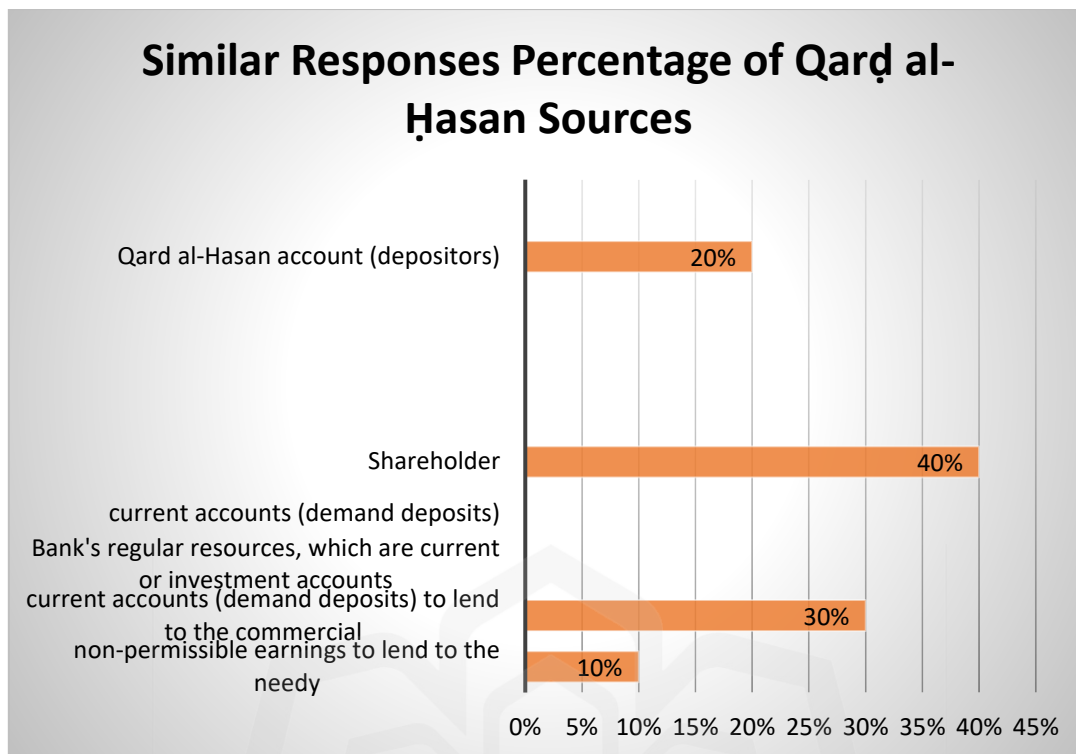


Figure 75 Responses to the *Qard al-Hasan* fund and its management

Source: Author's illustration

5.4 THE CHALLENGES, RISKS AND PROBLEMS OF REPAYMENT OF QARD AL-HASAN FINANCING

The interviewees responded to the questions related to challenges, risks and problems of repayment of *Qard al-Hasan*. The experts in the interview were asked the following three questions to address this theme: “What are the most significant challenges faced by the *Qard al-Hasan* financing in the Bank?” “What are the risks involved in *Qard al-Hasan* financing in the Bank?” “What are the problems that could be associated with the repayment of *Qard al-Hasan* in the Bank?”

According to the interviews conducted, there were varying opinions regarding the challenges, risks, and problems of *Qard al-Hasan* financing. Regarding the challenges, LY1, AY2, AJ5, and EsM7 (57%) identified the scarcity of sources as the biggest challenge. LY1 also identified the retreat of belief in the philosophy of Islamic banks about their social role (14%) as a challenge. Additionally, FS3 (14%) identified a partner of the associations or centres as a challenge, while AY2 (14%) identified the instructions of the Central Bank as a challenge. Notably, MJ4 and GA6 had no

identified challenges. Concerning the risks of *Qard al-Hasan* financing, six responses, LY1, AY2, AJ5, EsM7, MJ4, and FS3 (100%), identified financing risk (credit risk) as a risk. GA6 had no identified risks. For the repayment problems of *Qard al-Hasan* financing, LY1 and AY2 (18%) identified that borrowers of the low-income and the needy believe that the Islamic Bank is a charitable institution, which can lead to repayment issues. LY1 and AY2 also identified the absence of a government-affiliated institution to guarantee the *Qard* (18%) as a problem. AY2 identified two problems, including the weakness of the sources of beneficiary income (9%) and *Qard al-Hasan* financing for non-productive purposes (not for microenterprise) (9%). AY2 and GA6 (18%) identified the guarantee, the futility of legal follow-up, and the arrears can only be paid through the judiciary. AJ5 had no identified problems. EsM7 (9%) identified poverty as a problem, while MJ4 (9%) identified the continued deterioration of the financial situation of traders. Finally, FS3 (9%) identified COVID-19 as a problem.

Overall, the average similarity percentage for the challenges, risks, and problems of *Qard al-Hasan* financing was 25%, 100%, and 13%, respectively. This suggests that there is a variation in opinions among experts regarding these topics. It is crucial to address these challenges, risks, and problems to ensure the success and sustainability of *Qard al-Hasan* financing.

Literature supports these insights. Fatima et al. (2019) highlighted the challenge of non-follow-up and weak project controls, leading beneficiaries to spend *Qard al-Hasan* on areas other than initially agreed, hindering recovery efforts. Junaidi et al. (2017) noted a decline in attention towards *Qard al-Hasan* financing by Islamic banks, affecting its social function. Utomo et al. (2015) found financial factors influencing the growth of *Qard al-Hasan* financing in Indonesia, emphasizing the importance of factors like net interest margin and return on assets. Additionally, Maggangka (2015) discussed the challenges in implementing *Qard al-Hasan* in BMT institutions, including its inability to generate profit and the separation of social development activities from micro-business sectors. Moreover, Aderemi & Ishak (2020) outlined risks associated with the *Qard al-Hasan* model, including repayment and inflation risks, emphasizing the importance of auditing and monitoring systems for mitigation. Najeeb and Lahsasna (2013) provided a Shariah perspective on the *Qard* contract, noting its underutilization due to the absence of profit motivation. These literature findings reinforce the challenges and risks identified in the interview analysis, emphasizing the need for effective risk management and policy frameworks to ensure the effectiveness of *Qard*

al-Hasan financing. Here are some experts' responses, and tables 37 to 39 summarize the responses to the challenges, risks and problems of repayment of *Qard al-Hasan* financing.

“The biggest challenges are sources scarcity, risks of defaulting the low-income and the need for repayment, which is the most important, and retreat from the belief in the philosophy of Islamic banks about their social role, especially the late administrative leaders. The risks that face *Qard al-Hasan* financing in the Bank are non-repayment of *Qard al-Hasan*, especially of the low-income and the needy. Also, Lack of adequate guarantees to recover the *Qard*, and the Islamic Bank is viewed by borrowers of the low-income and the needy as a charitable institution, and this is what we have seen from them. The problem of repayment of *Qard al-Hasan* is non-repayment, either insolvency or procrastination. The reason for considering the non-repayment as insolvency is that *Qard al-Hasan* often uses the *Qard* to satisfy his basic needs, especially for the low-income and needy who are insolvent. Thus, the *Qard* is consumptive, and its return depends on the facilitation. It may be unable to repay completely, which made the bank grant *Qard* from the revenues of the Central Bank (reserve interest) in the first period of the Bank's activity; after that, the Bank stopped lending when its source stopped. The reason for procrastination, which is usually from the excellent customers class, is the failure to calculate any compensation for procrastination or the occurrence of a change in the circumstances of unexpected cash flows on the borrower that made him prioritize his priorities over the priority of repaying the Bank on the due date. In my estimation, this matter should be addressed by a careful credit study of the two categories to ensure the customer's ability to repay by knowing his expected cash flows in the future and strengthening with guarantees that are easy to monetize, such as a commercial guarantor who has an account, a gold guarantee, or a deposit in the Bank.” (LY1).

“The biggest challenge is the scarcity of *Qard al-Hasan* sources. The culture of the beneficiaries does not repay the *Qard* because they consider the *Qard al-Hasan* as a donation and subsidy. Moreover, the Central Bank instructs that not investing money is considered a waste of money. In addition to what we mentioned, there are other risks represented in the weakness of the guarantees provided and the futility of legal follow-up in the event of default because the judicial expenses will be more than the *Qard* itself. The percentage of the risk portfolio for the *Qard al-Hasan* can be as high as 50%. The weakness of the sources of beneficiary income. There is no state-affiliated institution to guarantee these *Qard*. Furthermore, the *Qard* may be non-productive; the beneficiary uses it for consumer purposes and not as an investment in a small or medium project that generates income.” (AY2).

“The biggest challenge is defaulting. Concerning the sources, praise be to God; we have our sources. However, the other challenge is the search for a partner from the associations or centres who understands the idea of *Qard al-Hasan* and the trainer who trains the borrowing brothers and

sisters on managing the project, repayment, commitment, and financial guarantees. All these are taken into consideration. The defaulting is a small percentage, within the limits of 1%, because we agreed with the organisations. However, we fear that with COVID-19, there will be much delay. In COVID-19, there is a delay, but there is no defaulting.” (FS3).

“One of the challenges we face is interrupting the client's salary. One of the risks that the bank faces is the default. As a result, the *Qard* is not repaid for his/her leaving his/her work, and the source of income is interrupted, which are very simple cases. We take the guarantee of another person whose salary is transferred through the Bank; if the client does not repay, the guarantor or another guarantor will repay. The guarantee may be cash by another person who has a balance in the Bank guarantee customer; if he/she does not repay the *Qard*, the Bank credits it to his/her account from the available balance. Among the risks that we face, especially from merchants, are those who are lent as *Qard al-Hasan*. Their financial situation may continue to deteriorate and become a default if they can not pay for three consecutive months (90 days or more), which is one of the risks that the Bank bears. If the merchant customer is late, it will be credited to the Bank’s profits after 90 days or after exhausting all ways to recover the money. The Bank has to record it on the provision that was set aside previously. It is a kind of risk mitigation because we made a provision for the defaulted *Qard al-Hasan*, who is one of the Bank’s shareholders.” (MJ4).

“There is no challenge of *Qard al-Hasan* financing, and it is for a few and specific cases, and small amounts. There are no risks as the Bank does not have *Qard al-Hasan* fund, but it is a product only, and the amounts granted are minimal and are given to loyal customers only. Likewise, charitable *Qard al-Hasan* belongs to the Ministry of Religious Affairs and *Waqf* does not pose risks to the Bank because the money belongs to the Ministry, not to the Bank. The problem that could be associated with the repayment of *Qard al-Hasan* financing is not covered by an in-kind Guarantee; the guarantee is either the check paid for the clearance or the bill of exchange. In case of any legal impediment, such as the seizure of the client's account, the *Qard al-Hasan* amount can only be paid through the judiciary.” (GA6).

“The challenge of *Qard al-Hasan* financing is the scarcity of *Qard al-Hasan* sources. The risk of *Qard al-Hasan* financing is repayment risk; the client may not repay; it is from the risk. The problem of repayment is poverty because the clients are poor, and if they default, they cannot pay.” (EsM7).

Table 37 responses to the most significant challenges of *Qard al-Hasan*

Responses to the Most Significant Challenges of <i>Qard al-Hasan</i>			
Expert’s code	Responses topics	No. of Similar Responses	Similar Responses Percentage

LY1	Scarcity of sources	4	57%
AY2			
AJ5			
EsM7			
LY1	The retreat of belief in the philosophy of Islamic banks about their social role	1	14%
FS3	A partner of the associations or centres	1	14%
AY2	Instructions of the Central Bank	1	14%
MJ4	No challenges		
GA6			
Total		7	100%
Average Similar Responses		25%	

Source: Author's illustration

Table 38 Responses to the risks of *Qard al-Hasan* financing

Responses to the Risks of <i>Qard al-Hasan</i> Financing			
Expert's code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	financing risk (credit risk)	6	100%
AY2			
AJ5			
EsM7			
MJ4			
FS3			
GA6	no risk		
Total		6	100%
Average Similar Responses		100%	

Source: Author's illustration

Table 39 Responses to the problems of repayment of *Qard al-Hasan*

Responses to the Problems of Repayment of <i>Qard al-Hasan</i>			
Expert's code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	the borrowers of the low-income and the needy believe that the Islamic Bank as a charitable institution	2	18%
AY2			
LY1	no government-affiliated institution to guarantee the <i>Qard</i>	2	18%
AY2			

AY2	Weakness of the sources of beneficiary income	1	9%
AY2	<i>Qard al-Hasan</i> financing for non-productive (not for microenterprise)	1	9%
AJ5	no answer		
EsM7	Poverty	1	9%
MJ4	The continued deterioration of the financial situation of traders	1	9%
AY2	guarantee, the futility of legal follow-up and the arrears can only be paid through the judiciary	2	18%
GA6			
FS3	COVID-19	1	9%
Total		11	100%
Average Similar Responses		13%	

Source: Author's illustration

5.5 THE MECHANISM OF *QARD AL-HASAN* FINANCING DISBURSEMENT

The interviewees responded to the questions about the mechanism of *Qard al-Hasan* financing disbursement. The experts in the interview were asked the following question to address this theme: "Is *Qard al-Hasan* financing disbursement coming directly from the Bank or through a foundation?"

According to the interviews analyzed, seven experts discussed the mechanism of *Qard al-Hasan* financing disbursement. Of these experts, six (86%) mentioned that the financing is directly provided by the bank to its clients. This suggests that *Qard al-Hasan* financing is not provided through intermediaries but rather directly from the bank to the borrowers. Only one expert (14%) mentioned associations as a mechanism for *Qard al-Hasan* financing disbursement. This suggests that some associations may act as intermediaries between the bank and the borrowers to facilitate the financing disbursement.

The similar average response for this analysis is 50%, indicating that there is some diversity in the experts' views on the mechanism of *Qard al-Hasan* financing disbursement. However, most experts seem to agree that the bank directly provides financing to its clients. Below are some experts' responses, and Table 40 summarizes the responses to the mechanism of *Qard al-Hasan* financing disbursement.

“Through the bank, and this is the bank's policy at the moment. The issue of the charitable institution, the bank does not have any study to make the bank choose this alternative.” (AY2).

“*Qard al-Hasan* financing is directly disbursed from the bank without a charity foundation. However, the bank coordinates with the Teachers and Engineers Syndicate only to cooperate and prove the client's salary and transfer the salary.” (MJ4).

“*Qard al-Hasan* financing is disbursed from the Bank directly and deposited into the customer's account. However, charitable *Qard al-Hasan* financing is delivered directly to the suppliers, not cash. For example, the customer who needs to buy a sewing machine should submit a quotation; then the Bank will pay the invoice's amount directly to the suppliers, not by associations.”(GA6).

“Based on understanding the concept, we, the Bank, sign with an Association of Societies. The association has several borrowers; for example, “we do not enter into signing an agreement with each customer; we agree with an association carrying out this work. Our relationship with the association is direct. Furthermore, we require certain guarantees between them and us.” (FS3).

Table 40 Responses to the Mechanism of *Qard al-Hasan* Financing Disbursement

Responses to the Mechanism of <i>Qard al-Hasan</i> Financing Disbursement			
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	Directly from the Bank to clients	6	86%
AY2			
MJ4			
AJ5			
GA6			
EsM7			
FS3	Association	1	14%
Total		7	100%
Average Similar Responses		50%	

Source: Author's illustration

5.6 PURPOSES OF *QARD AL-HASAN* FINANCING

The interviewees responded to the questions related to the purposes of *Qard al-Hasan* financing. The experts in the interview were asked the following question to address

this theme: “What are the purposes of the *Qard al-Hasan* financing in the bank? or who are the beneficiaries of *Qard al-Hasan* financing in the bank?”

According to the interviews analyzed, seven experts talked about the purposes of *Qard al-Hasan* financing. Of these responses, the most frequently mentioned purpose was commercial use with overdrawn accounts, with five experts (42%) mentioning this. The following most frequently mentioned purpose was for people in need, specifically for marriage, treatment, education, and repayment of debts, with four experts (33%) mentioning this. Two experts (17%) mentioned that *Qard al-Hasan* financing was used for employees, while one expert (8%) mentioned that it was used for enterprises. There was no consensus among the experts about the specific purposes of *Qard al-Hasan* financing. The similar average response for this analysis is 25%, indicating significant diversity in the experts' views on the purposes of *Qard al-Hasan* financing. While commercial use with overdrawn accounts and the needy were the most commonly mentioned purposes, there were other purposes mentioned as well, and no one purpose stood out as the most dominant. Below are some responses from the experts on *Qard al-Hasan* financing purposes. Below are some experts' responses, and Table 41 summarizes the responses to the *Qard al-Hasan* financing purposes.

“The first category is the category of low-income needy. The second category is the banks' distinguished business people (commercial).” (LY1).

“The purposes of disbursing *Qard al-Hasan* is for education, treatment, marriage, and overdrawn account for Almighty Allah's sake, zero bearing interest. Nor is any amount taken. The overdrawn account supports some traders whose credit or financial situation has deteriorated and stumbled by *Qard al-Hasan*. We used to take profits previously when financing them from these traders for deterioration. The bank is trying to support them with *Qard al-Hasan* financing until their situation recovers from their work for a period of only two months. However, the defaulting clients do not take from *Qard al-Hasan* fund, but they have another fund, which is the fund for facing investment risks, and this is inside the bank.” (MJ4).

“*Qard al-Hasan* disburses bank clients who are late for payment and with conditions. There is no service charge for the Bank, but a service charge is paid for the check, not for *Qard al-Hasan* financing. The purpose of disbursing *Qard al-Hasan* financing for well-known clients with the Bank is when the clients receive a delay in the instalments; the Bank undertakes *Qard al-Hasan* to these customers without interest to pay off the arrears as overdrawn account. The *Qard* only for forty-eight to seventy-six hours. Moreover, the Bank also grants *Qard al-Hasan* for employees with limits of certain amounts and specific purposes specified

in the Bank's internal regulations for urgent needs. The employees are committed to repaying the *Qard* in a certain period, one to ten years. It is considered a charitable act for the Bank. The amount of *Qard al-Hasan* financing that shows in the Banks' reports is for bank clients and employees. However, the clients of enterprises are financed by the Ministry of Religious Affairs and *Waqf* has different reports. There is *Qard al-Hasan* charitable. It was a cooperation agreement programme signed between the Ministry of Religious Affairs and *Waqf*, and the Bank. The Ministry of Religious Affairs and *Waqf* collect *Zakāt* to deposit in a national fund for *Zakāt*. A part of *Zakāt* funds chanel to support youth employment projects. The Ministry of Religious Affairs and *Waqf* receives financing requests from a specialized committee to study them. After that, the Ministry sends the names of the accepted applicants to the Bank to deposit the amount for them. The Bank was a technical agent to invest *Zakāt* funds only; the Bank pays the client and follows up on the financing until it is received. The agreement programme was until 2017. Then, the Ministry of Religious Affairs and *Waqf* suspended the agreement.” (GA6).

“The purposes of *Qard al-Hasan* are all in Enterprises. Enterprise of productive families. The families are working on a development Enterprise, an economical Enterprise, and an agricultural Enterprise.” (FS3).

Table 41 Responses to the *Qard al-Hasan* financing purposes

Responses to the <i>Qard al-Hasan</i> Financing Purposes			
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	People in need (marriage, treatment, education, and repaying debts)	4	33%
AY2			
MJ4			
AJ5			
LY1	Commercial (overdrawn account)	5	42%
AY2			
MJ4			
AJ5			
GA6			
FS3	Enterprises	1	8%
GA6	Employees	2	17%
EsM7			
Total		12	100%
Average Similar Responses		25%	

Source: Author's illustration

5.7 THE VITAL ROLE OF *QARḌ AL-ḤASAN* FINANCING AND ITS IMPACT ON SOCIETY

The interviewees responded to the questions related to the purposes of *Qarḍ al-Ḥasan* financing. The experts in the interview were asked the following question to address this theme: “Do you think that *Qarḍ al-Ḥasan* financing in Islamic Banks could play a vital role and impact on society?”.

The data from the interviews indicate that all experts agree that *Qarḍ al-Ḥasan* financing plays a vital role and positively impacts society. All ten experts responded similarly to this question, indicating a 100% similarity rate. This high level of agreement suggests that *Qarḍ al-Ḥasan* financing is widely recognized as an essential and beneficial tool for providing financial assistance to those in need and can significantly impact social welfare and economic development. The lack of disagreement or contrasting opinions among the experts further reinforces the importance and significance of *Qarḍ al-Ḥasan* financing in Islamic finance. The previous literature supports these findings. According to Saqib et al. (2015), providing *Qarḍ al-Ḥasan* financing fosters greater business awareness among farmers and contributes to the agricultural sector's overall development. The research conducted by Widiyanto et al. (2011) also shows that the *Qarḍ al-Ḥasan* financing model has successfully enabled those in need to improve their economic activities. Hasan et al. (2021) affirm that *Qarḍ al-Ḥasan* can have a crucial impact on promoting sustainable development. Below are some experts' responses, and Table 42 summarizes the responses to the vital role of *Qarḍ al-Ḥasan* financing and its impact on society.

“Theoretically, *Qarḍ al-Ḥasan* can play a vital role in providing alternative financing solutions. Undoubtedly, this has a social impact on community cohesion and cooperation. However, practically, most Islamic banks have forgotten their social role and are no longer concerned with social responsibility, which is contributing to alleviating the suffering of the needy.” (LY1).

“*Qarḍ al-Ḥasan* financing has a considerable impact. The families borrowed have changed. I mean, they were in a weak status, then got out of this status. They have reached the competence to become self-sufficient, as they have projects. They started spending on families. They became financially competent. Because they had a business, they began to donate. Moreover, we have studies on projects that Bank Aljazira supported.” (FS3).

“Of course, especially when it comes to social support. For example, teaching a person to take care of his family, in medicine, contributing to treating a patient, operating hospitals and doctors, clients, and buying medicine. It means many benefits. As for the traders, you let them restore their activities without profits or costs. They can compete again instead of selling their product at a lower price. For example, maybe sell his product for \$ 70 instead of \$100.” (MJ4).

“In fact, the Ministry of Religious Affairs and *Waqf*'s works positively impacted society. It financed several projects of young people whose owners were unemployed. Thus, these people were removed from unemployment through these projects; they are now employed. They have a purpose in society. However, the legal aspect of the fatwa on financing the *Qard al-Ḥasan* was at the time, and it may have had problems. Either as a general objective, if the Ministry thinks that establishing a cash *Waqf*, regardless of the *Zakāt* to finance these projects through *Qard al-Ḥasan*. Of course, this has a positive role in society. Especially since the *Waqf* is well known in the Islamic community. It is known that the *Waqf* supports the Islamic economy in Islamic societies. *Qard al-Ḥasan* has an impact if disbursed for enterprises and establishment *Qard al-Ḥasan* fund” (GA6).

Table 42 The responses to the vital role of *Qard al- Ḥasan* financing and its impact on society

The Responses to the Vital Role of <i>Qard al- Ḥasan</i> Financing and its Impact on Society			
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	<i>Qard al- Ḥasan</i> financing can play a vital role and its impact on society	10	100%
AY2			
FS3			
MJ4			
AJ5			
GA6			
EsM7			
EnM8			
SI9			
AI10			
Total		10	100%
Average Similar Responses		100%	

Source: Author's illustration

5.8 QARD AL- HASAN SHOULD BE A SOCIALLY RESPONSIBLE

The interviewees responded to the questions related to *Qard al- Hasan* should be socially responsible. The experts in the interview were asked the following question to address this theme: “Should an Islamic bank include *Qard al- Hasan* financing product under the social responsibility programme?”.

The data from this interview analysis shows that all ten experts agreed that *Qard al- Hasan* financing should be socially responsible, with 100% similarity in their responses; this indicates that there is a strong consensus among the experts regarding the importance of social responsibility in *Qard al- Hasan* financing. This finding could suggest that the principles of ethical and socially responsible lending should be upheld in *Qard al- Hasan* financing practices. The high level of agreement among the experts also implies that this aspect of *Qard al- Hasan* financing is widely recognized and acknowledged within the industry.

This aligns with insights from Man et al. (n.d.), who discuss how the principle of *Qard al-Hasan* can serve as a sustainable product-based Corporate Social Responsibility (CSR). Their study emphasizes the potential for merging Corporate Social Responsibility with *Qard al-Hasan* to create a sustainable and socially responsible product that benefits the community. Similarly, Ariffin et al. (2011) found that Islamic bankers in Malaysia support the notion of promoting corporate social responsibility by offering *Qard al-Hasan*, aligning with the unanimous agreement among the interview experts. Below are some experts' responses, and Table 43 summarizes the responses that *Qard al- Hasan* should be socially responsible.

“Yes, *Qard al- Hasan* Should be under socially responsible products or as a socially responsible product.” (AY2).

“Yes, our product started directly with social responsibility and has nothing to do with business at all. We are an independent management that does not aim for profitability in this matter.” (FS3).

“It is unnecessary because charity is not taken away. The money of the depositors or the shareholders is deposited for profit, not charity, lending to people. However, it is preferable that *Qard al-Hasan* to be under the products of social responsibility because it has the needs of the people are non-existing, and they do not have sources of income. When the money is loaned to them, we release them.” (EsM7).

“I think *Qard al-Hasan*, definitely is under Islamic social finance, is part of Islamic social finance, right? Then, social responsibility would depend

on where you use money. Okay, you can use *Qard al-Hasan*, but if the user actually uses the money from *Qard* to do something that is not socially responsible. Maybe he used it for consumption, which is not really necessary or maybe wasting, you know, maybe people can actually have *Qard al-Hasan* and have an extravagant wedding ceremony, which is not really necessary because, for a wedding, you need a certain amount, but you do not have to be lavish. So maybe it might not be responsible, even the fact that it is from a fund where the funder wanted to make it impactful, and you use it, but maybe because of lack of wealth to actually become lavish, you know, it can be irresponsible on the part of the user. So, for the part of the funder, I think, in a way, it is socially responsible; we assume that it is used for a good purpose. And it will be helping the fund user.” (EnM8).

“Of course, there is no doubt that *Qard al-Hasan* is part of social responsibility; even from the Shari‘ah perspective, the reward for *Qard al-Hasan* is more than charity in the Hadiths, and this is inevitably direct and indirect.” (SI9).

Table 43 Responses that *Qard al- Hasan* should be a socially responsible

Responses that <i>Qard al- Hasan</i> should be a socially responsible			
Expert’s Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	<i>Qard al- Hasan</i> should be social responsibility products	10	100%
AY2			
FS3			
MJ4			
AJ5			
GA6			
EsM7			
EnM8			
SI9			
AI10			
Total		10	100%
Average Similar Responses		100%	

Source: Author’s illustration

5.9 CREATING *QARD AL-HASAN* FUND

Based on the provided data, there were nine responses from the experts regarding the topic of creating a *Qard al-Hasan* fund. The experts were asked the following question to address this theme: “Would you prefer to allocate *Qard al-Hasan* fund inside the Islamic Bank separately?”.

Six experts suggested that Islamic Banks should create a *Qard al-Hasan* fund, and this response was 67% of responses. Two experts expressed that creating a fund would require cost, and 22% agreed with this view. On the other hand, one expert (11%) opposed the creation of a *Qard al-Hasan* fund. AJ5 did not provide an answer to the question. The average of similar responses was 33%.

Literature echoes this interest in establishing *Qard al-Hasan* funds as part of Corporate Social Responsibility (CSR) policies (AAOIFI, 2015a). Kazak & Alim (2022) highlight the potential benefits for corporations investing in *Qard al-Hasan* funds, emphasizing that such investments could yield more significant benefits than anticipated without leading to losses. The study done by Hattab & Al-Jarrah (2019) demonstrated a strong potential for establishing *Qard al-Hasan* funds in Jordan Islamic banks and Kuwait Finance House. Additionally, Alhakeem & Alatayat (2011) recommend that Islamic financial institutions establish *Qard al-Hasan* funds, further supporting their establishment within the Islamic finance industry. These literature findings complement the interview responses, reinforcing the potential benefits and importance of establishing *Qard al-Hasan* funds as part of CSR initiatives within Islamic banks. The study attached some experts' responses below, and Table 44 summarizes the responses to the creating *Qard al-Hasan* fund.

“Yes, but now there is no *Qard al-Hasan* fund which has sources and uses. There is only *Qard al-Hasan* account.” (LY1).

“Needs processing, it will have pros and cons. Yes, it is possible. We are getting bigger and not getting smaller, and the projects are increasing in growth and giving.” (FS3).

“It is an excellent idea, so that the Bank can finance the fund from non-permissible earnings sources, such as delay penalties. It is a legal economic view, and it needs to be crystallized and crystallized; it needs a Shari‘ah opinion by Shaikh (scholars) because the standard stipulates that it is not permissible for the Bank to benefit from it directly or indirectly. Even in terms of reputation, the Bank can not use it, and it is possible to study this matter considering that Islamic banks have a service to the community and the Shaikhs (scholars) can issue a Fatwa with specific conditions and controls so that the Bank can not get benefit from, whether directly or indirectly and it is granted to people who meet certain conditions as *Qard al-Hasan* to establish small and medium projects to create wealth and dispense with demand.” (GA6).

“I would think that college Islamic banks should consider having *Qard al-Hasan* fund, how they want to allocate and how they want to put it. I think it is a matter of their risk management discussion. Basically, a

discussion on their part, how they will better manage their risks and how they would actually better manage the expectations of their stakeholders, whether their shareholders, employees, or depositors, okay. At the same time, of course, all of this is Islamic bank. Previously, we had CSR; now, we have a new base intimidation. So under a daily basis intimidation, so there is some expectation under limitation. So make sure that they are having impact on three main areas one is the economy of course, making profit, and then in terms of the social society or community, and also in terms of the, the planet or environment.” (EnM8).

“If *Qard al-Hasan* fund is created as a separate fund and not just an account, it will have a cost, and the shareholders will bear this cost. In addition, it needs more staff and has a cost, and needs departments to study *Qard al-Hasan* financing and committees for *Qard al-Hasan* granted.” (MJ4).

“Theoretically, yes, but practically, the fund needs administrative costs plus *Qard* costs.” (SI9).

“I do not see that the bank should have a fund with employees dedicated to this matter and deal with the issue of the *Qard* because this deviation of the bank from its field and expansion in other areas exposes it to many risks. As I said earlier, it is better for this to be part of the work of charitable institutions and to divide the poor into levels. For the category that cannot afford the cost of the *Qard*, the bank gives it as *Qard al-Hasan*. We can also contribute to reducing dependency because sometimes some people are dependent and take the money and do not return it, so this can also reduce dependency. It pushes the poor who are at this level to increase efforts or improve their activity if they have a commercial activity because they know that the charity will not give them a gift but will only give them *Qard*, and it will be an incentive for them to increase their work. As for the banks managing this matter by themselves, I do not know from a theoretical point of view, it may have a benefit.” (AI10).

Table 44 Responses to the creating *Qard al-Hasan* fund

Responses to the Creating <i>Qard al-Hasan</i> Fund			
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	Islamic Banks should create <i>Qard al-Hasan</i> fund	6	67%
AY2			
FS3			
GA6			
EsM7			
EnM8			
AJ5	No answer		
MJ4	Islamic bank fund needs a cost	2	22%

SI9			
AI10	Islamic Banks should not have a fund	1	11%
Total		9	100%
Average Similar Responses		33%	

Source: Author's illustration

5.10 PREFERRING *QARD AL-HASAN* SOURCES

The interview data on *Qard al-Hasan* financing sources show a variety of approaches to funding interest-free loans in Islamic banks. Based on the provided data, there were ten responses from the experts regarding the topic of *Qard al-Hasan* financing sources. The experts were asked for their opinion on the preferred sources for *Qard al-Hasan* financing in the Islamic bank. The experts were asked the following question to address this theme: “What type of sources do you prefer for *Qard al-Hasan* financing in the Islamic bank?”.

The responses reveal that shareholders are the most frequently mentioned source, accounting for 17% of similar responses, indicating a reliance on bank capital ownership contributions to support charitable activities. *Qard al-Hasan* accounts and *Waqf* are equally significant, each representing 13% of responses. *Qard al-Hasan* accounts typically contain funds designated for interest-free loans, often contributed by depositors. *Waqf*, a traditional Islamic endowment for religious or charitable purposes, has historically been used to support community welfare projects. *Zakāt* and *Ṣadaqāt* are also notable sources, each contributing 11% of the responses. *Zakāt* is a mandatory charitable contribution, while *Ṣadaqāt* is voluntary giving, reflecting key Islamic practices and the link between Islamic banking and religious obligations. Non-permissible earnings and crowdfunding each accounted for 9% of responses. Non-permissible earnings refer to funds that do not comply with Islamic principles and must be given to charity. Crowdfunding, a more contemporary source, indicates a willingness to leverage community-based funding for Islamic social finance.

The less frequently mentioned sources include Corporate Social Responsibility (CSR), government contributions, and local/international donors, each with just 2% of responses. This suggests that while these sources can play a role in funding *Qard al-Hasan*, they are not as commonly relied upon, potentially reflecting a preference for more traditional Islamic sources or limited government involvement.

Literature review findings support the significance of these sources in funding *Qarḍ al-Ḥasan*. The International Islamic Fiqh Academy resolution allows investing *Zakāt* funds in projects generating returns for legitimate beneficiaries managed by *Zakāt* authorities (International Islamic Fiqh Academy, 1986). In Algeria and Sudan, *Zakāt* funds have facilitated *Qarḍ al-Ḥasan* financing, promoting economic development (Hiba & Ibtasam, 2018; Mohsin & Alhabshi, 2015). Efforts to raise awareness about *Zakāt* obligations and streamline *Qarḍ al-Ḥasan* procedures have led to growth in *Qarḍ al-Ḥasan* funds in various regions (Riwaya, 2015). Moreover, studies emphasize the poverty alleviation potential of *Qarḍ al-Ḥasan* financing through *Waqf*, *Zakāt*, and charity funds, supporting small and medium enterprises (SMEs) and empowering the hard-core poor (Febianto & Ashany, 2012; Widiyanto et al., 2011). Crowdfunding is explored as an alternative model for *Qarḍ al-Ḥasan* financing, demonstrating its feasibility and adaptability for micro-enterprises (Aderemi & Ishak, 2020). Islamic crowdfunding is highlighted as a means to fund projects and products within Muslim societies, offering opportunities for business-focused *Qarḍ al-Ḥasan* financing (Wahjono, Sentot et al., 2015). Aderemi & Ishak (2023) find that despite the commonly held view that *Qarḍ al-Ḥasan* is not a business-focused tool, a more thorough examination of its framework reveals its distinctiveness and adaptability as a feasible crowdfunding instrument for financing micro-enterprises in Malaysia. These literature findings complement the interview responses, highlighting the diverse sources of *Qarḍ al-Ḥasan* funding and their role in promoting Islamic social finance and economic empowerment.

Overall, the data show that Islamic banks prefer a mix of traditional Islamic sources and shareholder contributions to fund *Qarḍ al-Ḥasan*. This diversity in funding streams demonstrates a flexible approach to sustaining *Qarḍ al-Ḥasan* programs and highlights the importance of integrating traditional Islamic practices with contemporary financing methods like crowdfunding. This approach allows Islamic banks to maintain a strong social role while adhering to Islamic principles and adapting to changing financial landscapes. Below are some experts' responses, and Table 45 summarizes the responses to develop *Qarḍ al-Ḥasan* Financing Sources.

“Allocating a percentage of current accounts in Islamic banks with a bank guarantee. Moreover, encouraging businesses and financial men to support *Qarḍ al-Ḥasan* Fund as a voluntary source, in accordance with the maxim of some of the imams (Scholars), “If I lend someone from my money better than alms, for the sincerity of the borrower's need, and the

reward for *Qard al-Hasan* revolves and multiplies.” “Yes, I agree with you on adopting the mentioned sources (the *Qard al-Hasan* account, shareholders, *Waqf*, *Zakāt*, *Ṣadaqāt*, non-permissible earnings, and crowdfunding).” (LY1).

“It is preferred from shareholders' profits, shareholder money, the companies that one of its goals is social responsibility, the state, and one of the local and international donors concerned with sustainable development.” (AY2).

“We are in the Bank with our experience; the source of *Qard al-Hasan* comes from profits and under the social responsibility budget because the social responsibility budget is divided annually by a decision of the committee and a decision of the board of directors. This amount goes to *Qard al-Hasan*, and this amount goes to training. However, there are other banks that have other sources, such as Social Development Bank.” (FS3).

“In addition to the previous sources (shareholders and depositors). To intensify efforts with wealthy clients and encourage them to deposit in *Qard al-Hasan* financing fund. For example, we have unions that deposit a million dinars to encourage the bank to lend their employees by *Qard al-Hasan*.” And I support directing *Zakāt* and *Waqf* to *Qard al-Hasan*”. (MJ4).

“It could be from non-permissible earnings sources if the Sharī'ah board approved. Also, from *Zakāt* funds. Establishment of cash *Waqf* by persons or institutions, such as *Waqf Bank AL-Barakah*. Moreover, the door can be opened wide for *Ṣadaqāt* (charities).” (GA6).

“I think any source can be any source as long as the funder is willing to be charitable, not looking for profit. And also if there is risk, of course, because in part you have to pay back. So you can have collateral because some *Qard al-Hasan* is collateral; some *Qard al-Hasan*, especially for the micro they do not have any collateral. So, it depends on the risk appetite of the funder.” “Yeah, this all post, sources (current accounts, *Qard al-Hasan* account, shareholders, *Waqf*, *Zakāt*, *Ṣadaqāt*, non-permissible earnings, and crowdfunding) potential or for the purpose of *Qard al-Hasan* fund”. (EnM8).

“Some sources have no issues, *Ṣadaqāt*, non-permissible earnings. It can also be from *Waqf*, current account profits, shareholders' profits and capital, depositors, investment accounts such as more than 3% of the profit can be loaned, and crowdfunding using technology. Regarding *Zakāt*, we say the *Zakāt* fund for *Ghārimeen* (debtors) transforms into a revolving fund. We lend it, and it is returned to us, ensuring continuity, especially in developmental projects, because these projects have the capacity to repay the amount so we can reuse it. Yes, it is technically ownership, but the contemporary opinion permits it.” (SI9).

“Oky for, (current accounts, shareholders, *Ṣadaqāt*, *Qarḍ al-Ḥasan* account, *Waqf*). Part of the profits are from depositors if it exceeds a certain percentage, and crowdfunding, but outside the scope of banks. However, non-permissible earnings have only one disposal method, which is purification; they are not lent out, nor do we open that door. As for *Zakāt* funds allocated for *Ghārimeen* (debtors), these are given directly to the Ghārim (debtor) and not as *Qarḍ*, but rather as a direct grant.” (AI10).

Table 45 Responses to Develop *Qarḍ al-Ḥasan* Sources

Responses to Develop <i>Qarḍ al-Ḥasan</i> Financing Sources						
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage			
LY1	current accounts (demand deposits)	4	7%			
EnM8						
SI9						
AI10						
LY1	shareholders	9	17%			
AY2						
FS3						
MJ4						
AJ5						
EsM7						
EnM8						
SI9						
AI10						
LY1				<i>Qarḍ al-Ḥasan</i> account (depositors)	7	13%
MJ4						
AJ5						
EsM7						
EnM8						
SI9						
AI10						
AY2	Corporate Social Responsibility (other company)	1	2%			
	The government	1	2%			
	local and international donors concerned with sustainable development	1	2%			
LY1	non-permissible Earnings	5	9%			
GA6						
EsM7						
EnM8						
SI9						

LY1	<i>Zakāt</i>	6	11%
MJ4			
GA6			
EsM7			
EnM8			
SI9			
LY1	<i>Ṣadaqāt</i>	6	11%
GA6			
EsM7			
EnM8			
SI9			
AI10			
LY1	<i>Waqf</i>	7	13%
MJ4			
GA6			
EsM7			
EnM8			
SI9			
AI10			
AI10	Part of the profits from depositors	2	4%
SI9			
LY1	Crowdfunding	5	9%
EsM7			
EnM8			
SI9			
AI10			
Total		54	100%

Source: Author's illustration

5.11 HEDGE OF *QARḌ AL-ḤASAN* FINANCING RISKS

The interviewees responded to the questions related to the hedge of *Qarḍ al-Ḥasan* financing risks. The experts in the interview were asked the following question to address this theme: “How can Islamic banks hedge the financing risk while providing *Qarḍ al-Ḥasan*?”.

Based on the responses of the experts, there are several ways to hedge the risks associated with *Qarḍ al-Ḥasan* financing. The most commonly mentioned methods include feasibility study or credit study, participants' risk fund (*Takāful*), client guarantees, and government guarantees. A feasibility study or credit study is an essential tool for evaluating the potential borrower's financial position and ability to repay the loan. It is also used to determine the appropriate loan amount.

Participants' Risk Fund (*Takāful*) is a type of mutual insurance designed to provide protection against financial losses. It is based on the principle of cooperation and mutual assistance. Client guarantees are also a common method used to hedge the risks associated with *Qarḍ al-Ḥasan* financing. They provide assurance that the borrower will fulfil their repayment obligations. Government guarantees are another method used to hedge the risks associated with *Qarḍ al-Ḥasan* financing. They provide assurance to lenders that the government will cover any losses in the event of a borrower default. Other methods mentioned by the experts include investing surplus *Qarḍ* balances, monitoring and evaluation toolkit, training, *Qarḍ al-Ḥasan* provision, insurance, and a guarantee with an independent entity (the association).

The literature review supports these risk mitigation strategies by acknowledging the inherent risks associated with the *Qarḍ al-Ḥasan* model, such as repayment risk, risk management, and inflation risk. However, Aderemi & Ishak (2020) propose that these risks can be mitigated through effective auditing and monitoring systems. Moreover, they suggest that emerging technologies like blockchain can enhance risk management by facilitating due diligence, project monitoring, and ensuring repayment in instalments (Aderemi & Ishak, 2023). These findings suggest a convergence between expert opinions and scholarly literature on the importance of implementing robust risk mitigation strategies in *Qarḍ al-Ḥasan* financing. By combining traditional methods with innovative technological solutions, financial institutions can effectively manage risks and ensure the sustainability of *Qarḍ al-Ḥasan* initiatives.

In summary, the experts provide a range of options for hedging against *Qarḍ al-Ḥasan* financing risks, including feasibility studies, investment of surplus balances, Participants' Risk Funds, client guarantees, insurance, crowdfunding, monitoring and evaluation toolkits, training, and guarantees with independent entities. Below are some experts' responses, and Table 46 summarizes the responses to the hedge of *Qarḍ al-Ḥasan* financing risks.

“The beneficiary should be studied for credit, especially his reputation and willingness to repay, and his project's feasibility and ability to repay should be studied. There must also be a supporting role from the state in making incentives for granting these *Qarḍ*, such as guaranteeing these loans through loans and Credit Guarantee Corporation or by encouraging insurance companies to guarantee these loans. The banks can also use cooperative operate insurance that covers the *Qarḍ* in case of death or partial or total disability.” (AY2).

“We have a guarantee with an independent entity (the association), and we also consider this a social responsibility and not a business, meaning it has a spirit.” (FS3).

“The risk of *Qard al-Hasan* can be hedged as follows: The first thing, guarantees are taken for transferred salaries and guarantees from traders. Second, study requests from customers well so as not to get stuck (Feasibility study). Next, extensive monitoring of accounts. Then, Monitor the payments monthly. And *Qard al-Hasan* provision.” (MJ4).

“If the perception is that there will be a fund inside the Islamic Bank. and it is not external, then hedging against risks is known, as *Qard al-Hasan* is one of the products, then as a matter of precaution, it is the guarantees. It is also possible to consider that we take the guarantee of the Shaikhs, especially when they are conservative, and they have respect, especially as we have in some areas of the country as notables. It is possible to enter into the insurance hedge. It can be called the insurance hedge.” (GA6).

“It can be conducting a client and a feasibility study, a possible stone to part of his revenue, and a guarantor from one of the relatives or a customer in the bank because the client does not have assets and guarantees. Moreover, this fund can be secured by takaful insurance; the bank can pay the fund for those who defaulted.” (EsM7).

“Okay, when, of course, we can have collateral if the customer is capable of providing collateral. Secondly, it can be a peer. Like, most of the microfinance, they fear a group of people reinforcing each other to pay, and then they do the collection. More frequently, like Amana is here, they do every week. So, every week you have a meeting with your peers to monitor the development of your project. At the same time, you also pay a small amount. Then, you can also have microcredit or credit Takaful. So if the person cannot pay that, it will be paid by the Takaful, and if the payment is due to an acceptable reason, maybe the person falsifies or becomes incapable. So then the Takaful can with pay for the load, okay, there can be many ways; actually, you can have the rental, you can actually arrange with the *Zakāh* authority if the person actually comes under the category of *Ghārimēen* intended to pay and then suddenly, because of some situations would not pay and Takaful of *Ghārimēen* you can get the *Zakāh* fund to pay for that. So there can be many avenues actually, as this one and then of course, the training etc., to make sure that the default.” (EnM8).

Table 46 Responses to the Hedge of *Qard al-Hasan* financing risks

Responses to the Hedge of <i>Qard al-Hasan</i> Financing Risks			
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	Feasibility study (credit study)	4	15%
AY2			

MJ4			
EsM7			
LY1	Benefactors donate to <i>Qarḍ al-Ḥasan</i>	2	7%
AJ5			
LY1	Government guarantee	3	11%
AY2			
SI9			
LY1	Investing surplus <i>Qarḍ</i> balances	1	4%
AY2	Participants' risk fund (<i>Takāful</i>)	5	19%
AJ5			
EsM7			
SI9			
AI10			
MJ4	Client guarantees	6	22%
AJ5			
GA6			
EsM7			
EnM8			
SI9			
EnM8	Monitoring and evaluation toolkit	1	4%
	Training	1	4%
MJ4	Extensive monitoring of accounts and payments monthly	1	4%
	<i>Qarḍ al-Ḥasan</i> provision	1	4%
GA6	Insurance	1	4%
FS3	A guarantee with an independent entity (the association)	1	4%
Total		27	100%
Average Similar Responses		8%	

Source: Author's illustration

5.12 PREFERRING MECHANISM OF *QARḌ AL-ḤASAN* FINANCING DISBURSEMENT

The interviewees responded to the questions about the mechanism of *Qarḍ al-Ḥasan* financing disbursement. The experts in the interview were asked the following question to address this theme: "Do you prefer *Qarḍ al-Ḥasan* financing disbursement coming directly from Islamic Banks (fund) or through the foundation?".

Based on the provided data, this analysis shows the experts' responses on the mechanism of *Qarḍ al-Ḥasan* financing disbursement. Of the ten experts, (33%) of the

experts suggest that the financing can be disbursed directly from the bank to clients and through an association. Also, (33%) of the experts believe that the financing can only be disbursed directly from the bank to clients. Furthermore, (11%) of the experts suggest that an association should disburse the financing. Moreover, (22%) of experts believe that it depends on each bank's policy. Finally, one of the experts did not provide an answer. The average similarity between the experts' responses was 25%, indicating a relatively low level of agreement on the mechanism of *Qard al-Hasan* financing disbursement. Below are some experts' responses, and Table 47 summarizes the responses to develop the mechanism of *Qard al-Hasan* financing disbursement.

“*Qard al-Hasan* disburses through the bank is better because it has the capabilities. Nevertheless, when it is through an association, the clients look at *Qard al-Hasan* as donations. However, there is another solution through *Qard al-Hasan* Foundation or microfinance institutions, but they are within the banking framework. The first preference is preferable that the disbursement of *Qard al-Hasan* be through banks because of the existence of the credit system so that the money is repaid. Secondly, through a fund or a specialized institution for *Qard al-Hasan*.” (AY2).

“In my opinion, *Qard al-Hasan* can be granted directly to clients by the Bank. This approach helps to support the client more effectively. When a charity foundation disburses *Qard al-Hasan*, it often involves lengthy procedures and delays, and there is a risk that the funds might be used for other purposes. Additionally, if the Bank finances the customer directly, it also benefits the Bank. For instance, this customer might become a loyal bank client and seek other types of financing in the future.” (MJ4).

“It depends on the policy of each Bank. For instance, a Bank that focuses on supporting and developing the community might prefer to grant *Qard al-Hasan* as part of its social responsibility efforts. On the other hand, charities are often recommended to handle *Qard al-Hasan* because they are closer to those in need and can provide additional support, such as setting up credit studies for micro-projects, running them, and following up on their progress.” (GA6).

“Both options are possible, but if the Bank wants to avoid complications, it can delegate this task to an association.” (EsM7).

“I think this depends very much on the skill set, skill set, because in this situation, normally, there will be a smart partnership between the Islamic bank and the service provider. So the service provider can be the charity or even Right? So I think it does intrapreneurship; maybe Islamic bank has the skill set needed to monitor and also to assess and to make sure that the payment is in order. Maybe they have that kind of skill set. But even so, they normally work together, especially on the technical know-how on the project. So they may work with the specific service provider who can actually help in terms of the technical know-how but the

manager or the bandwidth is an economic term from the bodies who are elected to that final project. Let us say certain other things. Sometimes the service provider or charity can be very at once, and they have more skill and knowledge about that particular thing that is better to actually allow them to disperse based on the need again, let us say you want it for certain procedures, but it does have the amount of money and whatnot. Okay, so maybe this charity foundation may have a better than a cleaner house. So, in that situation, it may be good to actually allow them to monitor, but overall, I think it does have governance. Also, in terms of transparency and audibility, Islamic bank already proven like this or in terms of transparency, does not delete due diligence. So, if the charity or the service provider has that same level, with Islamic banks that you can actually get by, but if they do not have that, then expected to allow Islamic banks to monitor because they have already the whole system does not accounting and auditing they have a well-proven system in terms of preventing fraud or preventing abuse. But if you are working with an established NGO is a good governance framework, I think no harm in allowing them to disperse because they would know better the real thing are the ground. But normally they have a competition when kind of this company they have a combination see the book was going to decide maybe a combination where they will be representative different repay whereas a different foundation to do a thorough evaluation before they can decide normally they have like a committee like working committee, where they have aspected the sample sites so that they have a more complete view.” (En8).

“I do not support the charitable association because there are restrictions on charitable associations by the official authorities. Secondly, the charitable body. Let us say frankly that charitable associations are not like the Western countries; Their management is fragile management of the institution. We explained this to them previously, but they did not understand it. Accumulation of errors that occurred and sometimes doubted on the part of depositors. The process of *Qard al-Hasan* financing will shrink, so it must be institutional and transparent. Therefore, it will be better when there is *Qard al-Hasan* institution and the Central Bank supervises it. However, there may be coordination with the associations because they are the closest to people experiencing poverty and their secrets. We have previously asked them to support the cases. So, if there is *Qard al-Hasan* institution, it is possible to coordinate with the associations.” (SI9).

Table 47 Responses to develop mechanism of *Qard al-Hasan* financing disbursement

Responses to Develop the Mechanism of <i>Qard al-Hasan</i> Financing Disbursement			
Expert's Code	Responses topics	No. of Similar Responses	Similar Responses Percentage
AY2	Both directly from the Bank to clients or through an association	3	33%
EsM7			

SI9			
MJ4	Directly from the Bank to clients	3	33%
AJ5			
AI10			
LY1	Association	1	11%
FS3	No answer		
GA6	It depends on the policy of each Bank	2	22%
EnM8			
Total		9	100%
Average Similar Responses		25%	

Source: Author's illustration

5.13 PREFERRING *QARD AL-HASAN* FINANCING PURPOSES

The interviewees responded to the questions related to the purposes of *Qard al-Hasan* financing. The experts in the interview were asked the following question to address this theme: "For what purpose do you prefer to disburse *Qard al-Hasan* financing in Islamic Banks?". The responses were categorized into three topics: for enterprises, people in need, and the commercial.

The most frequent response was "for enterprises," with nine similar responses accounting for 38% of the total responses. The second most frequent response was "for people in need," with eight similar responses accounting for 33% of the total responses. The least frequent response was "commercial," with seven similar responses, accounting for 29% of the total responses; this suggests that *Qard al-Hasan* financing can be used for a variety of purposes, from supporting businesses to helping individuals in need and commercial activities. The similar average response was 33%.

The literature review provides further insights into the purpose and impact of *Qard al-Hasan* financing. Studies by Baeaziz & Makhlufi (2018), Mojtahed & Hassanzadeh (2009), Zada & Saba (2013), Abu Mounes (2019), Masyita (2012), and Hassan (2014) reaffirm the significance of *Qard al-Hasan* in supporting micro-projects, poverty alleviation programs, SME financing, and socio-economic development initiatives. These studies emphasize *Qard al-Hasan's* potential to empower entrepreneurs, provide financial services to people in need, and stimulate economic growth. The alignment between interview findings and literature underscores *Qard al-Hasan's* versatility as a

financial instrument capable of addressing diverse societal needs, from enterprise development to poverty alleviation and social welfare enhancement. Below are some experts' responses, and Table 48 summarizes the responses to develop the purposes of *Qard al-Hasan* financing.

“For the purpose of meeting human needs such as marriage and treatment, and for people who have cash flows but there has been an accidental shortfall in their cash flow, those who do not fall into the category of the poor, If they are poor, it should be provided as aid, not *Qard al-Hasan*, because they will not be able to repay. Undoubtedly, it is a channel to support small enterprises, particularly those that cannot be financed with Murabaha or Musharaka, such as financing capital, wages, administrative expenses, electricity, and water.” (LY1).

“I always answer this question by saying that the one who can decide is to study the needs of each association and each group of people. Furthermore, I prefer the *Qard al-Hasan* for Enterprises for families that generate income for them and build their sources of income because of the treatment, and others have other funding sources” (FS3).

“For the previous clients financed by the Bank (education, treatment, marriage, and overdrawn account). For SMEs, it can be preferred for different clients who are in financial hardship situations. However, it is not granted to them from the beginning, but it can be given *Qard al-Hasan* to the one who has worked, and their work has declined; it can support them. Financing from the beginning is preferred, as Murabaha financing. Like the big traders, they may be included in *Qard al-Hasan* when their business declines.” (MJ4).

“It is preferable to disburse *Qard al-Hasan* for women staying at home and widows to establish small projects such as shaving, sewing, sweets etc. Moreover, unemployed youth who have a specific craft cannot buy equipment. I think the service benefits the former, not the big merchants. Therefore, Islamic banks contribute to removing this poverty category and introducing it to the world of work. Thus, this category contributes to the payment of *Zakāt* in the future.” (GA6).

“For treatment, marriage, education, and it can be for small non-existent enterprises. Also, there is no objection to finance for commercial, and this is a matter of benevolence in dealing. It is not a condition that *Qard al-Hasan* sources are taken from the shareholders' money, but it may be from the depositors' money.” (EsM7).

“Yes, I would like to see *Qard al-Hasan* financing for both commercial, personal, and SMEs. Because if you look at the enterprise, the trust of the VBI is for the entrepreneur mindset. So, more like a business kind of thing. And also empowerment of the community. Empowerment our community can be well-being in terms of physical, mental, spiritual, it can also be for education, you know, so it is actually very much in line

with the Maqāṣid al-Sharī'ah so you can see whatever purpose which is enjoined by Maqāṣid al-Sharī'ah the five essentials. Also, we have to see the therapy. So the Hajyat and the Dharuriat, focusing more on the Hajyat and Dharuriat for the *Qarḍ al-Ḥasan*, maybe for the Tahsinyat. Maybe we can go through other mechanisms; perhaps I am not sure. Yeah. So but, this is for Hajyat and the Dharuriat for the basic Maqāṣid. It can be used for that purpose. Yeah. VBI is actually doing that from Maqāṣid. VBI is set to be derived from Maqāṣid to achieve the intended objective of the Sharī'ah.” (EnM8).

“*Qarḍ al-Ḥasan* is not confined to the poor. However, it is of two levels: Limited priority with limited amounts for the needy, emergency cases, and disasters; the second is for productive *Qarḍ* (enterprise), and priority is for productive *Qarḍ*.” (SI9).

“Yes, the loans would be classified into urgent *Qarḍ* and consumer *Qarḍ* and may be divided into percentages. For example, 20% for urgent (relief) *Qarḍ*, 10% for consumer *Qarḍ* (for the needs of the poor, treatment, and education), and 40% for productive *Qarḍ*, then the rest is disbursed to larger enterprises than those. Concerning productive (enterprise) *Qarḍ*, for example, it is required that *Qarḍ* should be directed to working capital. For example, if a person has livestock that depends on the season and outside the season, he must feed them. So, it can be given to them *Qarḍ* during this period and pays them off after that if the rains come and there is no need for the fodder.” (AI10).

Table 48 Responses to Develop *Qarḍ al-Ḥasan* Financing Purposes

Responses to Develop <i>Qarḍ al-Ḥasan</i> Financing Purposes			
Expert's Code	Responses Topics	No. of Similar Responses	Similar Responses Percentage
LY1	For enterprises	9	38%
AY2			
FS3			
MJ4			
GA6			
EsM7			
EnM8			
SI9			
AI10			
LY1	For the needy (marriage, treatment, education, to repay debts ...)	8	33%
AY2			
MJ4			
AJ5			
EsM7			
EnM8			
SI9			

AI10			
LY1	Commercial	7	29%
AY2			
MJ4			
EsM7			
EnM8			
SI9			
AI10			
Total			
Average Similar Responses		33%	

Source: Author's illustration

5.14 CONCLUSION

The research conducted semi-structured interviews with experts of Islamic Banks to investigate the practices, challenges, risks, and development of *Qard al-Hasan* financing. The interview questions were divided into two sections, with the first section targeting seven experts from selected Islamic Banks in OIC countries and the second section targeting practitioners in Islamic services. The interview analysis is divided into two parts, containing twelve themes.

Some conclusions can be drawn after analyzing the provided interviews on *Qard al-Hasan* financing. The total average similar responses is **43%**. Regarding the mechanism of *Qard al-Hasan* financing disbursement, the experts suggest that the financing can be provided directly from the bank to clients or through an association, depending on the bank's policy. This information is essential to understanding how the financing process works and how clients can access it. The experts provided several sources of *Qard al-Hasan* financing. Most agree that *Qard al-Hasan* sources come from shareholders and depositors. This information is valuable to know the different types of needs that can be met through *Qard al-Hasan* financing.

The experts provided three main categories regarding the purposes of *Qard al-Hasan* financing. The majority of them agree that it is mainly used for enterprises, followed by people in need, and commercial purposes. This information is valuable to know the different types of needs that can be met through *Qard al-Hasan* financing. Concerning the hedge of *Qard al-Hasan* financing risks, the experts proposed several strategies that banks can implement to mitigate risks. The most frequently suggested strategies include conducting a feasibility study, providing government guarantees,

implementing a participants' risk fund (*Takāful*), and requiring client guarantees. Insurance, extensive monthly monitoring of accounts and payments, training, and a guarantee with an independent entity were also mentioned as strategies to mitigate risks.

In conclusion, these interviews provide valuable insights into *Qard al-Hasan* financing. Banks can use this information to understand how to implement *Qard al-Hasan* financing, its different purposes, and the strategies to mitigate risks.



CHAPTER SIX

QARḌ FINANCING: PROPOSED MODEL

6.1 INTRODUCTION

In the pursuit of aligning Islamic finance with contemporary economic needs, this chapter delves into the development of the *QarḌ* Financing Model, which represents an evolved and refined version of the previously known *QarḌ* Financing Model. The renaming of the model signifies its adaptation to the changing financial landscape while preserving its core Islamic principles.

This chapter explores the various facets of the *QarḌ* Financing Model, starting with mobilizing financing sources. Furthermore, the chapter investigates the critical aspect of managing risk in *QarḌ* Financing. It delineates the funding sources for the risk of default and delves into the intricate realm of guarantees, aiming to strike a balance between the interests of lenders and borrowers.

A pivotal element in this chapter revolves around the establishment of the *QarḌ* Financing Fund, providing insights into the institutional framework needed to implement this innovative financing model. Moreover, it outlines the allocation of funds for operating costs, ensuring the sustainability of the model itself.

Mechanisms for disbursing *QarḌ* Financing are comprehensively detailed, with a specific focus on its application to enterprises, commercial ventures, and relief efforts. This nuanced approach to financing demonstrates its versatility and adaptability.

In exploring the relationship between *QarḌ* Financing and the principles of Maqāṣid Al-Sharī'ah, this chapter delves into the ethical and social dimensions of this model, highlighting its broader impact on society.

Finally, the chapter concludes by presenting the structural framework of the *QarḌ* Financing Model, elucidating its components and their interplay, ultimately providing a comprehensive understanding of the dynamic financing approach. Additionally, this chapter reviews a summary of *QarḌ* financing models for the selected Islamic banks.

6.1.1 *Qarḍ al-Ḥasan* Financing Model in Islamic Bank A

The *Qarḍ al-Ḥasan* financing model in Islamic Bank A involves providing interest-free loans to those in need, such as those requiring funds for marriage, medical treatment, or education. These loans are provided using two sources of financing: non-permissible earnings for the needy and current accounts for commercial use. The mechanism for disbursing *Qarḍ al-Ḥasan* financing is straightforward. Islamic Bank A provides the loans directly from the *Qarḍ al-Ḥasan* account without charging any interest to the borrower. While this model promotes social welfare and strengthens customer loyalty by alleviating financial burdens without interest, it faces challenges like dependency on variable funding sources and the risk of loan defaults. Despite these challenges, the model enhances the bank's reputation for social responsibility and compliance with Shariah principles, offering a competitive edge over conventional banks. Figure 76 summarises the *Qarḍ al-Ḥasan* financing model in Bank A.

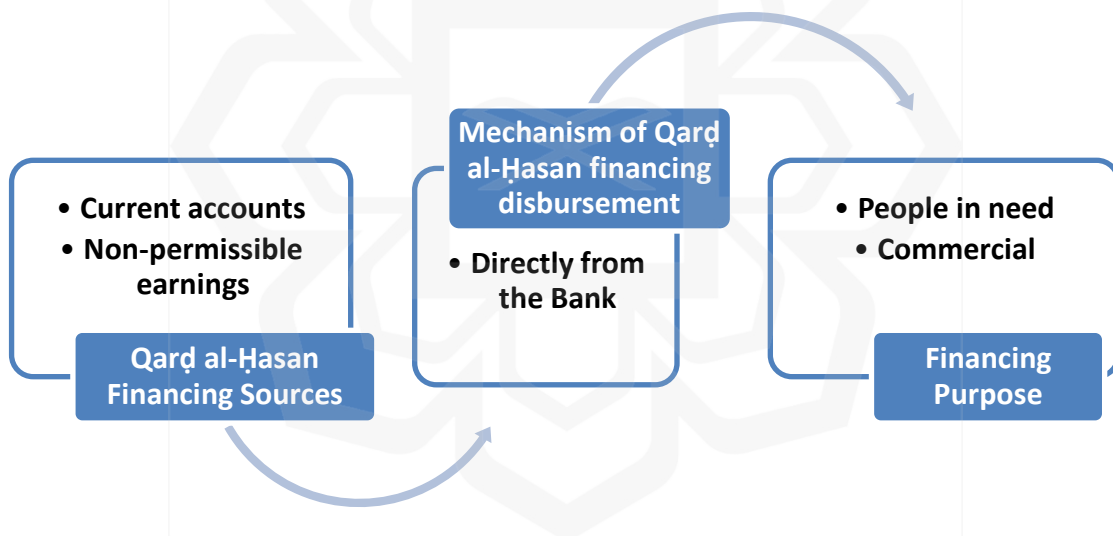


Figure 76 *Qarḍ al-Ḥasan* financing model in Islamic Bank A

Source: Author's illustration

6.1.2 *Qarḍ al-Ḥasan* Financing Model in Islamic Bank B

The *Qarḍ al-Ḥasan* financing model in Islamic Bank B involves providing interest-free loans to small and medium-sized enterprises (SMEs) in need. The financing source for

these *Qarḍ* is provided solely by the bank's shareholders and includes 10% of the financing amount with donation operating expenses of the organization. Islamic Bank B disburses *Qarḍ al-Ḥasan* financing through Microfinance Centres and Charities. These organizations work closely with SMEs, providing them with access to financial services and resources. By partnering with these organizations, Islamic Bank B can reach a wider audience and ensure its financing reaches those who most need it.

The purpose of the *Qarḍ* granted through the *Qarḍ al-Ḥasan* financing model is to support the growth and development of SMEs. These *Qarḍ* can be used for various purposes, such as purchasing equipment, expanding operations, or investing in new technology. Islamic Bank B can help SMEs achieve their goals by providing interest-free financing without the burden of high-interest payments. Figure 77 summarises the *Qarḍ al-Ḥasan* financing model in Bank B.

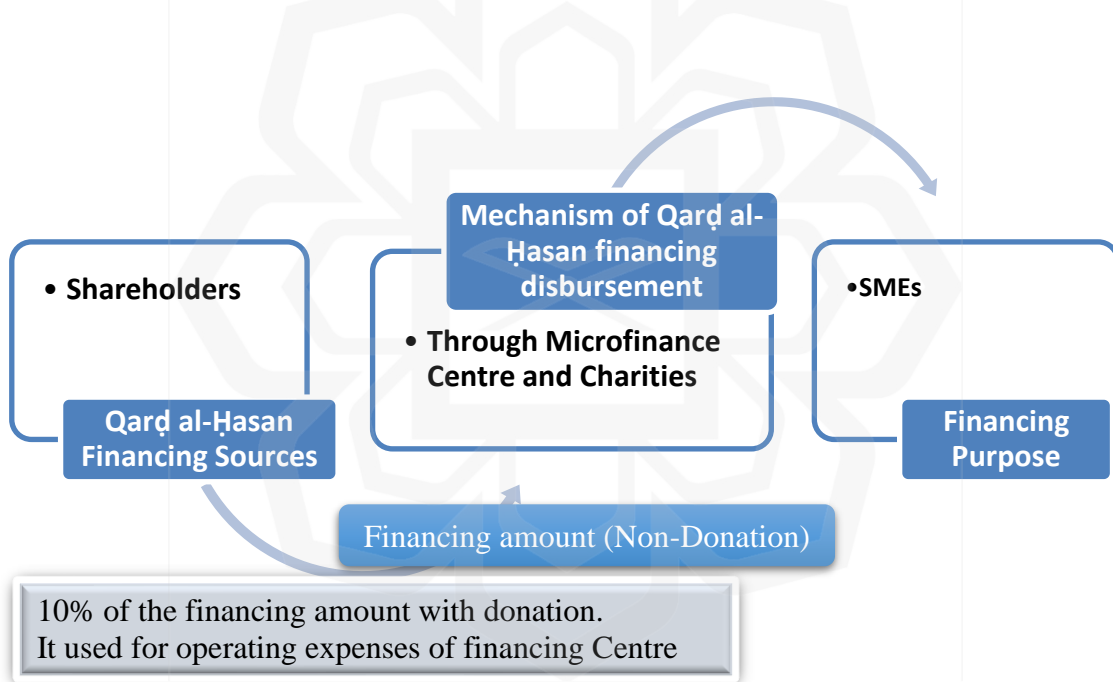


Figure 77 *Qarḍ al-Ḥasan* financing model in Islamic Bank B

Source: Author's illustration

6.1.3 *Qarḍ al-Ḥasan* Financing Model in Islamic Bank C

The *Qarḍ al-Ḥasan* financing model in Islamic Bank C involves providing interest-free loans to both individuals in need and commercial enterprises. The bank's shareholders, as well as from *Qarḍ al-Ḥasan* accounts (deposits made by customers), provide the financing sources for these loans. Islamic Bank C disburses *Qarḍ al-Ḥasan* financing

directly from the bank. This allows the bank to provide prompt and efficient service to its customers. The loans are granted interest-free, ensuring that the borrower is not burdened with any additional financial obligations and can repay the *Qarḍ* amount comfortably.

The purpose of the *Qarḍ* granted through the *Qarḍ al-Ḥasan* financing model is twofold. First, the *Qarḍ* can be used to support the needy, such as those requiring funds for marriage, medical treatment, or education. This helps to alleviate financial hardship and improve the well-being of individuals in the community. Second, the *Qarḍ* can also be used to support commercial enterprises. Third, *Qarḍ al-Ḥasan* financing provides for its employees. Figure 78 summarises the *Qarḍ al-Ḥasan* financing model in Islamic Bank C.

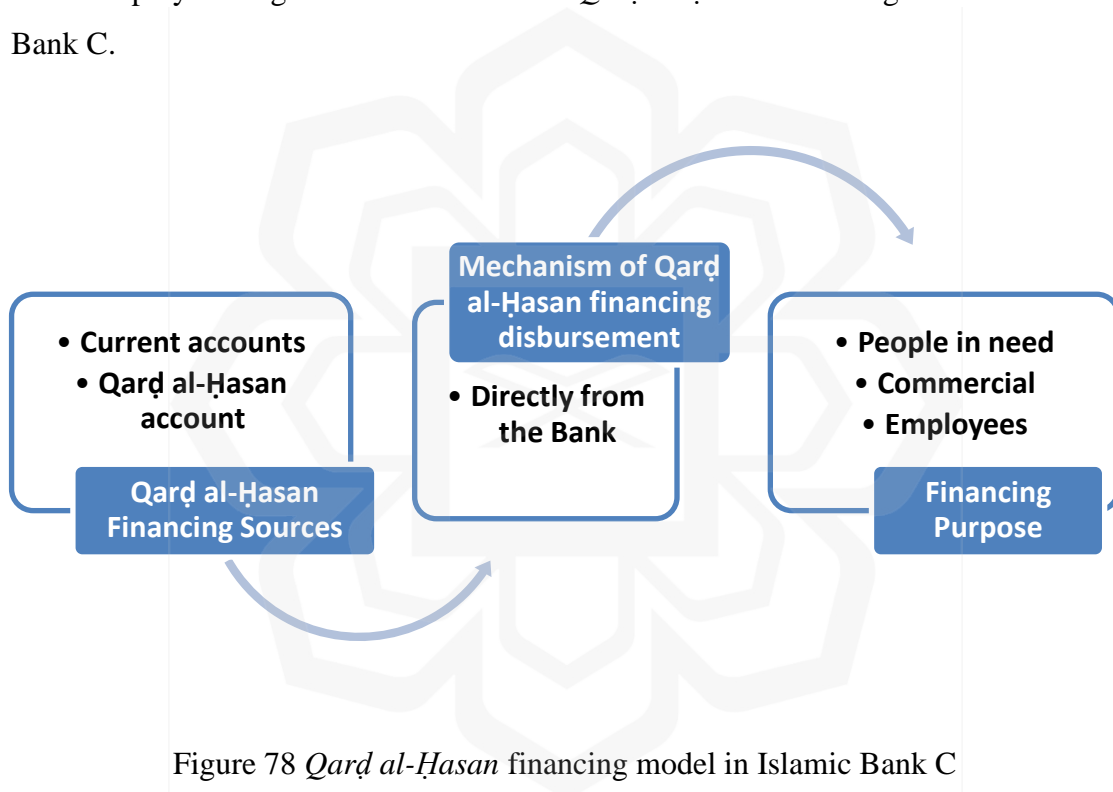


Figure 78 *Qarḍ al-Ḥasan* financing model in Islamic Bank C

Source: Author's illustration

6.1.4 *Qarḍ al-Ḥasan* Financing Model in Islamic Bank D

The *Qarḍ al-Ḥasan* financing model in Islamic Bank D involves providing interest-free loans to support commercial enterprises and employees. These loans are financed from the bank's current or investment accounts. Islamic Bank D disburses *Qarḍ al-Ḥasan* financing directly from the bank, ensuring borrowers have access to prompt and efficient service. The *Qarḍ* are granted interest-free, enabling borrowers to repay the *Qarḍ* amount without any additional financial burden.

The purpose of the *Qard* granted through the *Qard al-Hasan* financing model is two-fold. First, the *Qard* can be used to support commercial enterprises to pay late instalments to the bank (overdrawn account). Second, the *Qard* can also be used to support employees by providing interest-free loans to meet their personal needs, such as purchasing a home or paying for education. Figure 79 summarises the *Qard al-Hasan* financing model in Islamic Bank D.

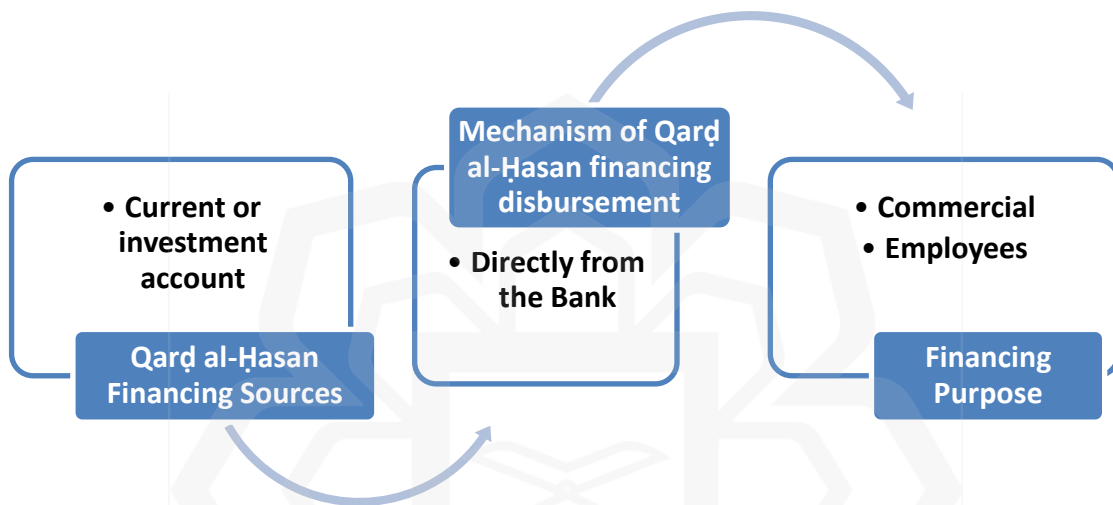


Figure 79 *Qard al-Hasan* financing model in Islamic Bank D

Source: Author's illustration

6.1.5 *Qard* Financing Model in Islamic Bank E

The *Qard* financing model in Islamic Bank E involves providing interest-free loans to employees. The financing for these *Qard* is provided from the bank's depositor's and shareholder's funds. Islamic Bank E disburses *Qard* financing directly from the bank, ensuring borrowers have access to prompt and efficient service. The *Qard* are granted interest-free, enabling borrowers to repay the *Qard* amount without any additional financial burden.

The purpose of the *Qard* granted through the *Qard* financing model is to support employees by providing interest-free *Qard* to meet their personal needs, such as purchasing a home, paying for education or medical treatment, or covering other expenses. Figure 80 summarises the *Qard* financing model in Islamic Bank E.

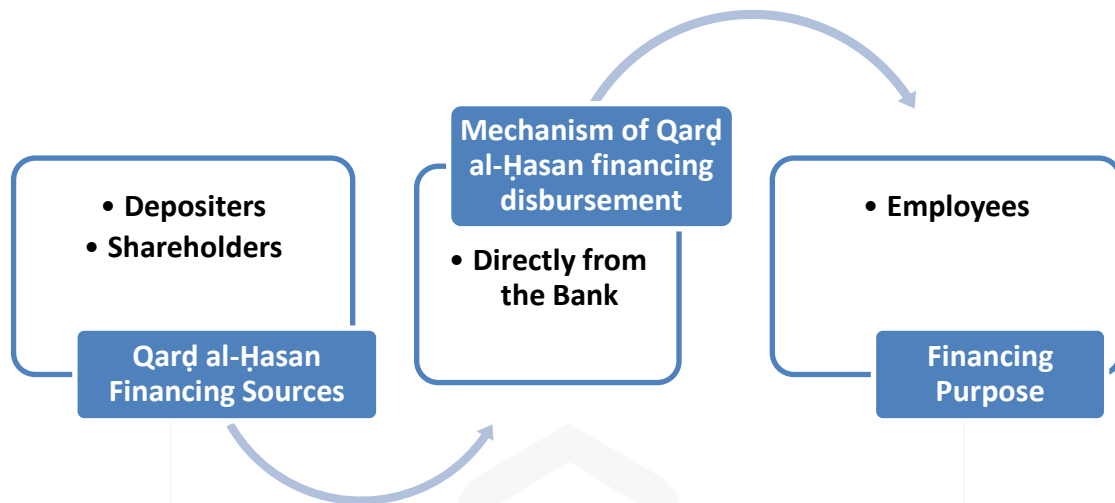


Figure 80 *Qard* financing model in Islamic Bank E

Source: Author's illustration

6.1.6 Comparing the similarities and the differences of *Qard* Financing in Islamic banks

It can be seen from the table that it compares the similarities and differences of *Qard* financing in five Islamic banks: Bank A, Bank B, Bank C, Bank D, and Bank D.

The table compares various aspects of *Qard* financing offered by these banks, including sources of funding, the use of pool funds, the purposes for which *Qard* financing is granted, financing based gender, legitimacy formula or the name, form of its administration, and Banking Operation of *Qard* financing.

Through the documents and reports of the banks under study and other documents obtained, the table compares the similarities and differences of *Qard* financing offered by five Islamic banks: Bank A, Bank B, Bank C, Bank D, and Bank D. The study explores more information about *Qard* financing by interviewing experts in these banks to enhance the clarity of the models practised by these Islamic banks and to effectively highlight them with transparency, aiming to achieve the research objectives. Table 49 summarizes the similarities and differences of *Qard* financing in Islamic banks.

Table 49 Similarities and differences of *Qard* financing in Islamic banks

Subjects	Types	Bank				
		A	B	C	D	E
<i>Qard al-Hasan</i> Sources	Current accounts	√				
	<i>Qard al-Hasan</i> account (Clients deposits)			√		√
	Bank authorized (shareholders)			√		√
	Non-permissible earnings	√				
Mechanism of <i>Qard al-Hasan</i> financing disbursement	Directly from the Bank	√		√	√	√
	Through Microfinance Centre and Charities		√			
Purpose of granted	Personal Benevolent (people in need)			√		
	SMEs		√			
	Commercial			√		
	Banks' Staff			√		√
Financing based gender	Unspecified	√	√	√	√	√
Legitimacy formula or the name	<i>Qard al-Hasan</i>	√	√	√	√	
	<i>Qard</i> Fund or benevolent financing					√
Form of its administration	<i>Qard al-Hasan</i> Portfolio		√			
	<i>Qard al-Hasan</i> Programme			√	√	
	<i>Qard al-Hasan</i>	√				
	<i>Qard</i> Fund					√
Banking Operation of <i>Qard al-Hasan</i>	Core Banking	√				√
	Socially Responsible Product		√	√	√	

Source: Author's illustration

6.2 PROPOSED MODEL OF QARD FINANCING

The development of the *Qard* financing model as a social responsibility initiative in Islamic finance is a nuanced process that requires a meticulous approach, drawing from

both inductive and Analytical methodologies. This development aims to elucidate the steps undertaken to devise this proposed model, ensuring its alignment with the principles of Islamic finance and its effectiveness in addressing socio-economic needs. The foundation of the proposed model begins with a literature review, which serves as the inductive phase of the research. The review encompasses a broad spectrum of academic papers, industry reports, and case studies on *Qard* financing. This phase is critical for identifying the core principles, prevalent challenges, and successful practices in the domain of interest. The insights gained from the literature provide a deep understanding of the current state of *Qard* financing, highlighting areas that require innovation and improvement.

An examination of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) governance standards was conducted to ensure that the proposed model is firmly rooted in established guidelines. This approach ensures that the model adheres to the recommended conduct of policy for *Qard* financing. By aligning the model with AAOIFI standards, it guarantees compliance with the broader principles of Islamic finance, providing a robust framework that can be trusted by stakeholders.

A key aspect of the model's development involved consulting with experts in Islamic finance. This included interviews and discussions with scholars, practitioners, and industry experts. The inductive approach in this phase helped gather diverse perspectives and practical insights, which are essential for refining the model. Expert opinions were invaluable in addressing potential challenges and ensuring the model's feasibility and effectiveness.

Another inductive phase involved analyzing best practices from existing *Qard* financing models. By examining successful implementations, the research distilled guiding principles that could be applied to the proposed model. These principles form the bedrock of the proposed model, ensuring it builds on proven methodologies while incorporating innovative elements to address current gaps.

Leveraging the knowledge and insights gained from the literature review, expert consultations, and analysis of existing practices, the researcher proposed specific enhancements to the *Qard* financing model. This deductive phase involved synthesizing the gathered information to formulate practical solutions aimed at improving the sustainability, efficiency, and socio-economic impact of the model.

With a solid foundation laid through these approaches, the next step was the development of the new *Qard* financing model, named "*Qard Taysir*." This model was designed with several critical aspects in mind. First, the name "*Qard Taysir*" was chosen to reflect the model's nature and purpose effectively, emphasizing its role in facilitating ease and support. To enhance sustainability, the model incorporates diverse sources of financing, ensuring a steady and reliable flow of funds. Mechanisms to hedge against potential risks were established, safeguarding against losses and ensuring the model's resilience. A well-defined and efficient disbursement process was developed to ensure that funds are utilized effectively and reach the intended beneficiaries. The purposes of *Qard* financing were aligned with community needs and sustainable development goals. Ensuring that the model adheres to the principles of *Maqāsid Al-Sharī'ah* was a priority, guaranteeing its compliance with Islamic principles. The model's structure was clearly and consistently defined to facilitate understanding and implementation. A framework for social responsibility reporting was developed to ensure transparency and accountability in the Islamic financial industry.

By integrating these aspects, the proposed *Qard* financing model was developed to contribute significantly to the community's socio-economic development in a sustainable and *Sharī'ah*-compliant manner. The detailed and structured process ensures that the model is theoretically sound and practically feasible, leveraging both approaches to create a holistic and robust solution. This multifaceted approach not only addresses the examiner's concerns but also lays a solid foundation for the model's successful implementation in the Islamic financial industry.

6.2.1 The Name of the Model

The researcher proposes that the term "*al-Ḥasan*" should be replaced with "*Taysir*" following the word *Qard*, resulting in the name "*Qard Taysir*." The rationale for this change is to more accurately reflect the dual obligations inherent in the concept of *Qard* within Islamic finance. Specifically, "*Qard Taysir*" highlights that:

1. Obligation for the Borrower: The borrower is responsible for repaying the *Qard* to the lender.

2. Obligation for the Lender: The lender has a mandatory requirement to facilitate the *Qard* to the borrower in a manner that avoids causing hardship or insolvency (*Ta'asir*).

The name "*Qard Taysir*" is thus proposed to better capture the essence of this financing model, which aims to empower various needy individuals and enterprises without delay or hardship, in full compliance with *Sharī'ah* principles. This terminology emphasizes the facilitative and supportive nature of the loan, aligning with the ethical and moral imperatives of Islamic finance.

So, **the researcher** defines *Qard Taysir* as “*Qard* given to empower the various needy, including enterprises, without procrastinating or *Ta'asir* (*Ta'asir*: hardship-hardening-insolvency) in compliance with *Sharī'ah*.”

Furthermore, the term "*Taysir*" is derived from the word “***Maysarah***” found in the *Quran*, which signifies ease and facilitation. This is exemplified in Surat Al-Baqarah, where Allah the Exalted says:

﴿وَإِنْ كَانَ ذُو عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ مَيْسَرَةٍ وَأَنْ تَصَدَّقُوا خَيْرٌ لَّكُمْ إِنْ كُنْتُمْ تَعْلَمُونَ ﴿٢٨٠﴾﴾ [البقرة: ٢٨٠]

“And if someone is in hardship, then [let there be] postponement until [a time of] ease. But if you give [from your right as] charity, then it is better for you, if you only knew” (The Qur'an, Al-Baqarah: 280).

This verse underscores the importance of alleviating hardship and promoting ease, which is the core philosophy behind the proposed term "*Qard Taysir*." By adopting this term, Islamic banks can unify their approach and terminology, fostering a more consistent understanding and application of this financing model across the industry.

In summary, the term "*Qard Taysir*" not only clarifies the mutual obligations of borrower and lender but also aligns with the Quranic principle of facilitating ease and avoiding hardship, thereby enhancing the empowerment of the needy through ethical financial practices.

6.2.2 Enhancing *Qard Taysir* Financing Sources

Based on the previous studies, data analysis, expert interviews, and the researcher's suggestions, the study developed the *Qard Taysir* Financing Sources by providing sixteen sources. The study divides the sources into internal and external, non-donation and donation.

Table 50 below represents a list of sources for financing *Qarḍ Taysīr* in an Islamic financial institution. The sources are categorized into internal, external, and both internal and external. Internal sources include part of shareholder profit, *Qarḍ Taysīr* fund investment, Reinvest *Takāful* Fund, Excess over *Qarḍ* when it is not stipulated, provision for expected *Qarḍ Taysīr* loss, service charges for *Qarḍ Taysīr*, participants' Risk Fund (*Takāful*).

External sources include *Qarḍ al-Ḥasan* account (made by the depositors), part of the current account (demand deposit), *Luqaṭah*, *Ṣadaqāt*, non-temporary and temporary *Waqf*, and local and international donors concerned with sustainable development such as IsDB. Both internal and external sources include *Zakāt*. In addition, non-permissible earnings. Table 50, Type of Sources (Internal or External), summarizes the types of sources by internal and external.

Table 50 Type of sources, internal and external.

Type of Sources (Internal or External)		
No.	Internal or External	Sources
1	Internal Sources	Part of Shareholder profit
2		<i>Qarḍ Taysīr</i> fund investment
3		Reinvest <i>Takāful</i> Fund
4		Excess over <i>Qarḍ</i> when it is not stipulated.
5		Participants' Risk Fund (<i>Takāful</i>)
6		Provision for expected <i>Qarḍ</i> loss
7		Service Charges for <i>Qarḍ Taysīr</i>
8	Internal and External Sources	<i>Zakāt</i> ³⁹
9		non-permissible earnings
10	External Sources	<i>Qarḍ al-Ḥasan</i> account (depositors)
11		Part of Current account (demand deposit)
12		<i>Luqaṭah</i> ⁴⁰

³⁹ - Al-Qaradawi, (2006) believed that the correct measurement and general *Maqāsid* of Islam regarding *Zakāt* allow us to say that lending to the needy from the portion of the indebted (*Sahm Ghārimēen*) is permissible. However, this should be organized and a special fund should be established for it. Thus, *Zakāt* contributes practically to combating usury and eliminating interest-based benefits.

⁴⁰ - "Literally: to pick up something from the ground. Technically: According to the Ḥanafīs, it is property found without any knowledge about its owner while being lawful for the finder. According to the Shāfi'īs, it is lost property or a lost asset to which someone has exclusive privileges, and the finder does not know the owner, but it does not belong to an enemy at war, and it is not in a place of safekeeping and does not have the power to defend itself. According to the Ḥanbalīs, it is any property or useful article abandoned or cast on the ground when a similar object would not be safeguarded in a similar place, and it is not capable of safeguarding itself, and it is not an animal. According to the Mālikīs, it is

13		<i>Ṣadaqāt</i>
14		non-temporary <i>Waqf</i>
15		temporary <i>Waqf</i>
16		local and international donors concerned with sustainable development, such as IsDB

Source: Author's illustration

The table below categorizes the sources of financing for *Qarḍ Taysīr* into two types: non-donation and donation. The non-donation sources include shareholder funds, current accounts, part of *Qarḍ al-Ḥasan* accounts, local and international donors, temporary *Waqf*, *Qarḍ Taysīr* fund investment, and reinvest *Takāful* fund. These sources are categorized as non-donation because the funds provided are expected to be returned to the provider. On the other hand, the donation sources include provision for expected *Qarḍ Taysīr* loss, non-permissible earnings, participants' risk fund (*Takāful*), non-temporary *Waqf*, *Zakāt*, service charges for *Qarḍ Taysīr*, *Luqāṭah*, and *Ṣadaqāt*. These sources are categorized as donation because the funds provided are not expected to be returned to the provider. Table 51 summarizes the types of sources via internal and external.

Table 51 Type of sources, non-donation or donation.

Type of Sources (Non-Donation or Donation)		
No.	Non-Donation or Donation	Sources
1	Non-Donation Sources	Part of Shareholder profit
2		Part of Current account (demand deposit)
3		<i>Qarḍ al-Ḥasan</i> account (depositors)
4		local and international donors concerned with sustainable development, such as IsDB
5		temporary <i>Waqf</i>
6		<i>Qarḍ Taysīr</i> fund investment
7		Reinvest <i>Takāful</i> Fund
8	Donation Sources	Provision for expected <i>Qarḍ</i> loss
9		non-permissible earnings

property found outside a place where valued property is safeguarded, and it is not an animal capable of speech (i.e., human) nor livestock" (ISRA, 2010).

10		Excess over <i>Qarḍ</i> when it is not stipulated.
11		Participants' Risk Fund (<i>Takāful</i>)
12		non-temporary <i>Waqf</i>
13		<i>Zakāt</i>
14		Service charges for <i>Qarḍ Taysīr</i>
15		<i>Luqāṭah</i>
16		<i>Ṣadaqāt</i>

Source: Author's illustration

6.2.3 Hedge *Qarḍ Taysīr* Financing Risk

After expert suggestions on how to hedge the risks that contain feasibility study (credit study), benefactors donate, government guarantee, investing surplus *Qarḍ* balances, participants' Risk Fund (*Takāful*), client guarantees, monitoring and evaluation toolkit, training, extensive monitoring of accounts and payments monthly, *Qarḍ* provision, insurance, and a guarantee with an independent entity (the association). **The study** proposes to hedge the *Qarḍ Taysīr* Financing risks by *Qarḍ Taysīr* funding sources for risk of default and how they can be used with guarantees.

6.2.3.1 Funding Sources for Defaulted *Qarḍ Taysīr*.

The table below shows several funding sources for managing risk; the participants' risk fund (*Takāful*) and provisions for expected *Qarḍ* loss. Additionally, *Zakāt* can be used for risk purposes. Table 52 summarizes funding sources for defaulted *Qarḍ Taysīr*.

Table 52 funding sources for defaulted *Qarḍ Taysīr*.

Funding sources for defaulted <i>Qarḍ Taysīr</i>		
No.	<i>Qarḍ Taysīr</i> Financing Sources	Risk Purposes
1	Participants' Risk Fund (<i>Takāful</i>)	Risk of default
2	Provision for expected <i>Qarḍ</i> loss	
3	<i>Zakāt</i>	

Source: Author's illustration

6.2.3.2 Managing Risks of *Qarḍ Taysīr* Financing Through Guarantees and Repayment Sources for Defaulted *Qarḍ*

(Al-Melahi, Sa’ad, & Alhabshi, 2021) summarise the types of defaulted *Qarḍ Taysīr* into five reasons: permanent disability, death, the insolvent debtor (permanent and temporary insolvency), and procrastinating debtor. Guarantees and the three repayment risk funding sources can mitigate these risks, which are *Qarḍ Taysīr Takāful*, provision for expected *Qarḍ* loss, and part of *Zakāt*. *Qarḍ Taysīr Takāful* Fund⁴¹ can be used for permanent disability and death, and part of *Zakāt* can be used for insolvent debtors, which are permanent and temporary insolvent. Guarantees can be used for procrastinating debtors. Provision for expected *Qarḍ* loss can be used when the sources are finished, and there is no solution. Figure 81 summarizes the use of guarantees and repayment risk funding sources.

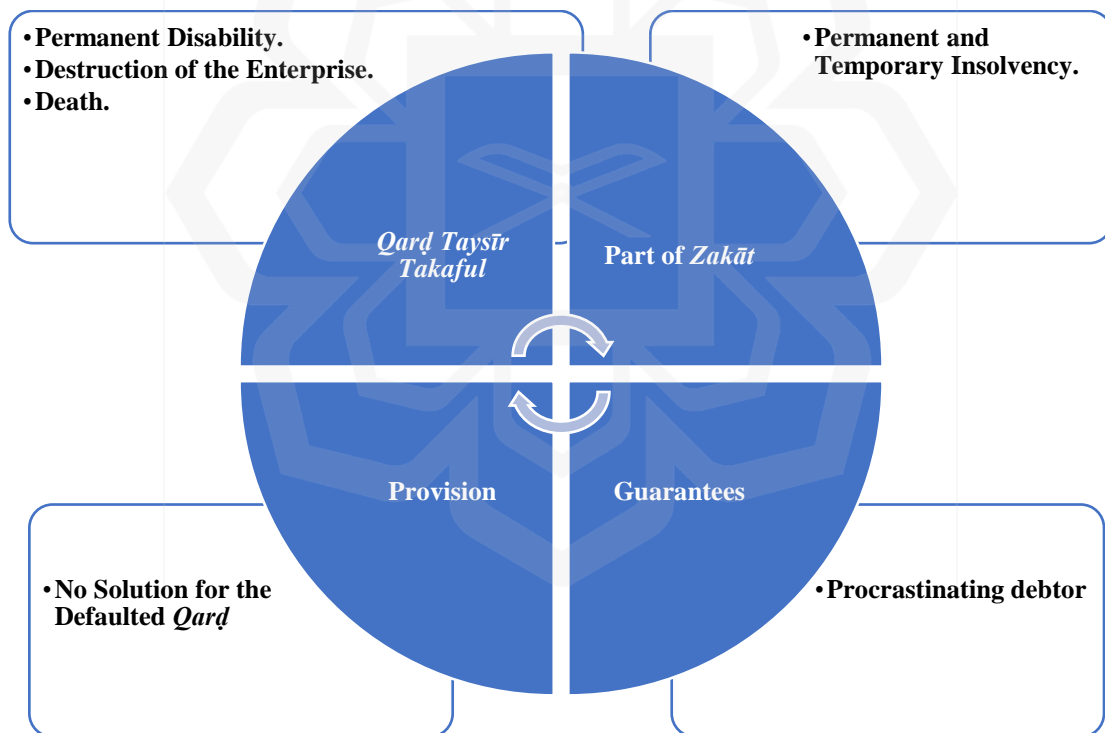


Figure 81 using guarantees and repayment risk funding sources

Source: Author’s illustration

⁴¹ - Most Microfinance Banks and institutions have been used Takāful Fund such as al-Amal Bank in Yemen.

6.2.4 Developing Mechanism of *Qarḍ Taysīr* financing

In order to develop a mechanism for *Qarḍ Taysīr* financing, it is vital to establish a *Qarḍ Taysīr* Financing Fund, the disbursement of loans directly from the bank to clients or associations, and provide sources of funds for operating costs.

6.2.4.1 Establishing of *Qarḍ Taysīr* Financing Fund

Establishing a *Qarḍ* fund is the first one from the provisions of a CSR policy for *Qarḍ al-Ḥasan* for social responsibility (AAOIFI, 2015a). It has been noted that a *Qarḍ al-Ḥasan* fund could provide corporations with a means to fulfil their financial requirements. Investing in this fund would not lead to any loss for the corporations; in fact, it could result in greater benefits than initially expected (Kazak & Alim, 2022). The study done by Hattab & Al-Jarrah (2019) demonstrated a strong potential for establishing *Qarḍ al-Ḥasan* funds in Jordan Islamic banks and Kuwait Finance House. The study recommended that central banks support the establishment and management of these funds in Islamic banks under the supervision of technical committees in central banks. Additionally, Alhakeem & Alatayat (2011) recommend that Islamic financial institutions should establish *Qarḍ al-Ḥasan* fund.

The *Qarḍ Taysīr* Financing Fund can be established by a bank in partnership with other financial institutions. The fund should be designed to provide interest-free loans to individuals and small businesses needing financial assistance. The Fund should be managed by experienced professionals with the skills and expertise to evaluate loan applications and disburse loans promptly and efficiently. Establishing a *Qarḍ Taysīr* financing fund in an Islamic bank has both advantages and disadvantages.

The advantage is that it encourages charity. Establishing a *Qarḍ Taysīr* financing fund in an Islamic bank encourages individuals and organizations to contribute to charitable causes. This helps to promote social welfare and economic development. Furthermore, it increases Islamic Banking services: Establishing a *Qarḍ Taysīr* financing fund can help Islamic banks diversify their services and offer interest-free financing to their customers. This can attract more customers to Islamic banking and help to increase the bank's profitability. Moreover, the advantage of establishing a *Qarḍ Taysīr* fund is that it will gather more sources of financing.

The disadvantage is management costs. Establishing and managing a *Qarḍ Taysīr* financing fund requires administrative and management costs. These costs can reduce

the profitability of the fund and may discourage individuals and organizations from contributing to the fund. However, it can be mitigated through sources for operating costs.

Qarḍ Taysīr financing fund can be managed by its department and the social responsibility committee under the Board of Directors of the Islamic Bank. The social responsibility committee adopts the fund's policies and procedures. The Fund reports to the Social Responsibility Committee and Chief Executive Officer of the Islamic Bank, who will be one of the Social Responsibility Committee members along with the Fund Department Officer. Figure 82 shows the organization and structure of the *Qarḍ Taysīr* financing fund.

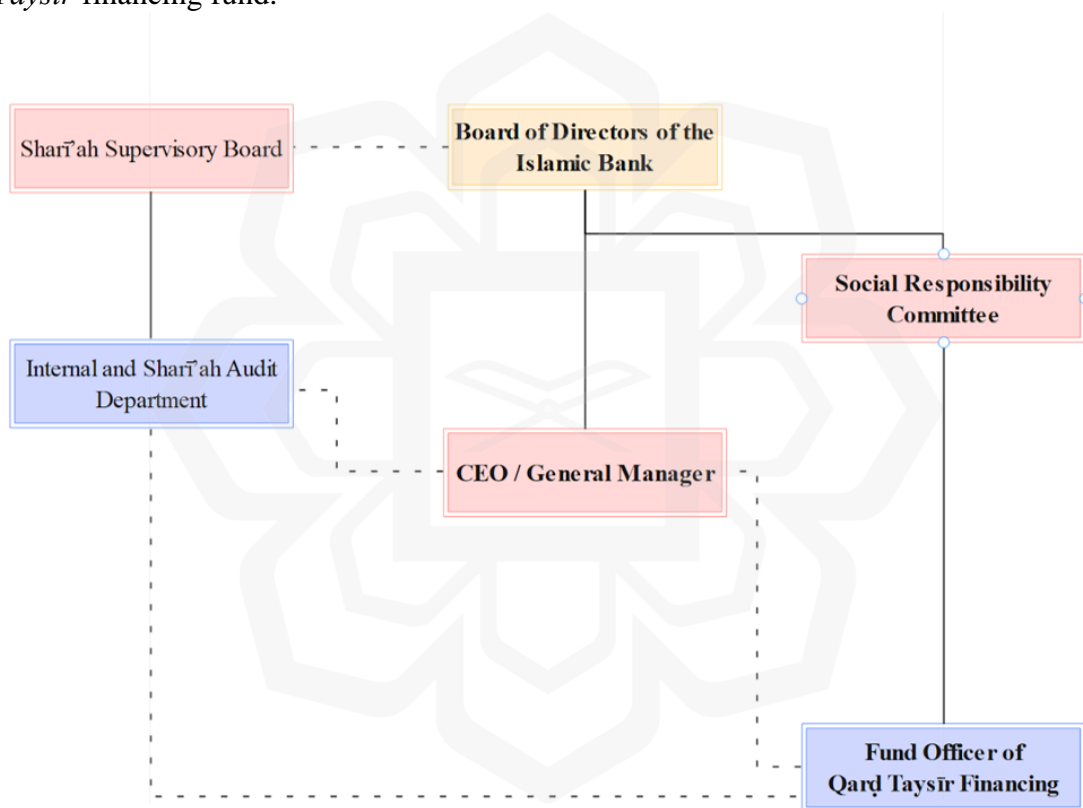


Figure 82 Organization and structure of *Qarḍ Taysīr* financing fund

Source: Author's illustration

6.2.4.2 Funding Sources for the Operating Costs of *Qarḍ Taysīr* Fund

It is also essential to provide funding sources for the operating costs of *Qarḍ Taysīr* fund. This can be achieved by allocating a portion of the funds in the *Qarḍ Taysīr* financing fund to cover the operating costs associated with managing the fund. This

will ensure that the fund is able to continue operating over the long term and provide much-needed financial assistance to small businesses and individuals in need. The table below shows several funding sources for the operating costs of *Qarḍ Taysīr* financing. The funding sources for operating costs include service charges for *Qarḍ Taysīr*, *Qarḍ Taysīr* fund investment, reinvesting *Takāful* fund, and excess over *Qarḍ* when it is not stipulated.

Generally, the table highlights the diverse range of funding sources and purposes for *Qarḍ Taysīr* financing, reflecting the importance of this Islamic social finance tool in providing financial assistance to those in need. Table 53 summarises funding sources, non-donation or donation.

Table 53 Types of funding sources and purposes for operating costs

Funding sources and purposes for the operating costs of <i>Qarḍ Taysīr</i> financing		
No.	Funding sources	Operating Costs Purposes
1	Service Charges for <i>Qarḍ Taysīr</i>	Funding operating costs (Salary, training, technology, rent, etc.)
2	<i>Qarḍ Taysīr</i> fund investment	
3	Reinvest <i>Takāful</i> Fund	
4	Excess over <i>Qarḍ</i> when it is not stipulated.	

Source: Author's illustration

6.2.5 Mechanism of *Qarḍ Taysīr* Financing Disbursement

Another critical feature of *Qarḍ Taysīr* financing is that the loans can be disbursed directly from the bank to the clients, associations, or both. This will depend on the policy of each bank and the skill set of the staff responsible for managing the *Qarḍ Taysīr* financing fund. Some banks may prefer to disburse loans directly to clients, while others may prefer to work with associations that can help identify potential borrowers and manage the loan disbursement process.

Unlike traditional banks, which typically disburse loans directly to clients with standardized processes, *Qarḍ Taysīr* financing can utilize local associations. These

intermediaries help identify borrowers, manage the disbursement process, and tailor support to local needs, offering advantages such as:

1. Local Expertise: Associations understand local borrower needs better.
2. Risk Management: They can help mitigate assessment and management risks.
3. Administrative Efficiency: Streamlines the process and reduces bank workload.
4. Community Engagement: Enhances credibility and involvement in the financing process.

By incorporating these mechanisms, *Qarḍ Taysīr* financing offers flexibility and aims to enhance the effectiveness and impact of loan disbursement compared to more rigid, traditional banking models.

6.2.6 Developing the Purpose of *Qarḍ Taysīr* Financing

Types of allowable beneficiaries of the *Qarḍ al-Ḥasan* funds as determined by the bank (allowable uses of funds), and circumstances in which such loans are distributed to an individual (or to organisations) are from the provisions of a CSR policy for *Qarḍ* for social responsibility (AAOIFI, 2015a). A study by Al-Gharib (1996) divided *Qarḍ al-Ḥasan* for purpose into social *Qarḍ*, such as educational and marriage *Qarḍ*, and productivity *Qarḍ*, intended to promote productivity.

Qarḍ Taysīr financing is essential for promoting financial inclusion and supporting economic development, particularly for microenterprises, *Ighathah* (Relief), and commercial purposes. The employee can get *Qarḍ* under the previous divided but with a shareholder source. It should appear in *Qarḍ Taysīr* financing report.

By providing interest-free loans to these groups, *Qarḍ Taysīr* financing can promote economic development, alleviate financial stress, and support the growth of businesses. This makes *Qarḍ Taysīr* financing an important tool for promoting financial inclusion and supporting social welfare in communities.

Qarḍ Taysīr financing comes from various sources, each designated for specific financing purposes. The table below shows the various sources of *Qarḍ Taysīr* financing. Sources of financing include part of current accounts, part of shareholders' profit, local and international donors, non-permissible earnings, *Qarḍ Taysīr* accounts, crowdfunding, and *Waqf*. These sources are used for commercial, employee, microenterprise financing, and relief financing for people in need.

The table on *Qarḍ Taysīr* financing sources presents a detailed overview of various funding channels and their designated purposes. It highlights a well-balanced mix of internal and external funding sources. Internal sources include current accounts (demand deposits) utilized for commercial financing, specifically overdrawn accounts, and a portion of shareholder profits allocated for employee and microenterprise financing. These measures reflect a commitment to supporting both business needs and employee welfare.

External sources feature contributions from local and international donors focused on sustainable development, such as the Islamic Development Bank (IsDB), which provides significant support for microenterprise financing. The table also distinguishes between temporary and non-temporary *Waqf* (endowments), with both types of assets being directed towards financing microenterprises. This approach ensures flexibility and stability in funding, promoting long-term economic growth for small businesses.

Additionally, *the Qarḍ Taysīr* accounts, funded by depositors, play a crucial role in both microenterprise and relief financing. These accounts provide benevolent loans that cater to economic needs while also addressing social concerns such as marriage, medical treatment, education, and debt repayment for the needy. Charitable donations (*Ṣadaqāt*) are similarly directed towards relief financing, underscoring the importance of community welfare and poverty alleviation.

The table also innovatively incorporates non-permissible earnings, redirecting these funds to relief efforts, thereby adhering to ethical standards and Islamic principles. Similarly, *Luqatah* (lost and found items) that remain unclaimed after a certain period are utilized for relief financing, ensuring that all available resources are ethically and effectively used to benefit the community.

Overall, the table illustrates an ethically grounded framework for *Qarḍ Taysīr* financing. It emphasizes a diverse range of funding sources and a balanced allocation between commercial, microenterprise, and relief financing. This framework not only supports economic development but also ensures that the social needs of the community are met, reflecting a holistic approach to financial and social responsibility. Table 54 summarizes *Qarḍ Taysīr* Financing Sources for Financing Purposes.

Table 54 *Qarḍ Taysīr* Financing Sources for Financing Purposes

<i>Qarḍ Taysīr</i> Financing Sources for Financing Purposes

No.	<i>Qarḍ Taysīr</i> Financing Sources	Financing Purposes Used
1	Current account (demand deposit)	commercial financing (overdrawn account)
2	Part of Shareholder Profit	employees financing
3	local and international donors concerned with sustainable development, such as IsDB	microenterprise financing
4	temporary <i>Waqf</i>	
5	non-temporary <i>Waqf</i>	
6	<i>Qarḍ Taysīr</i> account (depositors)	
7	<i>Ṣadaqāt</i>	<i>Ighathah</i> (Relief) financing to the needy (marriage, treatment, education, and repaying debts)
8	non-permissible earnings	
9	<i>Luqaṭah</i>	

Source: Author's illustration

6.2.6.1 *Qarḍ Taysīr* Financing Applications

Qarḍ Taysīr financing offers a versatile and ethically grounded financial solution, providing interest-free loans tailored to various needs within the community. This section explores three key applications of *Qarḍ Taysīr* financing: supporting microenterprises, facilitating commercial activities, and providing relief to individuals in need. Each application promotes economic growth and stability and aligns with the principles of social justice and community welfare inherent in Islamic finance.

2.7.2.1.1 *Qarḍ Taysīr* Financing for Enterprises

For microenterprises, *Qarḍ Taysīr* financing can be used to provide interest-free loans to small businesses that may have difficulty accessing traditional forms of financing. These loans can be used for a variety of purposes, including purchasing inventory, upgrading equipment, and expanding operations. By providing this type of financing,

Qard Taysir financing can help small businesses to grow and create jobs, which can in turn stimulate local economic development.

2.7.2.1.2 *Qard Taysir Financing for Commercial*

For commercial purposes, *Qard Taysir* financing can be used to provide interest-free loans to the bank's clients. These loans can be used for a variety of purposes, including financing working capital, expanding operations, and investing in new projects. By providing this type of financing, *Qard Taysir* financing can help to strengthen the relationship between the bank and its clients and support the growth and development of businesses.

2.7.2.1.3 *Qard Taysir Financing for Ighathah (Relief)*

For *Ighathah* (Relief) purposes, *Qard Taysir* financing can be used to provide interest-free loans to individuals and families in need. These loans can be used for a variety of purposes, including covering the cost of medical treatment, financing education, and supporting marriage ceremonies. By providing this type of financing, *Qard Taysir* financing can help to alleviate financial stress for those in need and promote social welfare in the community.

6.2.7 ***Qard Taysir Financing Transparency Report***

Developing the social responsibility report, including *Qard Taysir*, to reach the best transparency practices in the Islamic financial industry. Islamic Banks should develop a social responsibility report, including *Qard Taysir* financing, to reach the best transparency practices in the Islamic financial industry.

Creating a detailed transparency report that includes *Qard Taysir* financing **sources, purposes** for disbursement, and their percentage. *Qard Taysir* financing for the employee should appear in *Qard Taysir* financing report. Islamic banks should be transparent in their reports by highlighting the **portfolio-at-risk** ratio, which is;

Portfolio Value at Risk > 30 Days + Qard Value that has been Renegotiated⁴²

Total Loan Portfolio

⁴² - SEEP Reports.

6.3 COMPARATIVE ANALYSIS OF *QARḌ* FINANCING MODELS IN ISLAMIC BANKING AND MODEL OF THE STUDY

Various models have been developed and implemented by Islamic banks, and the model of the study is to optimize the use of *Qarḍ* financing. This part compares the traditional Islamic banks' models with the model of the study, highlighting the differences in terms of financing sources, mechanisms, purposes, risk management, and transparency.

The first point of comparison between the two models is in the terminologies and definitions used. Islamic banks typically use terms like *Qarḍ al-Ḥasan* and *Qarḍ*. These terms denote different forms and purposes of benevolent loans. On the other hand, the model of the study is named *Qarḍ Taysīr* but applies it uniquely to financing.

A critical aspect of any financial model is its sources of funding. Islamic banks' models employ a broad array of sources, including current accounts (demand deposits), part of shareholder profit, *Qarḍ al-Ḥasan* account (depositors), and non-permissible earnings. The model of the study expands these sources with additional uses such as temporary and non-temporary *Waqf*, *Ṣadaqāt*, *Luqāṭah*, *Takāful Fund*, and reinvest *Takāful Fund*. These sources ensure a diversified pool of funds, allowing banks to support *Qarḍ* financing without relying on a single source. In contrast, the study model takes a more specialized approach. For instance, the model proposes using sources of shareholder profit for employee financing. For microenterprise financing, the model proposes using sources of shareholder profit, *Waqf*, *Qarḍ Taysīr* account contributed by depositors, and funds from local and international donors concerned with sustainable development, such as IsDB. Furthermore, it uses relief financing (*Ighathah*) for helping the needy, such as in marriage, treatment, education, and debt repayment, drawing from *Qarḍ Taysīr* account contributed by depositors, *Ṣadaqāt*, non-permissible earnings, and *Luqāṭah*. The study model also allocates specific sources for operating costs, such as salary, training, and technology, ensuring that funds are used clearly and intentionally.

The financing mechanisms differ significantly between the two models. Islamic banks' models often rely on direct financing from the bank or through intermediaries such as microfinance centres and charities. This traditional approach ensures that *Qarḍ* financing is accessible to a wide range of beneficiaries, particularly through established channels that can reach underserved communities. On the other hand, the study model introduces mechanisms such as the establishment of a *Qarḍ Taysīr* Financing Fund.

This fund is designed to pool resources specifically for *Qarḍ Taysīr*, allowing for a more organized and potentially more impactful distribution of funds. The model also emphasizes the role of targeted microfinance initiatives, which can provide more customized solutions for beneficiaries based on their specific financial needs.

The purpose of financing in Islamic finance models is often guided by the principles of necessity and social welfare. Islamic banks' models typically focus on purposes Without allocating each source for a specific purpose. In contrast, the model of the study suggests a more detailed and structured approach by dividing financing sources based on specific financing purposes. This targeted allocation ensures that each source of funds is used for a predefined purpose, enhancing the impact and efficiency of the financing. For example, funds might be allocated explicitly for educational support, healthcare, or microenterprise development, ensuring that the funds are used where they are most needed.

Risk management is a crucial component of any financing model, and this is particularly true for *Qarḍ* financing, where the lender bears the risk without expecting any financial return. The model of the study, however, proposes a more nuanced approach to risk management. By using guarantees and repayment risk funding sources based on the type of defaulted *Qarḍ*, the model allows for a more tailored risk management strategy. This approach not only protects the lender but also ensures that the borrower is treated fairly and given the necessary support to repay the loan without undue hardship.

Transparency is essential in Islamic finance, ensuring that all stakeholders are informed and that funds are used ethically and efficiently. Some Islamic banks' models typically provide transparency reports detailing financing sources and purposes. This level of transparency is important for maintaining trust between the bank and its stakeholders. The model of the study takes this a step further by integrating a comprehensive model that includes portfolio-at-risk analysis. This addition provides a more detailed view of the financial health of the *Qarḍ* financing portfolio, allowing for better risk management and decision-making. By including this level of detail, the model of the study not only enhances transparency but also provides valuable insights that can be used to improve the overall effectiveness of the financing model.

In conclusion, the comparison between Islamic banks' models and the model of the study of *Qarḍ* financing reveals differences in approach, particularly in terms of financing sources, mechanisms, purposes, risk management, and transparency. While

Islamic banks' models provide a broad and flexible approach that has served them well, the model of the study offers a more structured and targeted approach that could potentially increase the impact and efficiency of *Qarḍ* financing. By adopting elements from the model of the study, Islamic banks could enhance their ability to support social welfare and financial inclusion, ensuring that *Qarḍ* financing continues to play a vital role in Islamic finance. Table 55 summarizes the comparative analysis of *Qarḍ al-Hasan* financing models in Islamic Banks and the study model.

Table 55 The comparative analysis of *Qarḍ* financing models in Islamic Banks and the study model

Themes	Statements	Islamic Banks' Models	Study Model	
Name	<i>Qarḍ al-Ḥasan</i>	√		
	<i>Qarḍ</i>	√		
	<i>Qarḍ Taysīr</i>		√	
Financing Sources	Current account (demand deposit)	√	√	Using for commercial financing (overdrawn account)
	Part of Shareholder Profit	√	√	Using for employees' financing
	local and international donors concerned with sustainable development, such as IsDB		√	Using for microenterprise financing
	Temporary <i>Waqf</i>		√	
	Non-temporary <i>Waqf</i>		√	

	<i>Qarḍ al-Ḥasan</i> account (depositors)	√	√	Using for Ighathah (Relief) financing for people in need (marriage, treatment, education, and repaying debts)
	<i>Ṣadaqāt</i>		√	
	Non-permissible earnings	√	√	
	<i>Luqaṭah</i>		√	
	Service Charges for <i>Qarḍ Taysīr</i>		√	Using for operating costs (Salary, training, technology, rent, etc.
	<i>Qarḍ Taysīr</i> fund investment		√	
	Reinvest <i>Takāful</i> Fund		√	
	Excess over <i>Qarḍ</i> when it is not stipulated.		√	
	Participants' Risk Fund (<i>Takāful</i>)		√	Using for Risk of default
	Provision for expected <i>Qarḍ</i> loss	√	√	
	<i>Zakāt</i>		√	
Financing Mechanism	Establishing of <i>Qarḍ Taysīr</i> Financing Fund		√	
	Directly from the Bank	√	√	
	Through Microfinance Centre and Charities	√	√	

Financing Purpose	Dividing Financing Sources Based Financing Purposes		√	
Hedge Financing Risk	Funding Sources for Defaulted <i>Qard</i>		√	
	Guarantees and repayment risk funding sources		√	Using guarantees and repayment risk funding sources based on the type of defaulted <i>Qard</i>
Financing Transparency Report	Sources	√	√	
	Financing Purposes	√	√	
	portfolio-at-risk		√	
Integrated Model	Integrating model including all the above		√	

Source: Author's illustration

6.4 THE RELATIONSHIP BETWEEN *QARD TAYSİR* FINANCING MODEL AND THE PRINCIPLES OF MAQĀŞID AL-SHARĪ'AH

The concept of *Qard Taysir* financing is a fundamental aspect of Islamic finance that aligns with the principles of *Maqāşid al-Sharī'ah*, as outlined by Zain and Engku Ali (2017) and supported by a review of previous literature and researcher suggestions. The researcher develops the relationship between *Qard Taysir* financing and the principles of *Maqāşid al-Sharī'ah*.

As noted, the primary sources of *Qard Taysir* Financing revolve around the preservation of *Al-Maal*, or property. This aligns with one of the primary objectives of *Maqāşid al-Sharī'ah*, which is the protection of wealth and property.

One of the notable features of *Qarḍ Taysīr* financing is its risk mitigation component. This financing method includes mechanisms such as flexible repayment terms and guarantees against defaults, which help to reduce financial risks for both lenders and borrowers. By providing a hedge against potential financial losses, *Qarḍ Taysīr* financing helps protect the wealth (*Al-Maal*) of participants. This protection is in line with the objectives of *Maqāṣid al-Sharī'ah*, which emphasizes the preservation of wealth as a fundamental goal. Consequently, by safeguarding wealth, *Qarḍ Taysīr* financing contributes to economic stability and individual well-being, reinforcing its compatibility with Islamic law principles.

The financing purposes of *Qarḍ Taysīr* can be categorized into "*Ighathah*". The "*Ighathah*" category includes financing for education, medical expenses, and marriage. These align with the broader objectives of *Maqāṣid al-Sharī'ah*, as they serve to preserve *Al-deen* (religion), *Al-aql* (intellect), *Al-nafs* (life), and *Al-ardh'* (honour) or *Al-nasl* (progeny). Education financing, for instance, contributes to the preservation of religion and intellect, while medical financing directly addresses the preservation of life. In the case of marriage financing, it safeguards honour or progeny, which is an essential component of *al-Sharī'ah*. Protecting one's honour and ensuring lineage continuity are deeply embedded in *Maqāṣid al-Sharī'ah*.

The "Enterprises" category of *Qarḍ Taysīr* financing encompasses a wider range of objectives. It preserves *Al-deen* (religion), *Al-nafs* (life), *Al-aql* (intellect), *Al-maal* (property), and *Al-ardh'* (honour) or *Al-nasl* (progeny). These objectives mirror the multifaceted principles of *Maqāṣid al-Sharī'ah*, emphasizing the importance of sustaining faith, life, intellect, property, honour, and progeny.

In conclusion, the relationship between *Qarḍ Taysīr* financing and the principles of *Maqāṣid al-Sharī'ah* is evident in its alignment with the preservation of property, risk mitigation, and the financing purposes it serves. By protecting wealth and promoting the well-being of individuals in various aspects of life, *Qarḍ Taysīr* financing upholds the core objectives of *al-Sharī'ah*, making it a valuable tool in the realm of Islamic finance. It reflects Islam's ethical and moral values and contributes to the broader social and economic well-being as envisioned by *Maqāṣid al-Sharī'ah*. Figure 83 shows The relationship between *Qarḍ Taysīr* financing and *Maqāṣid Al-Sharī'ah* principle.

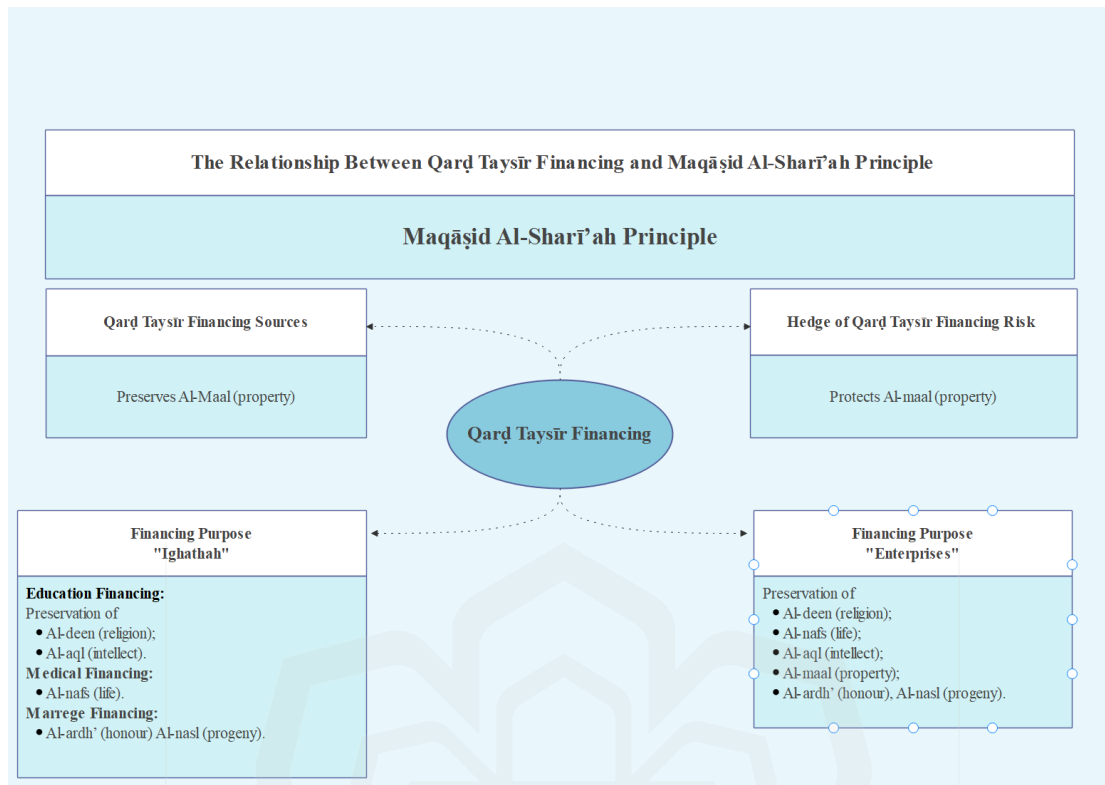


Figure 83 The relationship between *Qarḍ Taysīr* financing and Maqāṣid Al-Sharī'ah principle

Source: Author's illustration

6.5 STRUCTURE OF *QARḌ TAYSĪR* FINANCING MODEL

An essential service provided by social and responsibility management in Islamic banks is granting *Qarḍ al-Ḥasan*, which is an interest-free loan aimed at promoting social solidarity. Additionally, among the activities and areas of the Islamic Bank's social responsibility towards society is to discuss the cases that are due for *Qarḍ al-Ḥasan*, to explain the purposes for which the Islamic bank grants *Qarḍ al-Ḥasan* and pay attention to small industries and craftsmanship (Almagribi, 2004).

Lessons could be learned from a well-known social-welfare institution, Akhuwat, a sustainable *Qarḍ al-Ḥasan* programme in many cities in Pakistan to create separate pools of funds within the banking operations of Islamic banks through giving separate legal entity status to such funds in the form of trusts or *Waqf* (K. Khan & Nor Saeran, 2017). From this part, AAOIFI (2015a) explains that Islamic financial institutions may implement a CSR policy for *Qarḍ al-Ḥasan* for social responsibility. This policy may be monitored on a yearly basis. If implemented, this policy may supplement any provisions contained elsewhere in the AAOIFI standards, including Statement of

Financial Accounting No. (2): Concepts of Financed Accounting for Islamic Banks and Financial Institutions section.

According to the AAOFI governance standard (No. 7), Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions, which is to shed light on the recommended conduct of policy for *Qarḍ al-Ḥasan*, review of previous literature, the principles from the practices, the expert's opinions, and the **researcher's** suggestions, the researcher develops a proposed model to develop *Qarḍ Taysīr* as a social responsibility.

The *Qarḍ Taysīr* financing model is processed through four main components to bridge the research gap mentioned in the research gap section. This was also addressed by analyzing Islamic banks' reports and creating the necessary themes to cover them in the interview analysis as follows:

- *Qarḍ Taysīr* financing Sources;
- Financing Risk Management;
- Mechanism of *Qarḍ Taysīr* financing disbursement, and
- Purpose of *Qarḍ Taysīr* financing.

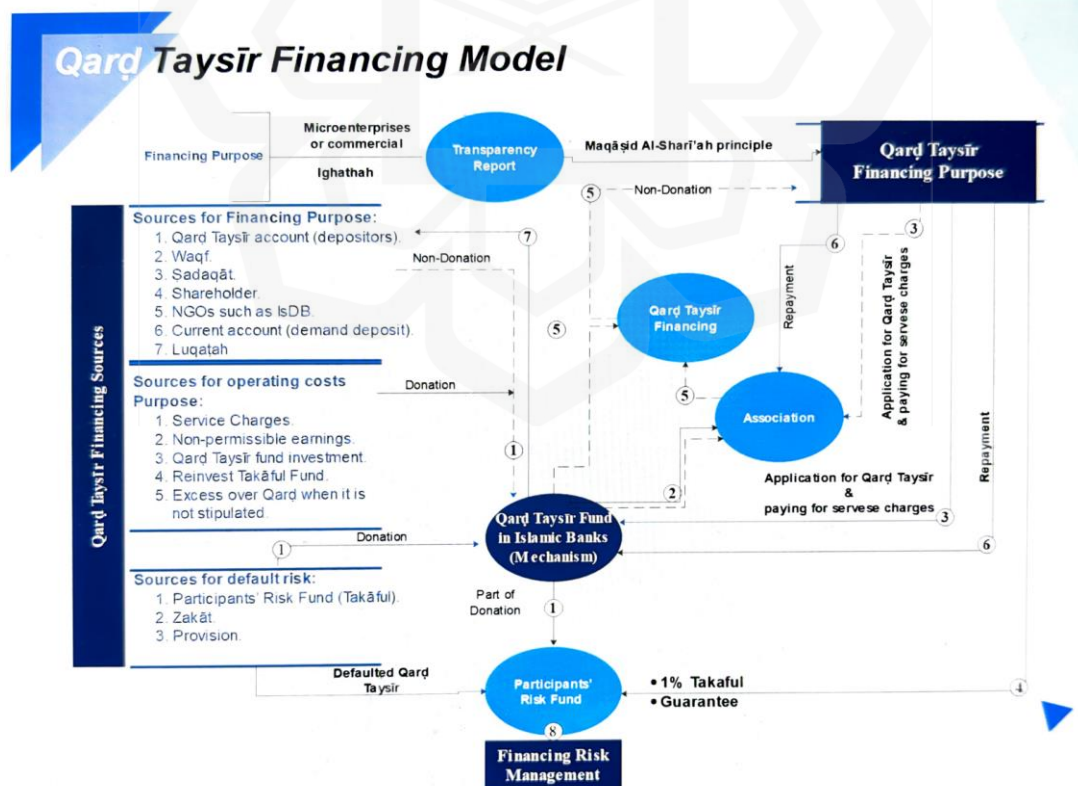


Figure 84 *Qarḍ Taysīr* Financing Model (QaTF)

Source: Author's illustration

Figure 84 above demonstrates the schematic presentation of the *Qard Taysir* financing model. The steps below explain the figure, where each number in the steps corresponds to the respective number in the figure. The model operates in a structured flow of input, process, and output stages as follows:

1. Islamic banks create pools of funds for *Qard Taysir* financing. The deposited money is channelled to the *Qard Taysir* Fund in Islamic banks. The money is deposited based on a *Qard Taysir*, and the deposit is treated as a benevolent loan to the Islamic bank. The rest of the sources are deposited as charitable and disposal deposits. Sources of operating costs and risks purposes can be used by the *Qard Taysir* Fund or an association (see 6.2.2, 6.2.3.1, 6.2.4.1 and 6.2.4.2 sections).
2. The *Qard Taysir* Fund in Islamic banks can also channel the *Qard Taysir* based on non-donation financing and donation to an association for refinancing *Qard Taysir*. The sources are categorized as non-donation because the funds provided are expected to be returned to the provider. In contrast, the sources are categorized as donation because the funds provided are not expected to be returned to the provider (see 6.2.2 section). The mechanism of *Qard Taysir* Financing disbursement is that it can be disbursed directly from the bank to clients, associations, or both.
3. The clients apply for financing at *Qard Taysir* fund for microenterprises, *Ighathah* (Relief), and commercial purposes and pay service charges that are the actual amount directly spent on that service. *Qard Taysir* fund or an association receive the applications and then processes the requests that meet the conditions.
4. The client provides the *Rahn* contract or guarantees and pays 1%⁴³ of *Qard Taysir* financing for *Takāful* Fund to *Qard Taysir* fund in Islamic banks or an association.

⁴³ - The *Takāful* Fund ratio is a practice in some countries, including Yemen, and has been approved by the *Sharī'ah* boards of Islamic microfinance banks there. Most Microfinance Banks and institutions have been used *Takāful* Fund such as al-Amal Bank in Yemen.

Sharī'ah Compliance and Avoidance of Riba:

- The 1% contribution to the *Takāful* Fund is not considered riba as it is a cooperative risk-sharing mechanism rather than an interest charge.
- Most Microfinance Banks and institutions have been used *Takāful* Fund such as al-Amal Bank in Yemen.
- Detailed *Sharī'ah* supervision ensures that all aspects of the *Qard Taysir* financing model comply with Islamic principles.

5. The *Qarḍ Taysīr* fund or an association concludes a *Qarḍ Taysīr* agreement with the client, including the approved amount that will be returned on a future date, specifies the location and the charge of service based on the actual cost incurred in administering and disbursing this *Qarḍ Taysīr* fund in an Islamic bank or an association pays the amount, depending on the sources, for different purposes, commercial, employees, *Ighathah* (Relief) financing to the needy (marriage, treatment, education, and repaying debts), and microenterprise financing (see table 56), on a cash or commodity basis during the project phases. *Qarḍ Taysīr* fund or an association tracks progress achievement.
6. The clients refund the specified amount to the *Qarḍ Taysīr* fund in an Islamic bank or an association on time and location. *Qarḍ Taysīr* fund or an association refunds the specified Rahn or guarantee to the clients.
7. *Qarḍ Taysīr* fund in an Islamic bank or an association refund the specified sources of financing purpose amount of *Qarḍ Taysīr* to the Islamic banks. Then, the Islamic Bank returns the non-donation sources of *Qarḍ Taysīr* to its owners.
8. Risk Mitigation Strategies by using guarantees and repayment risk funding sources (see more details in the 6.2.3.2 section) as follows:
 - *Qarḍ Taysīr Takāful* Fund (1% of the financing amount) mitigates risks of permanent disability, destruction of the Enterprise and death.
 - *Zakāt Fund*: Addresses insolvency issues, providing relief for borrowers in temporary financial distress.
 - Guarantees: Ensures repayment from procrastinating debtors, securing the fund against losses.
 - Provisions: Acts as a buffer for unresolved defaults, maintaining fund stability.

Qarḍ Taysīr is a named model for *Qarḍ* financing, ensuring that funds are sourced ethically and managed effectively to support various financing needs while incorporating robust risk management strategies and ensuring sustainability. By aligning with *Maqāṣid al-Sharī'ah*, the model emphasizes the preservation of wealth (*Al-Maal*) and addresses broader socio-economic objectives, contributing to economic stability and individual well-being. This structured approach facilitates sustainable development and enhances the socio-economic fabric of the community in accordance with Islamic principles. Figure 84 summarises the *Qarḍ Taysīr* Financing Model.

6.6 CONCLUSION

In conclusion, the analysis of the *Qarḍ* financing models of selected Islamic banks has led to the development of a proposed model called *Qarḍ Taysīr*. The *Qarḍ Taysīr* financing model has been designed to provide financing sources for enterprise, commercial, and *Ighathah* (relief) purposes. It also addresses operating costs and the risk of default of *Qarḍ Taysīr* Financing through guarantees and repayment sources for defaulted *Qarḍ*. The mechanism of the *Qarḍ Taysīr* financing model involves the establishment of a *Qarḍ Taysīr* Financing fund and sources for operating costs, as well as a mechanism for disbursement. Furthermore, the *Qarḍ Taysīr* Financing model has been developed in accordance with the principle of Maqāṣid al-Sharī'ah, and includes a transparency report to ensure stakeholders are fully informed. Overall, the *Qarḍ Taysīr* financing model represents an innovative approach to Islamic finance, providing greater flexibility and risk management.

CHAPTER SEVEN

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

This study contributed to *Qard* financing development, which has been one essential contribution to the field of Islamic finance. The study provided insight into the *Qard* financing models of selected Islamic banks and proposed a new financing model that addresses key challenges in OIC. This chapter provides an overview of the study's results and highlights the significant findings and implications on Islamic banks. The chapter also discusses the study's limitations and provides recommendations for future research. Additionally, **the researcher** offers suggestions for the practical applications of the proposed *Qard Taysir* Financing model and summarises the key findings and recommendations. Overall, this chapter provides an assessment of the study of *Qard* Financing, offering valuable insights and recommendations for further development in Islamic finance.

The tables below provide the percentage of data collected for selected Islamic Banks through document analysis and interviews. In the table on the percentage of document findings, Bank B has the highest percentage (57%) of data collected, followed by Bank C (43%), Bank E (43%), Bank A (21%), and Bank D (14%). The average percentage of document findings is 36%. The relatively low average percentage of document findings (36%) suggests that banks lack transparency. This table shows that Bank B has the most information available regarding the *Qard al-Hasan* fund and its management and *Qard al-Hasan* financing sources. In contrast, Bank C and Bank E have more information on *Qard al-Hasan* financing purposes and the disbursement mechanism of *Qard al-Hasan* financing.

In the table on the percentage of interview findings, Bank D has the highest percentage (86%) of data collected, followed by Bank A (79%), Bank E (57%), Bank C (57%), and Bank B (43%). The average percentage of interview findings is 64%. This table shows that Bank D has the most information available regarding *Qard* financing disbursement and the most significant challenges of *Qard* financing, while all banks have equal information available on risks of *Qard* financing.

The total percentage of documents and interview findings for each bank is 100%, indicating that all banks have provided information through both methods. Bank B has the most information available through document finding, while Bank D has the most information available through interviews. Table 56 and Figure 85 summarize the percentage of data collected from the documents and interviews in the selected Islamic Banks.

Table 56 The percentage of the data collected

The Percentage of Documents Finding						
Topics	Islamic Banks					The Average
	A	B	C	D	E	
<i>Qarḍ al-Ḥasan</i> fund and its management	0%	100%	0%	0%	0%	20%
<i>Qarḍ al-Ḥasan</i> Sources	50%	0%	100%	0%	100%	50%
<i>Qarḍ al-Ḥasan</i> Financing amount	100%	100%	100%	100%	100%	100%
<i>Qarḍ al-Ḥasan</i> financing purposes	0%	100%	100%	0%	100%	60%
Mechanism of <i>Qarḍ al-Ḥasan</i> financing disbursement	0%	100%	0%	0%	0%	20%
The most significant challenges of <i>Qarḍ al-Ḥasan</i>	0%	0%	0%	0%	0%	0%
Risks of <i>Qarḍ al-Ḥasan</i> financing	0%	0%	0%	0%	0%	0%
The Average Percentage of Documents Findings	21%	57%	43%	14%	43%	36%
The Percentage of Interview Finding						
Topics	Islamic Banks					Total
	A	B	C	D	E	
<i>Qarḍ al-Ḥasan</i> fund and its management	100%	0%	100%	100%	100%	80%
<i>Qarḍ al-Ḥasan</i> Sources	50%	100%	0%	100%	0%	50%
<i>Qarḍ al-Ḥasan</i> Financing amount	0%	0%	0%	0%	0%	0%
<i>Qarḍ al-Ḥasan</i> financing purposes	100%	0%	0%	100%	0%	40%
Mechanism of <i>Qarḍ al-Ḥasan</i> financing disbursement	100%	0%	100%	100%	100%	80%

The most significant challenges of <i>Qard al-Hasan</i>	100%	100%	100%	100%	100%	100%
Risks of <i>Qard al-Hasan</i> financing	100%	100%	100%	100%	100%	100%
The Average Percentage of Interview Findings	79%	43%	57%	86%	57%	64%
Total Percentage of Documents and Interviews Finding	100%	100%	100%	100%	100%	100%

Source: Author's illustration

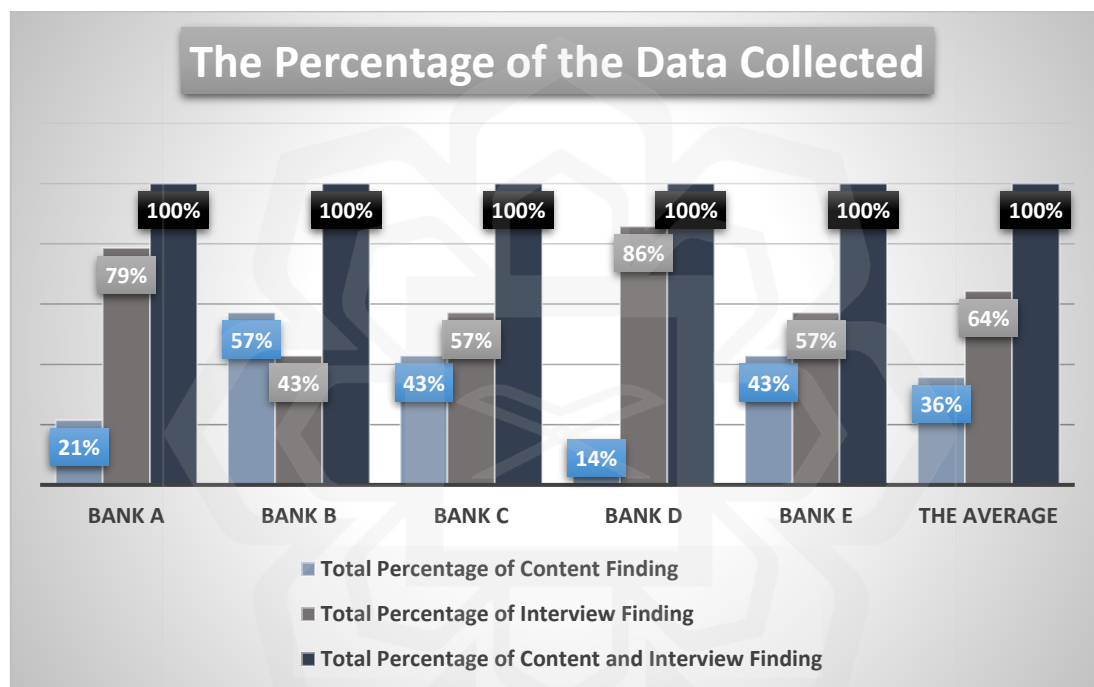


Figure 85 The percentage of the data collected

Source: Author's illustration

7.2 SUMMARY OF RESULTS AND FINDINGS

Qard financing study aimed to develop socially responsible financing for Islamic banks by analyzing the theoretical aspects of social responsibility from the Shari'ah perspective, the practices, the challenges, and risks associated with this type of financing. Learning from this analysis, the study developed a *Qard* financing that addresses these challenges and provides a more efficient and effective financing option for Islamic banks. The study found that social responsibility is a fundamental principle

in Islamic finance and that *Qard* financing is an essential instrument for meeting the financial needs of individuals and small businesses in a socially responsible way. The study looked at *Qard* financing models in five Islamic banks. One bank had high transparency, but **the researcher** found an overall lack of transparency. Islamic Bank A provided interest-free loans to individuals in need using non-permissible earnings and current accounts. Islamic Bank B provided interest-free loans to SMEs using shareholder funding and disbursed them through partnerships with microfinance centres and charities. Islamic Bank C provided interest-free loans to individuals in need and commercial enterprises using customer deposits and shareholder funding. Islamic Bank D provided interest-free loans to commercial enterprises and employees using current or investment accounts. Islamic Bank E provided interest-free loans to employees using depositors' and shareholders' funds. However, the study also identified several challenges and risks associated with *Qard* financing, such as risk of default and operating costs. To address these challenges, the study proposed a *Qard Taysir* financing model that incorporates various sources of financing for both risk of default and operating costs and is developed following the principles of Maqāṣid Al-Sharī'ah. Overall, the *Qard Taysir* financing model represents a socially responsible approach to financing. To simplify the discussion and the clarification of the findings is done based on the study's theoretical framework objectives:

The First Objective of the Research is: To examine the theoretical constructs of social responsibility from the Sharī'ah perspective in developing a *Qard* financing.

This objective aims to first bridge the gap in the literature by analysing and examining issues in the development of *Qard* financing from the Sharī'ah perspective. This objective was verified via a review of the literature in chapter two. The study concludes that Sunnah encourages people to give *Qard* to the needy, whereby Sunnah guarantees them al-falah and reward in this world and the hereafter. *Qard* is a practical solution to many financing problems and eradicating ribā from society. This resonates with the literature review, where the significance of *Qard* from a Sharī'ah perspective is expounded. The literature emphasizes that Islam encourages *Qard* as a means to establish justice, eliminate exploitation, and prevent wealth accumulation in the hands of a few. It aligns with the findings in asserting that *Qard*, being an interest-free loan for humanitarian and welfare purposes, facilitates the proper circulation of wealth among all segments of society, which is in line with the *Maqāṣid al-Sharī'ah*. The

concept of "*falah*," as explained in the literature, underlines the comprehensive well-being and success in this world and the hereafter, a concept that is pivotal in Islamic economic thought. The research aligns with this concept by suggesting that *Qard* financing is not just a financial transaction but a means to achieve success and social well-being, a perspective deeply rooted in Islamic values. Islamic banks can play an essential role in social responsibility and fulfilling part of the community's social needs through *Qard* financing. This way, Islamic banks fulfil their obligation to society, given that it is also part of the CSR initiative. Institutions operating on Islamic economics principles should take the lead in offering products based on a *Qard* financing.

The Second Objective of the Research is: To elicit the principles from the practices of *Qard* financing for the selected Islamic banks in OIC countries.

The research discussed *Qard* financing practices. The objective was verified through two methods in the fourth and fifth chapters: the practices of *Qard* financing in the selected Islamic banks: Saba Islamic Bank in Yemen, Bank Aljazira in Saudi Arabia, Albaraka Bank in Algeria, Jordan Islamic Bank in Jordan, and Kuwait Finance House (Malaysia) Berhad, have different models for *Qard* financing, as identified by the findings of document analysis, and the findings of interviews conducted. By analyzing the Islamic Banks' reports and expert interviews, the study found that these models vary in terms of the sources of *Qard* financing, the purpose of financing, the type of clients, and the amount of financing. These Islamic banks have been using *Qard* financing for several options, such as overdrafts between the Islamic banks and their clients, staff, low-income needy (education, treatment, and marriage), and SMEs. Islamic Bank A used non-permissible earnings to lend to people in need. Also, it used current accounts (demand deposits) to lend for commercial purposes. Other Islamic Banks use a *Qard al-Hasan* account (depositors) and shareholders as a source of *Qard* financing.

The Third Objective of the Research is: To determine the challenges and risks exposures of *Qard* financing in the selected Islamic banks in OIC countries.

The research discussed *Qard* financing challenges and risks. The objective was achieved via the interview analysis of the selected Islamic banks in the fifth chapter. It found that the most significant challenges are the scarcity of sources, the retreat of belief in the philosophy of Islamic banks about their social role, the partners of the associations or centres, and instructions of the Central Bank. The role of central

authorities in managing these challenges and risks also surfaces as a common thread between the research and the existing literature. The study by Fatima et al. (2019) highlighted a significant policy response to the freezing of *Qard al-Hasan* by the Minister of Religious Affairs and *Waqf* in Algeria. This decision indicates that central authorities are becoming increasingly concerned about these issues, validating the findings about the impact of the Central Bank's instructions on *Qard al-Hasan*. Most experts agree on the credit risk in *Qard* financing. This is in harmony with previous work by Fatima et al. (2019), who pointed out that the lack of follow-up and weak project controls often led to beneficiaries changing their activities and using the funds for purposes other than those initially agreed upon. This resulted in considerable difficulty in recovering the funds, further accentuating the credit risk involved. The Literature also supports the findings. Junaidi et al. (2017) noted a decline in attention towards *Qard al-Hasan* financing by Islamic banks, affecting its social function. Utomo et al. (2015) found financial factors influencing the growth of *Qard al-Hasan* financing, emphasizing the importance of factors like net interest margin and return on assets. Additionally, Maggangka (2015) discussed the challenges in implementing *Qard al-Hasan*, including its inability to generate profit and the separation of social development activities from micro-business sectors. Moreover, Aderemi & Ishak (2020) outlined risks associated with the *Qard al-Hasan* model, including repayment risks. Najeeb and Lahsasna (2013) provided a Shariah perspective on the *Qard* contract, noting its underutilization due to the absence of profit motivation. These literature findings reinforce the challenges and risks identified in the interview analysis, emphasizing the need for effective risk management and policy frameworks to ensure the effectiveness of *Qard* financing.

The problems of repayment according to the experts are: the borrowers of the low-income and the needy believe that the Islamic Bank is a charitable institution, there is no government-affiliated institution to guarantee the *Qard*, weakness of the sources of beneficiary income, *Qard* financing for non-productive (not for microenterprise), poverty, the continued deterioration of the financial situation of traders guarantee, the futility of legal follow-up and the arrears can only be paid through the judiciary.

The Fourth Objective of the Research is: To elicit the experts' opinions of the suitability of *Qard* financing as a socially responsible instrument for the selected Islamic banks in OIC countries.

The research discussed *Qard* financing perception suitability as a socially responsible instrument for the selected Islamic banks. The objective was verified via the experts' interview analysis in chapter five. The interviews indicate that all experts agree that *Qard* financing plays a vital role and positively impacts society. All ten experts responded similarly to this question. This high level of agreement suggests that *Qard* financing is widely recognized as an essential and beneficial tool for providing financial assistance to those in need and that it can significantly impact social welfare and economic development. The lack of disagreement or contrasting opinions among the experts further reinforces the importance and significance of *Qard* financing in Islamic finance. The previous literature supports these findings. According to Saqib et al. (2015), providing *Qard al-Hasan* financing fosters greater business awareness. The research conducted by Widiyanto et al. (2011) also shows that the *Qard al-Hasan* financing model has successfully enabled those in need to improve their economic activities. Hasan et al. (2021) affirm that *Qard al-Hasan* can have a crucial impact on promoting sustainable development.

Furthermore, all the experts agree that *Qard al-Hasan* financing should be socially responsible. This indicates that there is a strong consensus among the experts regarding the importance of social responsibility in *Qard al-Hasan* financing. This finding could suggest that the principles of ethical and socially responsible lending should be upheld in *Qard al-Hasan* financing practices. The high level of agreement among the experts also implies that this aspect of *Qard al-Hasan* financing is widely recognized and acknowledged within the industry. This aligns with insights from Man et al. (n.d.), who discuss how the principle of *Qard al-Hasan* can serve as a sustainable product-based Corporate Social Responsibility (CSR). Their study emphasizes the potential for merging Corporate Social Responsibility with *Qard al-Hasan* to create a sustainable and socially responsible product that benefits the community. Similarly, Ariffin et al. (2011) found that Islamic bankers in Malaysia support the notion of promoting corporate social responsibility by offering *Qard al-Hasan*, aligning with the unanimous agreement among the interview experts.

The Fifth Objective of the Research is: To develop a *Qard* financing conceptual model for the selected Islamic banks in OIC countries.

This is based on previous studies, data analysis, expert interviews, and **the researcher's suggestions**. This objective seeks to contribute to the development of Islamic finance

and provide innovative solutions for Islamic Banks through chapter six. The model has been renamed to *Qarḍ Taysīr* financing. The *Qarḍ Taysīr* financing model has been designed to provide financing sources for enterprise, commercial, and *Ighathah* purposes and address operating costs. It also addresses the risk of default through funding sources and guarantees for the risk of default. The mechanism of the *Qarḍ Taysīr* financing model involves the establishment of a *Qarḍ Taysīr* Financing fund and sources for operating costs, as well as a mechanism for disbursement. Moreover, the *Qarḍ Taysīr* Financing model has been developed in accordance with the principle of Maqāsid al-Sharī'ah, and includes a transparency report to ensure stakeholders are fully informed. Overall, the *Qarḍ Taysīr* financing model represents an innovative approach to Islamic finance, providing greater flexibility and risk management. The study findings, particularly the development of the *Qarḍ Taysīr* financing model for selected Islamic banks in OIC countries, are intricately linked to the insights provided in the literature regarding the establishment of *Qarḍ* funds as part of a Corporate Social Responsibility (CSR) policy. Literature echoes this interest in establishing *Qarḍ al-Ḥasan* funds as part of Corporate Social Responsibility (CSR) policies (AAOIFI, 2015a). Kazak & Alim (2022) highlight the potential benefits for corporations investing in *Qarḍ al-Ḥasan* funds, emphasizing that such investments could yield more significant benefits than anticipated without leading to losses. The study done by Hattab & Al-Jarrah (2019) demonstrated a strong potential for establishing *Qarḍ al-Ḥasan* funds in Jordan Islamic banks and Kuwait Finance House. Additionally, Alhakeem & Alatayat (2011) recommend that Islamic financial institutions establish *Qarḍ al-Ḥasan* funds, further supporting their establishment within the Islamic finance industry. These literature findings complement the interview responses, reinforcing the potential benefits and importance of establishing *Qarḍ al-Ḥasan* funds as part of CSR initiatives within Islamic banks.

Furthermore, Literature review findings support the significance of sources in funding *Qarḍ al-Ḥasan*. The International Islamic Fiqh Academy resolution allows investing *Zakāt* funds in projects generating returns for legitimate beneficiaries managed by *Zakāt* authorities (International Islamic Fiqh Academy, 1986). In Algeria and Sudan, *Zakāt* funds have facilitated *Qarḍ al-Ḥasan* financing, promoting economic development (Hiba & Ibtasam, 2018; Mohsin & Alhabshi, 2015). Efforts to raise awareness about *Zakāt* obligations and streamline *Qarḍ al-Ḥasan* procedures have led to growth in *Qarḍ al-Ḥasan* funds in various regions (Riwaya, 2015). Moreover, studies

emphasize the poverty alleviation potential of *Qard al-Hasan* financing through *Waqf*, *Zakāt*, and charity funds, supporting small and medium enterprises (SMEs) and empowering the hard-core poor (Febianto & Ashany, 2012; Widiyanto et al., 2011). Islamic crowdfunding is highlighted as a means to fund projects and products within Muslim societies, offering opportunities for business-focused *Qard al-Hasan* financing (Wahjono, Sentot et al., 2015). Aderemi & Ishak (2023) find that despite the commonly held view that *Qard al-Hasan* is not a business-focused tool, a more thorough examination of its framework reveals its distinctiveness and adaptability as a feasible crowdfunding instrument for financing micro-enterprises in Malaysia.

The literature also acknowledges the inherent repayment risk associated with the *Qard* financing. However, Aderemi & Ishak (2020) propose that these risks can be mitigated through effective auditing and monitoring systems. Moreover, they suggest that emerging technologies like blockchain can enhance risk management by facilitating due diligence, project monitoring, and ensuring repayment in instalments (Aderemi & Ishak, 2023). These findings indicate a convergence between expert opinions and scholarly literature on the importance of implementing robust risk mitigation strategies in *Qard al-Hasan* financing. By combining traditional methods with innovative technological solutions, financial institutions can effectively manage risks and ensure the sustainability of *Qard al-Hasan* initiatives. The literature review provides further insights into the purpose and impact of *Qard al-Hasan* financing. Studies by Baeziz & Makhluhi (2018), Mojtahed & Hassanzadeh (2009), Zada & Saba (2013), Abu Mounes (2019), Masyita (2012), and Hassan (2014) reaffirm the significance of *Qard al-Hasan* in supporting micro-projects, poverty alleviation programs, SME financing, and socio-economic development initiatives.

In conclusion, *Qard* financing is significant for supporting micro-projects, poverty alleviation programs, SME financing, and socio-economic development initiatives. The alignment between interview findings and literature underscores *Qard* financing versatility as a financial instrument capable of addressing diverse societal needs, from enterprise development to poverty alleviation and social welfare enhancement.

7.3 LIMITATIONS

Like any research study, the *Qarḍ Taysīr* financing model is subjected to limitations that must be considered when interpreting the results. One limitation of the study is that it focused only on a select group of Islamic banks, and therefore, the findings may not be generalized to all Islamic banks. Another limitation is that the study primarily focused on the practical implementation of *Qarḍ Taysīr* financing and did not extensively investigate its theoretical aspects, which may require further research.

Additionally, the proposed model has not yet been tested through simulation or real-world application. However, it is deemed practical based on existing practices in Islamic banking and feedback from industry experts during interviews. While this supports its potential applicability, further empirical testing is necessary to confirm its effectiveness.

Finally, the study was conducted within a specific time frame and may not reflect changes or developments in the Islamic finance field since its completion.

Overall, while the *Qarḍ Taysīr* financing model study provides valuable insights into the potential of socially responsible financing in Islamic finance, it is important to consider its limitations when interpreting the results and making decisions based on the findings.

7.4 IMPLICATIONS OF THE STUDY

Qarḍ Taysīr financing has several implications, including:

1. **Strengthening community development:** *Qarḍ Taysīr* financing can help strengthen community development by supporting social and educational programs and providing financing for medical treatment and other charitable purposes. This can help improve the overall well-being of the community.
2. **Promoting financial inclusion:** *Qarḍ Taysīr* financing promotes financial inclusion by providing access to interest-free financing to individuals and organizations who may not be eligible for traditional banking products.
3. **Sustainability:** *Qarḍ Taysīr* financing can help to promote sustainable development by providing funding for projects that promote environmental sustainability, social responsibility, and economic development. Islamic Banks

would be able to contribute to the UN SDGs by observing socially responsible products and services.

4. **Religious and Ethical Considerations:** *Qard Taysir* financing is based on Islamic principles of social responsibility and ethical financing. As such, it provides an alternative to traditional banking systems that may not align with specific individuals' and communities' values and beliefs.
5. **Enhancing trust in the Islamic banking system:** *Qard Taysir* financing can help enhance trust in the banking system by promoting ethical and socially responsible financing. It can help build a stronger relationship between Islamic banks and their community.
6. **Encouraging financial technology innovation:** *Qard Taysir* financing can encourage Financial technology (FinTech) innovation by providing access to funding for entrepreneurs and small businesses who may otherwise struggle to obtain financing capital without the burden of interest-based debt. This can help to support the development of new technologies and innovative products and services based on FinTech.
7. **Contribution of the Maqāṣid al-Sharī'ah:** *Qard Taysir* financing provides access to wealth, which will contribute to the protection of Al-deen (religion), Al-Nafs (life), Al-Aql (intellect), Al-Maal (property) and Al-Ardh' (honour) or Al-Nasl (progeny).
8. **Overall,** *Qard Taysir* financing has several positive implications for Islamic banking and society as a whole. By promoting ethical and socially responsible financing and supporting community development, *Qard Taysir* financing can help create a more just and equitable society.

7.5 SUGGESTIONS FOR FUTURE RESEARCH

While the *Qard Taysir* financing model developed in this study represents an important contribution to the field of Islamic finance, there is still much room for further research and development. Future studies could focus on the practical implementation of the *Qard Taysir* financing model in different contexts, such as in different regions or for different types of financing needs. Additionally, research could be conducted on the impact of *Qard Taysir* financing on social and economic development, particularly in under-served communities. Furthermore, there is potential for further investigation into

the relationship between *Qarḍ Taysīr* financing and the principles of Maqāṣid Al-Sharī'ah, as well as the potential for incorporating emerging technologies such as blockchain into the *Qarḍ Taysīr* financing process. Overall, there is significant potential for future research and development of the *Qarḍ Taysīr* financing model, which can continue to contribute to the growth and advancement of Islamic finance.

7.6 RECOMMENDATIONS

Several recommendations can be made for Islamic banks based on the findings, literature review, researcher's suggestions, and implications of the *Qarḍ* financing study.

1. ***Qarḍ Taysīr* Financing Model:** It is recommended that Islamic banks consider adopting the *Qarḍ Taysīr* financing model as a socially responsible instrument and integrate it into their product offerings. It should be included in the social responsibility reports of Islamic banks.
2. **Diversify Funding Sources:** Islamic Banks should explore and diversify their funding sources for *Qarḍ Taysīr* financing. This could include tapping into new funding sources, such as international donors or crowdfunding, to increase the amount of funds available for lending.
3. ***Qarḍ Taysīr* Financing purposes:** *Qarḍ Taysīr* financing should be channelled into three categories according to the sources of each category, with a focus on microenterprises. Islamic Banks' employees should only be financed by a shareholder source. It should appear in the *Qarḍ Taysīr* financing report.
4. **Planning:** *Qarḍ Taysīr* financing fund in Islamic banks should plan in advance for collecting product sources and dividing the financing purpose according to priority.
5. **Collaboration:** Islamic banks and financial institutions should collaborate with government agencies, non-governmental organizations (NGOs), and other stakeholders to address the challenges facing *Qarḍ Taysīr* financing.
6. **Supervisory bodies:** The study recommends using **supervisory bodies** of the Islamic banks to be part of the legislation that helps to develop the *Qarḍ Taysīr* financing model.
7. **Risk Management:** Islamic Banks should have a robust system of risk management in place to mitigate the risks associated with *Qarḍ Taysīr*

financing, such as the risk of default. This includes proper credit assessment and monitoring and setting aside provisions for expected losses.

8. **Increase awareness and flexibility in repayment:** Islamic banks should increase awareness about *Qarḍ Taysīr* financing and its benefits to potential recipients. This can be achieved through marketing and educational campaigns, as well as partnerships with non-governmental organizations (NGOs) and community leaders. Islamic banks should provide flexibility in repayment terms to accommodate the needs of borrowers, particularly low-income earners. This could include extending repayment periods or restructuring the loan.
9. **Establish monitoring mechanisms:** Islamic banks should establish monitoring mechanisms to ensure that the funds are being utilized for the intended purpose. This can be achieved by conducting regular follow-up visits or audits, requiring recipients to submit receipts or invoices, and creating a feedback mechanism for recipients.
10. **Standardization:** There should be standardization of *Qarḍ Taysīr* financing products and procedures across different Islamic financial institutions. This will increase transparency and facilitate better comparison of products and services offered by different institutions.
11. **Enhance transparency:** Islamic banks should enhance transparency in the disbursement of *Qarḍ Taysīr* financing. This can be achieved by providing regular reports on the allocation of funds and the impact of the financing on the recipients. Islamic banks should prioritize transparency in their *Qarḍ Taysīr* financing operations and provide regular reports on the uses of funds and the sources and the impact of these operations on social and economic development.
12. **Technological Innovation:** Islamic Banks should leverage technological innovations, such as mobile banking and online lending platforms, to increase access to *Qarḍ Taysīr* financing and improve the efficiency of lending processes.
13. **Evaluate impact:** Islamic banks should regularly evaluate the impact of *Qarḍ Taysīr* financing on the recipients and the community. This can help identify areas for improvement and ensure that the financing achieves its intended goals.
14. **Further Research:** It is recommended that further research be conducted on the *Qarḍ Taysīr* financing model to explore its potential applications and impact in different contexts and for different financing needs.

15. **Overall**, *Qarḍ Taysīr* financing has the potential to provide much-needed financial support to those in need, and Islamic banks should continue to improve and expand this model to promote financial inclusion and support sustainable community development. *Qarḍ Taysīr* financing model represents an essential contribution to Islamic finance, and its adoption and further development can help promote greater social responsibility and sustainable development in the industry.



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