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Islamic Finance in Academia: Investigating Hybrid Sukuk Model (Ijarah-based Diminishing Musharaka) Implementation in KP's Government Universities

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Abstract

Higher education institutions including Pakistan face the problem of inadequate funds due to financial challenges and increasing costs, ensuring innovative techniques for financial sustainability. The rising demand for such tools has led universities to explore creative solutions like hybrid sukuk. The purpose of the current study is to explore the prospects and challenges of ijarah-based diminishing musharakasukuk financing model in the public sector universities. The methodology involves the data collection technique which is semi-structured interviews with stake holders like financial experts of Islamic bankers, Islamic scholars teaching Islamic financing and have an extensive knowledge regarding sukuk and universities administration like assistant treasurer and deputy auditor. The data analysis technique used is reflexive thematic analysis for insights into the prospects and challenges vis-à-vis the financing model. The multidimensional aspects of the ijarah-based diminishing musharaka model with respect to its prospects and challenges encompass compliance of shariah, social responsibility, mutual benefits along with operational aspects. To fully realize the prospects of sukuk with regards to legal challenges, awareness and risk management and to address the resistance towards change impacting investor's confidence, proactive communication and education efforts are considered necessary and moreover further developments with respect to research and collaborative efforts are ensured to dispel the misconceptions regarding Islamic financing models and to adopt sukuk as a viable and practical solution in higher education sector

Keywords: Sukuk, Hybrid Sukuk, Ijarah-based Diminishing Musharakah (IDM) Sukuk, Public sector universities, Islamic Banks,

Introduction

Islamic finance includes sukuk, defined as "certificates representing undivided shares in ownership of tangible assets or projects" (AAOIFI, 2008). Compliant with Sharia, sukuk is a riba-free instrument ensuring fair ownership of specific assets (Vishwanath&Azmi, 2009). Also known as Islamic bonds or investment



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certificates, sukuk structures securitized leases and various Islamic financing contracts like murabahah, musharakah, and mudarabah (McMillen, 2007; Obaidullah, 2007). Zulkhibri M. (2015) highlights the increasing significance of sukuk globally, emerging as a crucial Islamic financial instrument in both Muslim and non-Muslim countries

In a financial system governed by Sharia laws, adherence to Islamic principles falls under the broad category of Islamic finance. It is imperative in this context that activities such as gharar, gambling, and riba, which are prohibited according to Sharia principles, are entirely excluded from Islamic finance. When discussing Islamic finance, which encompasses Islamic banking and Islamic equity, the discussion of Islamic bonds holds significant importance as well. The growth of Islamic bonds is rapidly accelerating in both Muslim and non-Muslim communities. Pakistan took a significant step in the world of sukuk by issuing \$600 million worth of sukuk in 2005, and in 2008, the government also endorsed this sukuk program. According to the State Bank's statistics, approximately Rs. 3.25 trillion worth of ijarahsukuk were issued by June 2022. Various banks, including Al Baraka Bank (Pakistan) Limited, BankIslami Pakistan Limited, Meezan Bank Limited, Askari Bank Limited, Bank Al Habib Limited, etc., serve as primary dealers in this market.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has recognized various structures in Islamic finance: The different forms of Islamic business organizations include Musharakah, Mudarabah, Musawamah, Salam, Istisna, Ijarah, Muzaraah, Musaqah, Mugharasa. As we have seen, every Sukuk type plays a different role in Islamic finance to support different finance structures but in compliance with Shariah laws regulating economic and financial transactions.

Musharakah is a mode of partnership between two parties in which both of them investing their money in business. In Musharakah, the partners divide the profit in a specified ration while the losses, if there is, are borne according to the capital contributed by the partners. This type of partnership differentiates between the partners and involves cooperation with sharing of risks between the partners.

Ijarah is one of the Islamic contracts which is also known as leasing. There are two parties involved in this arrangement: by the lessor and the lessee. The lessor or the owner of an asset or property surrenders the possession of the property to another party or the lessee or the tenant at a specified period and rental. The lessor owns the leased asset throughout the lease term and conveys significant control of the asset to the lessee. The lessee makes some payment to the lessor for the right to use the asset throughout the lease period known as lease rental. . Ijarah contracts can be used in any form of assets such as property, equipment and even car and it offers a tool for Islamic finance other than interest rate bearing situations such as loan.

As for a definition of hybrid sukuk, it is possible to mention that mixed sukuk contain various elements like more than one Shariah contract or both, tangible and non-tangible assets (Rahim, 2018). Thus, is a blend of tangible tools and Shariah compliant receivables, which adds maneuverability and addresses issues related to asset accessibility (Itam et al., 2022). According to International Islamic Financial Market's report there is a number of diversified combinations of the hybrid sukuk contract structures such as Murabahah and Ijarah or Musharakah and ijarah (International Islamic Financial Market, 2021). This



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structure is preferred because of flexible use of assets, such as when there are no adequate suitable assets or if there are some issues with existing ones; moreover, it helps the issuers meet the requirements by combining various assets or structures (ISRA, 2017).

Ijarah-based diminishing musharakah or IDM, or Diminishing Musharakah could be explained as a kind of partnership where the client or the homeowner becomes more and more the owner of the property of a certain product, project, or house. Put differently, it encompasses elements of both sale and Ijara, which involves leasing or renting. Bendjilali and Khan (1995) explain that in IDM, rental income from Ijara is shared between the homeowner (HB) and the Islamic bank (IB), and as the homeowner pays off the principal amount, ownership gradually transitions from the Islamic bank to the homeowner.

The application of sukuk in the educational sector has been recognized as a means to address the funding needs of educational institutions. El-Hawary et al. (2007) highlight the potential of sukuk in mobilizing funds for educational infrastructure projects. By issuing sukuk, educational institutions can access a broader range of investors, including Islamic financial institutions and individual investors (Khalaf, 2017). This enables the diversification of funding sources and facilitates the development and expansion of educational facilities.

The following are the challenges that universities encounter because of internal inadequate funding; These include; (Aiyamenkhue, 2011; Orji Job, 2013; Adewale & Zubaedy, 2019; Shah & Bukhari, Said & Gul & Ibna Seraj, 2022). Current financial resources for example internal recoveries, government grants and student fees are insufficient (Adewale Zubaedy, 2019). HLIs face operational challenges such as rising operation costs and deteriorating world economy, which poses significant hurdles in the achievement of financial resources needed for HLIs' operation and expansion. This problem is more evident in Pakistan since the Higher Education Commission (HEC) sets budget constraints on universities adding to their challenges (The Express Tribune, 2023). The need for the scholarly situation has been increasing daily and pressing funding (Academia Magazine, 2023); however, the HEC has stopped funding for educational projects because of the current financial crisis (The Express Tribune, 2023). Therefore, HLIs need to search for sustainable ways of financing activities and become financially sustainable organizations (Ali et al., 2019).

Amid the analytical exploration of existing studies on Sukuk and other financial instruments, a noticeable research gap emerges: But there is scarcity of the available literature on Sukuk as a financing tool with special reference to education sector in Pakistan. Sukuk has attracted a lot of attention in the last decade, but most of the research is concentrated in the other sectors of the economy while very limited studies have been conducted in education sector. In particular, the application of the Ijarah-based diminishing Musharakah Sukuk as a financing instrument in Pakistan and, more so, in infrastructure projects. However, studies on the risks and challenges of the Islamic banking in the context of infrastructure financing in the education sector especially in universities especially appears to be very limited. Another research gap that is apparent within the existing literature is the future that may lie ahead for the elimination or reduction in the usage of Musharakah Sukuk for infrastructure financing in public universities is hardly researched. Therefore, this study will



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seek to literature review both the theoretical and empirical literatures, used in the context of Khyber Pakhtunkhwa's public sector universities.

Literature Review

Sukuk fulfills the funding needs by bringing in number of investors (El-Hawary et al., 2007). Different aspects that are related to the roles played by the various types of Sukuk in project financing and the risks in this kind of financing can be discussed with reference to the education sector especially that of the public universities regarding Istisna, Ijarah, Musharakah, Mudarabah structures. This research uses various Sukuk structures to look into the problems that companies face when issuing Sukuk in the public sector, and to evaluate its possibility.

Many researchers emphasize that Sukuk can cover the needs in educational facilities financing. According to Dukuk (2023), Sukuk Murabaha can increase liquidity and capital for Nigeria tertiary institutions. Likewise, Dukuk Muhammad (2023) concluded that Ijarah Sukuk can assist to eliminate the inadequacies of infrastructures in Osun state and other territories. Similarly, Ali et al. (2019) concluded that education sector have benefited with Wakala-based Sukuk for income generating activities as well as for Cash–Waqf Sukuk for non-income generation activities. Moreover, there is a systematic interest in the field of education and development by addressing Waqf again and focusing on Sukuk Waqf as an Islamic financial instrument that is suitable in terms of Islamic financial principles and suitable for educational financing (Sukuk Waqf) (Syamsuri et al. This is equally supported by historical and legal discourse in Egypt, Malaysia, Turkey and Pakistan as comprehensively illustrated in annex 1 by Yana Romana, 2023.

However, some of the articles also focus on the issue and risk related to Sukuk industry as well. In terms of Sukuk acceptance, there are challenges as highlighted by Harahap (2015) for Indonesia while the comparative risk analysis between Sukuk and conventional bonds is done by Alswaidan, Daynes, and Pargas (2017). Another example is Volatility risks within Pakistan's Sukuk market are investigated by Aslam, Azam, and Iqbal (2020). It remains pertinent that certain conditions should be favorable for the growth of Sukuk as Ghafore, Saba, and Kauser (2018) underline the necessity of a vibrant secondary market for the development of more Sukuk based products in the context of Pakistan. Dewi et al. (2018) also pay much attention to the need to integrate Sukuk structures with welfare for the sustainability of the development.

The study Ali et al.(2019) addresses the issue of funding barriers by HLIs in Malaysia while spurring costs and a global economic slowdown. Considering the issue, the paper describes two SRI backed sukuk: Wakalah for income generating activities and Waqf for non-income generating activities. Based upon the literature review, case study analyses, and expert opinions, the findings recommend certain actions. For optimizing cost efficiency and resource utilization, the issuance of these sukuk by a consortium of universities with government guarantees is recommended. The study also highlights global challenges in meeting financial needs and the potential of capital market. Due to declining government funding and limited capacity of internal funds, HLIs are moving towards the capital market with priority of Islamic finance for funding drawn by its lower cost, longer tenor, and flexible terms compared to traditional banking loans. Moreover, HLIs possess features appealing to stakeholders such as investors with string corporate reputation and transparent governance.



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The above literature shows that sukuk practices in education sector in relation to infrastructural projects seem to be little so, this study aims to explore prospects and challenges of ijarah-based diminishing musharakahsukuk as a financing alternative in the context of Pakistani government universities with regards to developmental projects.

Methodology

In the current study, the qualitative research methodology has been employed using semi-structured interviews as the selected data collection tool, which is considered appropriate due to the research objectives. The sampling technique selected for the study is purposive sampling to select participants with expertise in Islamic banking like Islamic scholars or faculty members teaching in universities and also those participants involved in administration activities such as assistant treasurer and deputy auditor. A total of 25 in-person interviews were conducted in KPK. These employees of Islamic banks and university faculty members possess extensive knowledge of Islamic sukuk, and they have shared insights regarding the prospects and challenges associated with ijarah-based diminishing musharakahsukuk, particularly in the context of project financing.

Findings

The interview guide questions were crafted in a manner to get comprehensive information after studying literature. The obtained data then transcribed involving repeated listening and reading of the interviews, helping in data interpretation (Hammersley & Atkinson, 2007). The duration of the interviews ranged from 20 to 40 minutes. For data analysis reflexive thematic analysis suggested by Braun and Clarke (2007) was undergone. This involves various steps: familiarity with the data, generating initial codes, identifying and constructing themes based on the significant patterns, reviewing the themes, and defining and labeling the themes. A member check was also performed by sharing the coding process with the supervisor to ensure the validity of the analysis

This section encapsulates the primary outcomes derived from the conducted interviews and serves as the conclusion of this article. Its purpose is to enhance comprehension regarding the advancement and utilization of Diminishing-musharakahsukuk in financing public education within KPK. The aim of this article is to explore the feasibility of diminishing-musharakahsukuk, with a particular focus on its use in financing educational infrastructure projects in KPK, Pakistan. This is achieved through the adoption of a qualitative research approach.

Prospects and Challenges of Ijarah-based diminishing musharakah Shariah-based Financing

This has been one of the common themes that Islamic banking products are shariah-based including sukuk. Islamic bankers, administrative staff of government universities and those faculty members who teach Islamic banking and finance agree and emphasize that there should be Islamic financing tool to be adopted in government universities as it is ethical and we being muslims should prefer the Islamic financing instead of interest-based conventional financing. It has been witnessed in the following excerpts:



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“ well, as far as the Islamic financing tools as claimed to be shariah-based as you say, for instance, sukuk must be adopted for financing the project-based financing’

“It is ethical to be investing in shariah financing tool as we are muslims”

“If we have an opportunity to have Islamic investment why shouldn't we go for it, definitel, we should go for it”.

Ijarah-based diminishing musharakah as socially responsible financing practice

There is another common theme in the interviews and that is the relationship between community and Islamic banking practices especially this type of sukuk. This is perceived as following excerpts show:

“It fosters trust and confidence among stakeholders”

“Due to the ethical standards adopted, it will not only benefit university community but also society at large”

“It boosts robust relationships with stakeholders, as they interpret the university as a trustworthy custodian of funds”

These above three excerpts underscore focus on ethical finance, social impact perspective, and stakeholder trust and transparency.

Mutually beneficial

Another prevalent theme is that a government university and Islamic bankers or society if invests will both be benefitted using ijarah-based musharakah financing. This is witnessed in the following excerpts:

“The sukuk not only provides return to a party that invests but also the party that will own the project or building at the end, for instance a car or and developmental project like a hostel in this sukuk”

“This sukuk will be beneficial for both the investors”

LIBOR benchmark as interest-based in Islamic Banking as a myth

With regards to LIBOR as interest-based benchmark, Islamic bankers and Islamic scholars do not see it as forbidden as mere same percentage does not deem the financial transaction and returns to be unIslamic.

“Well, people in general are not really aware of the LIBOR as it does not make sukuk and other business financial tools to be deviant from Islamic financial or economic principles. Just because of the same percentage of LIBOR and return on investment for various projects is not the real matter. For instance, 2.5% of Zakat does not make interest-based transaction to be halal if the return on investment in conventional banking is 2.5% or 10% in case of Ushar”.

Shariah Compliance

Ijarah-based diminishing musharakah adheres to Islamic principles, making it an attractive option for public sector universities that prioritize Shariah compliance in their financial dealings.

Excerpt 1: *“Shariah compliance is paramount for university's financial practices. Adopting ijarah-based diminishing musharakah ensures that infrastructural projects align with our ethical and religious values.”*
(University)

Excerpt 2: *“As an Islamic banker, I see immense value in offering Shariah-*



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compliant financing solutions to public sector universities. Thus, structuring ijarah-based sukuk, we let these institutions when they need increase the funding and observe the Shariah requirements. " (Banker)

Excerpt 3: *"From an administrative perspective religiosity cannot be compromised to Shariah laws and regulations Ijarah based sukuk provide the context that do not contradict in any way the taxation policies of the university thus provides a guarantee for ethical financing." University*

6) Long-term Ownership: The financing structure of this leasing also enable universities to purchase the assets incrementally, this has long term returns as well as stability in the financing structure.

Excerpt 1: *"The gradual transfer of ownership which is the hallmark of ijarah based sukuk means that university owns and controls the strategic infrastructure necessary for its operations in the long run thus making the institution sustainable". University*

Excerpt 2 *derives from the respondent who is a faculty member of the university recommending ijarah-based sukuk because of the long-term ownership gains: "As a faculty member I find this very useful in a university because it enables one to plan for the future and meet his/her needs by investing in the infrastructure that will benefit future generations." University*

Excerpt 3: *"From the perspective of administration it is highly beneficial for long-term ownership when a university plans its strategical development. Sukuk being a shariah compliant financial product provide a systematic approach of gradual acquisition of the desired assets while guaranteeing continued usage of the real assets by the university and its academic community." (University)*

7) Flexible Financing: It provides flexibility in form of structures of payments and tenability which enable universities to adopt financing structures that suit them and within their spend limits.

Excerpt 1: *The fact that the ijarah-based sukuk gives a university the freedom to negotiate the payment profiles to reflect the existing fiscal capacities means that there is always a way through which a university can undertake infrastructural projects without compromising on balance sheets. (University)*

Excerpt 2: *"I agree with the need to have flexibility in financing arrangements especially targeting public sector universities Ijarah-based sukuk suit the flexibility needed when executing various projects and the capacity of the institutions involved. " (Banker)*

Excerpt 3: *"For financial planning, flexibility in the terms of financing is critical for a university to manage its cash flows."Ijarah-based sukuk allow payments complementary to our revenue sources and budgetary planning eliminating risks that are usually associating with flexible payment structures." (University)*



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8) Improved Infrastructure: It can be concluded that, financing through ijarah-based sukuk helps to build up better quality infrastructures like education and research facilities in the universities of public sectors.

Excerpt 1 has University arguing as follows that the concept of ijarah-based sukuk will help in developing infrastructure which will improve the learning experience of students and faculty.

Excerpt 2: “Being a faculty in a university, I believe in the potential of ijarah-based sukuk in upgrading a University’s infrastructure in a way that it can improve its academic standing by leap and bond with world-class facilities that help attract brilliant brains.” **(University)**

Excerpt 3: From an administrative perspective university has to constantly invest in infrastructure to remain competitive, ijarah based sukuk provide a suitable tool for financing development projects. **”(University)**

9) Stakeholder Engagement: It involves stakeholders in the project hence promoting ownership and participates among the university projects part.

Excerpt 1: “Managing stakeholders is essentially important for the success of a university development projects and through the issue of ijarah based sukuk, we create ‘partners in change’ who will join us in the fulfillment of these objectives.” **University**

Excerpt 2: “I believe that stakeholder participation is vital for the sustainable development of the public sector universities Ijarah based sukuk gives the investors an opportunity to get involve in projects hence creating trust.” **(Banker)**

Excerpt 3: “In building our relations with the stakeholders, it is important that Ijarah-based sukuk have mechanisms to engage the various parties in support of the initiatives needed to develop a university, while at the same time allowing for the identification of the vision of the community in its various projects. **University**

Enhanced Reputation

Evaluating ethical and Shariah compliant financing strategies can help the public sector universities in improving their image so that students, talented professional, and investors are attracted towards the universities.

Excerpt 1 Ijarah- based sukuk financing: As a method of financing, ethical financing practices can be used to show a university’s integrity and transparency, thus turning the university into a reputable institution for talents and investments. **University**

Excerpt 2: “For a faculty member, the reputation of a university is of tremendous importance. By engaging in Shariah compliant financing such as



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Ijarah based Sukuk we are establishing ourselves as the University of ethical governance, which is a strong selling point especially to students, faculties and funders.” **University**

Excerpt 3: *“From an administrative perspective, protection of a university’s image is crucial;” Ijarah-based sukuk operating in the interest of our university represent an ethical means of financing transparent and responsible to the academic and financial communities, which create opportunities to build partnership and expand.* **University**

Access to Capital Markets

One of the benefits of Ijarah-based sukuk for the universities is that they offer an opportunity to access the capital markets for funding.:

Excerpt 1: *It is argued that to finance a university’s grand development agenda, it is vital to access the capital markets In the following excerpt from University, the author explains how the issuance of ijarah-based sukuk can help to diversify the funding sources and reduce the costs of financing.* **University**

Excerpt 2: *“For this particular purpose of financing, and as I am an Islamic banker, my perspective is that this type of sukuk known as ijarah-based sukuk may help such public sector universities tap capital markets. By arranging sukuk offering, we mobilize investors’ money, and thus, ensure the university may implement its projects on a more favorable terms.”* **Banker**

Excerpt 3: *“From an administrative view, a diversification of funds is critical because the lack of diverse funding sources add to the vulnerability of a university’s financial climate resulting to reduced diversified funding. Ijarah-based sukuk avails an opportunity for a university to access the global capital markets hence enhancing a university’s funding base and reducing on the diversified funding.”* **(University)**

Social Responsibility

To make the projects they fund and implement reflect the institutional goals of improving the community and its welfare universities needs to introduce the concept of socially responsible financing.

Excerpt 1: *“University can not be an island of social irresponsible. As a university we have financially supported infrastructural projects through ijarah based sukuk that have had an impact beyond campuses including in development of sustainable projects.”* **(University)**

Excerpt 2: *I see universities as institutions that should contribute to the welfare of society as a faculty member and as a result, Ijarah-based sukuk provides the means of financing projects that will benefit society together with enhancing the development of sustainability.* **University**

Excerpt 3: *“From an administrative perspective, inherently socialising responsibility in financing mechanisms is crucial in sustaining public confidence in the market At the same time, ijarah based sui structures allow for*



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investment into sustainable development of communities that are not limited only to inhabitants of the university, but also the society as a whole, which correlates with our values of corporate social responsibility.” **University**

Risk Sharing

That is why the partnership nature of musharakah enables the university and investors to share all risks so that there is less pressure on the university pocket.

Excerpt 1 *“The act of adjusting risks with investors through ijarah based sukuk decreases pressure on a university and enables us to undertake large projects with more assurance.”* **(University)**

Excerpt 2: *“I understand the need to share risks in order to encourage investors. Ijarah based sukuk provides most transparent and fair method of risk sharing to the benefit of the university and the investors.”* **(Banker)**

Excerpt 3 *‘In this case, Ijarah based sukuk are effective in providing a framework of risk sharing which, if well managed, helps a university overcome any project implementation risks that it may face.* **University**

Innovation and Sustainability

Authorising the infrastructural projects with the help of ijarah based sukuk can foster more innovations and sustainability endeavours that leads to environment friendly and energy efficient structures.

Excerpt 1: *Incorporation of innovation and sustainability in to a infrastructure projects is one of the key requirements of a University.* **University**

Excerpt 2: *“In my perspective as a faculty member, Ijarah based sukuk are a positive force that with a strongly positive incentive effect for sustainable changes in universities’ infrastructure where environmentally friendly technologies and use of renewable energy sources are implemented.”* **University**

Excerpt 3: *The key notion of the organizational competitiveness in the administrative view is the investment in innovations and sustainability, and the ijarah based sukuk allow for funding of the advanced technologies and sustainable initiatives to keep a university’s infrastructure relevant and sound in the future.* **University**

15) Complexity: The ijarah-based diminishing musharakah has a fairly complicated structure, especially in terms of its practical application, although its essence is rather simple; thus, the use of such a model often calls for professional assistance related to Islamic finance and the relevant legislation.

Excerpt 1: *“Ijarah based sukuk structure is not simple one; it needs professional advice in Islamic finance Hence, we need to consult the*



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*professional advisers and lawyers to ensure our financing dealt with meets the Shariah laws. “ **Banker***

Excerpt 2: *“I heard about problems of structuring ijarah-based sukuk I know that it has legal and regulatory aspects as well as financial aspects that are supposed to be taken into consideration while conducting the issue and its implementation by a financier.” **Banker***

16) Legal and Regulatory Frameworks: Paying compliance to the Shariah standards and the requirements of monetary laws can be sometime a dilemma, more so when in some locations Islamic interfaces are not very well established.

Excerpt 1: *It is for this reason that I remain familiar with the roles of regulatory compliance in the formulation of ijarah-based sukuk financing Our financing structures need to be informed by the existing legal standards and interpretations and this is why consultations with regulators and legal advisors would have to be embraced (**Banker**).*

Excerpt 2: *“From the administrative perspective, legal and regulatory compliance is critical to the achievement of our financing initiatives, where knowledge of the changes in legislation and interaction with the regulatory bodies is vital in meeting ijarah-based sukuk issuing.” (**Banker**)*

Costs

The establishment and operation of sukuk are however more expensive than conventional bonds since they require the payment of legal fees as well the cost of structuring and advisory services necessary for the preparation of the Sukuk.

Excerpt 1: *“It is important to acknowledge that despite the financing flexibility provided by ijarah-based sukuk, there is normally an agony of operating expenses that are often incurred in the issuing and the subsequent management of the sukuk such as legal and advisory costs bring out the reality of the cost of the financing”. (**Banker**)*

Excerpt 2: *“I understand that the expenses incurred in structuring and managing the ijarah based sukuk has an impact on the economy of the financing proposition... everybody wants positive returns...”. **Banker***

Excerpt 3: *“It is therefore imperative to keep costs under check in a bid to achieve sustainable funding for our university The ijarah based sukuk present good investment opportunities for financing, however before venturing into them we must establish their costs. **Banker***

Market Volatility

Other factors may be the changes in the sukuk market, the cost of borrowing money and the investors' appetite for it.

Excerpt 1: *I have information concerning the existing risks relating to the fluctuation in the market price of sukuk. To deal with changes that can affect*



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the ijarah-based sukuk's interest rates we need to pay particular attention to the market conditions and put in place hedging strategies. " (Banker)

Excerpt 2: *The second excerpt from the banker: "From an administrative perspective, they have realised that it is critical to control fluctuations in markets in order for our financing strategies to work so as to know when to launch the Ijarah based sukuk in the market. Banker*

Asset Valuation

While valuing the assets with regard to agreement, it is difficult to set acceptable amount for the asset especially in the specialized infrastructure projects.

Excerpt 1: *Finding suitable fair value for any assets especially the specialized infrastructure projects that are used in structures of sukuk is important but difficult because specialized skills in the valuation techniques and market factors are called for.*

Excerpt 2: I understand the sensitivity of the valuation of assets in the context of ijarah based sukuk transactions. It is critical to work with competent valuers and assessors that would justify the prices on assets as they would reflect the market value and at the same time conform to the Shariah law. **Banker**

Excerpt 3: "From an administrative perspective, we need to perform proper due diligence on various assets 'valuation to ensure the viability of the financing arrangements we are putting in place." "This is because, we have to involve professional valuers, who are able to establish the right value, for the infrastructure assets; so as to avoid potential disputes or differences in valuations." **(Banker)**

Partnership Dynamics

Having the sukuk investors as partners in relation to the university hence could involve communication and solving of any arising conflict.

Excerpt 1: *"The management of partnership relationship in ijarah based sukuk involves communication and cooperation; this means that we need to have proper communication channels and the way of solving conflict in case of disagreement between the university and investors. Banker*

In **excerpt 2**, the banker was right to argue that there is a need to develop the good relationship of universities with sukuk investors; The issues arising from this relationship should be addressed and can be resolved through communication and fluidity of solutions. **Banker**

Excerpt 3 : *From an administrative perspective, which is a caring and proactive approach, it involves recognition of the role of partnership and communication pipes and have to immediately address concerns and/or conflicts in a timely manner and have to have meetings and reports with the investors. University*



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Duration of Projects

The current infrastructural projects that are long term may experience some certain hitches that may culminate in delays and cost escalation, which when put into the context of the financing arrangement may pose some challenges in paying for the financed facilities.

Excerpt 1: *Here, one has to investigate and evaluate proposed project time frame and financial requirements to identify risks which may arise due to project timelines and create preventive measures against those risks.* " (Banker)

Excerpt 2: *From an administrative perspective, it is critical to navigate the length of processes in relation to ijarah based sukuk financing for the financing to be successful There is therefore the need for the implementation of efficient project management principles and proper checking of the processes in order to avoid delay or cost increase.* Bank

Market Perception

The adoption of Islamic finance instruments might encounter skepticism or resistance from the traditional stakeholders in the public sector universities hence affecting investor confidence.

Excerpt 1: *"But by far the greatest challenge facing public sector universities interested in using ijarah-based sukuk financing arises from the market perception. Traditional stakeholders may simply be skeptical or downright resistant to the Sukuk structure and this can cause investor to lose confidence and as such; there is always a need to engage in information campaigning in order to correct the perceived wrongs of this form of financing."* (Bank)

Excerpt 2: *I acknowledge the need to discuss on the issue of market perception challenges on the ijarah based sukuk financing. To lessen such apprehensions, one has to involve and give relevant information on the advantages and tenets of Islamic finance to the interest holders "* (Bank)

Excerpt 3: *"From an administrative point of view, market perception is crucial to embrace for the success of the ijarah-based sukuk financing. Thus, the stakeholders such as the faculty, staff, students, and alumni need to be sensitized more on the benefits of Shariah-compliant financing and the rejection of the otherwise."* (Bank)

Limited Investor Base

Because of the Islamic finance's lower popularity, the number of potential investors for ijarah-based sukuk may be limited and thus influence the competitiveness of financing conditions.

Excerpt 1: *The small market of investors in Islamic finance is a threat to public sector universities that aim to adopt sukuk financing: "Another challenge for public sector universities is a limited availability to Islamic FI/ Investors, one must mobilize them to expand the pool of potential sukuk investors and improve the competitiveness of its financing offers."* **University**



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Excerpt 2: *In order to enhance awareness and educational institutions, universities and regulatory authorities for Islamic finance instruments it is necessary to get the good response form more number of investors for ijarah based sukuk transactions. **Bank***

Excerpt 3: *"From an administrative perspective, addressing the limited investor base requires proactive engagement and marketing efforts. We must leverage our networks and partnerships to raise awareness about ijarah-based sukuk financing opportunities and attract investors who align with our university's values and objectives. **University***

Discussion, Conclusion and Recommendation

The aim of the study is to analyze and examine the prospects and challenges in relation to the ijarah-based diminishing musharakahsukuk in public sector universities of Pakistan with the especial reference to KPK. Through analysis method several prospects and challenges in the context have been identified: shariah compliance nature of sukuk structure, mutual participation of stakeholders, social responsibility and ethical financial framework, long-term ownership, reputation enhancement; market volatility, regulatory complexity, limited investor base. This research contributes to a more profound understanding of both the opportunities and challenges associated with IDM sukuk financing in the higher education domain, thus informing future policy decisions, academic inquiries, and practical initiatives aimed at fostering ethical and sustainable financial practices aligned with sharia principles.

The interviews has several key themes with regards to the study conducted: consensus over the significance of the shariah-compliant sukuk contract, underscoring the ethical imperative for Muslims to prefer Islamic financial instruments over interest-based conventional financing. This perspective adheres to the broader commitment to ethical and religious values within the realm of the financial practices of government universities. These prospects are in line with the studies (Laounia, 2019; Hassan, 2022). Another prevalent theme to be found in the study is social responsibility at large to foster trust, benefit society, enhance relationship with stakeholders which position the university as a trustworthy custodian of funds (Laounia, 2019; Rohmah, Fauzi, & Firdaus, 2023). Moreover, there is a mutual benefit among stakeholders including university for returns from the arrangement. This dual benefit highlights the viability and attractiveness of this financing model for the parties involved (Hosen, Kebir, & Foong, 2016; Rohmah, Fauzi, & Firdaus, 2023).

Some concerns vis-à-vis have also been found: the perception of skepticism towards financial instruments by traditional stakeholders is in line with (Javed & Fida, 2015; Hassan, 2022). To address the challenge, there is a pressing need of proactive communication and education efforts with respect to Islamic financing instruments and operations in order to dispel the misconception and build trust in such instruments. Moreover, there is a need of expertise and specialized knowledge if Islamic instruments in universities when dealing in these financial structures with legal frameworks following the Islamic finance practices (Javed & Fida, 2015; Islam, Nabi, Hoque, and Hassan, 2023). Cost associated with sukuk issuance and management (Ali, 2005; Abdo, 2014; Awwad and Razia, 2024), as well as market volatility (Hosen, Kebir, & Foong, 2016) and limited



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investor base (Bahari, Ahmad, Shahar, & Othman, 2016; Rohmah, Fauzi, & Firdaus) present additional challenges that necessitate careful consideration and strategic planning.

In spite of challenges, the study has also found several prospects for government universities: long-term ownership benefits (Heravi, 2022), flexibility in financing terms (Rohmah, Fuzi, & Firdaus, 2023), improved infrastructure (Hassan, 2020). Stakeholder engagement (Heravi, 2022; Islam, Nabi, Hoque, & Hassan, 2023), enhanced reputation (Rahman, Halim, & Markom, 2021; Rohmah, Fauzi, & Firdaus, 2023), access to capital markets (Ali, 2005; Laounia, 2019), social responsibility (Javed & Fida, 2015), risk sharing mechanisms (Ogino, 2018), and opportunities for innovation (Laounia, 2019) and sustainability initiatives (Rohmah, Fuzi, & Firdaus, 2023) are the prospects. The above prospects are in compliance with the wider objectives of public sector universities in encouraging developments like ethics, sustainability, and responsibility for society, ensuring long-term growth and financial resilience.

For enhancing acceptance and the understanding of shariah-driven financing, it is recommended that such steps of awareness and education to be taken are significant that are comprehensive in nature; this would target stakeholders related to universities. Furthermore, coordination among regulators and policy making bodies is a cornerstone to construct those guidelines that are tailored to assure clarity in legal matters and adherence. Increasing participation of investors make focused marketing efforts and strategic partnership necessary for emphasizing attractiveness of shariah-compliant financing. To meet market changes and its behavior over time, robust risk management structured approaches or frameworks are essential. The ongoing management process, evaluation, and adaptation after assessment are very important for optimizing financing models, making continuous monitoring necessary. As far as the future research is concerned, it may involve various financial contracts like *mudarabah* and *wakalah* in public sector universities to expand funding option there. Furthermore, examining cross-cultural studies comparatively can provide useful information by enforcing shariah-compliant financing, deepening our understanding regarding various contextual factors that influence its effectiveness. Studying impacts of *ijarah*-based financing with regards to its social, environmental, and economic relationship with universities and communities is significant for such decision making that are evidence based.

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