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"ISLAMIC MORAL ECONOMY AND FINANCE: IMPLEMENTING THEORY INTO PRACTICE WITHIN THE BALKANS"

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UNDERSTANDING THE PIVOTAL DIFFERENCES BETWEEN ISLAMIC AND CONVENTIONAL FINANCE

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Abstract
Modern Islamic finance tries to offer practising Muslims financial solutions according to the teachings of Islam. People are often not convinced whether these solutions are really genuine solutions or only simple imitations of conventional financial products. This paper shows the essential difference in the approach of conventional and Islamic finance by analysing the rules with regard to the prohibition of riba (interest) and gharar (excessive risk) in Islam. The results show that interest will inevitably lead to micro- and macroeconomic problems due to its unjust nature. Furthermore, gharar is an element which can be found in modern insurance contracts, and also leads to an unjust outcome between contracting parties. These prohibitions have the goal that neither contracting party will be able to abuse its economic power in any way.
Keywords: Islamic economics, Islamic finance, interest rate, riba, gharar.

INTRODUCTION

Islamic economics is seen as a new scientific field, even younger than modern economics. However this statement is not true, because Islamic economics is based on the sources of Islam – the Qur'an and the Sunnah (the practice of Prophet Muhammad, p.b.u.h.) and therefore exists since the beginning of Islam. But, it is true that the science of economics has to adapt according to new circumstances. The rules from the Qur'an and the Sunnah have to be understood in its essence in order to be implemented in the modern world. Therefore, modern Islamic economics can develop into three directions: ignorance, imitation or innovation. There is a group of Muslims ignoring the "economic rules" mentioned in the sources of Islam and this minority is imitating mainstream economic thinking by reducing the commandments and prohibitions mentioned in the Shari'ah exclusively to acts of worship. On the other hand, some Islamic economists try to use classic contracts and fit them into a modern context, often by giving them beautiful Arabic names, but also ignoring some basic laws of human behaviour and economics. The result of this engineering is often that we have complex contracts, which are less efficient than conventional financial contracts. Therefore, it is necessary to innovate, not by ignoring the commandments and prohibitions in the Qur'an and Sunnah, but by providing new solutions considering the intentions of the sources of Islam. This need is especially important in the field of finance, because the prohibition of riba (interest) in Islam implies the development of a completely different financial system. In order to carry out such a

“financial engineering”, it is necessary to understand the pivotal differences between Islamic and conventional finance; in order to avoid the problems caused conventional finance.
In this paper, we will concentrate our analysis on three important topics:

1. Ethical norms of the Islamic economic system
2. Understanding the prohibition of *riba* (interest)
3. Understanding the prohibition of *gharar* (excessive risk)

ETHICAL NORMS OF THE ISLAMIC ECONOMIC SYSTEM

Every person acts according to some rules – even acting without concrete rules constitutes a rule. Therefore, in order to understand a Muslim economic agent, it is necessary to understand his/her beliefs (i.e. the ethical framework), which command his/her behaviour. Ethics in Arabic is “akhlaq” and the singular is “khuluq”, a term that is mentioned directly in the Qur’an. (Abdullah, et al., 2018) The field of akhlaq covers different norms defining the behaviour of a Muslim. The ethical framework is a segment which is ignored in conventional economics. Since Lionel Robbins (1898-1984) declared a separation between ethics and economics in the 1930s, the prefix “political” has been removed from economics and defined the latter as a science. (Abdullah, et al., 2018) Such an approach is contrary to Islamic belief. Therefore, we will present shortly some basic foundations of the ethical framework in Islam.

TAWHID (ONENESS OF ALLAH)

The Islamic economic system is based on religious rules. This system has not only a secular dimension, but also a spiritual one. The central aspect of Islamic thinking is “tawhid”. Tawhid means the Oneness of Allah (God), i.e. monotheism. This means that there is no other God than Allah and that He is the Creator of everything. Allah, s.w.t., describes Himself in Qur’an in the following way:
“Say (O Muhammad (Peace be upon him)): "He is Allah, (the) One. (1) "Allah-us-Samad (The Self-Sufficient Master, Whom all creatures need, He neither eats nor drinks). (2) "He begets not, nor was He begotten; (3) "And there is none co-equal or comparable unto Him."” (4)." (Qur’an, 112: 1-4)
This chapter in the Qur’an (Surah) gives answers to the questions: who is Allah? Who is the God of the Muslims? The answer is that there is only one God, i.e. Allah, s.w.t. He is unique, nobody is similar to Him, He has neither an aide nor a partner. He is perfect in all His attributes and doings. (Ibn Kesir, 2002) Furthermore, Allah is the cause of everything, i.e. everything – being material or immaterial – is created by Allah.
Knowledge of tawhid has concrete consequences for the way of life of every believer. Due to this knowledge, every believer knows that every event in this world has its ultimate cause - and that is Allah, the Exalted. Thus, every believer knows that what he earns does not have an exclusive cause in his effort and his abilities, but that these abilities and provisions have been given from Allah.

HUMANS ARE VICEGERENTS OF ALLAH

The knowledge of tawhid implies that humans have been created as a “vicegerent” on earth. This “stewardship” is based on a “contract” between a human being and his Creator. With this contract, the human being recognises that Allah, s.w.t., is the real owner of everything existing. Allah, s.w.t., says in the Qur’an: **“To Allah belongs whatever is in the heavens and whatever is in the earth.” (Qur’an, 2: 284)**
Accepting this fact, an individual recognises to respect the laws of Allah, because a person will be held accountable for every act done on this world. This is the reason why Islam also regulates worldly matters. The divine message is a divine guidance by Allah which is sent down to be followed by human beings. It provides fundamental guidelines of what is good and bad for people and shows the general consequences of alternative paths in order to help them choose the right line of action. (Abdullah, et al., 2018) However, these laws are not so detailed that they ignore human reasoning and intellect. But, on the other hand, they are not so few or imprecise so that people could determine these laws according their interests. Far from these two extremes, Islam has a balanced approach towards regulating human lives. (Usmani, 2003) Islam gives humans a large array, where they can decide rationally which solution is the best for them. However, some questions, where humans are unable to give a right judgement, the Lawgiver gave a precise rule.

TAQWA

The term “taqwa” describes the constant awareness of Allah in the form of piousness, fear of Allah and love for Allah. Taqwa is mentioned many times in the Qur’an, such as: **“O you who have believed, fear Allah and speak words of appropriate justice.”** (Qur’an, 33:7) The reason for this is that the human race is created by Allah in order to worship Him. Allah, s.w.t., says in the Qur’an: **“And I did not create the jinn and mankind except to worship Me.” (**Qur’an, 51:56)
Every action will have its reaction, i.e. after death there will be Resurrection and Judgement with reward and punishment for every action done. Even in this world there will be a reaction, but the final accountability will happen after death. Taqwa is the continuous motivation for worshipping Allah and doing good deeds. A Muslim is aware that Allah, s.w.t., knows everything about him/her, because every act is recorded, according to the following hadith: Then he (Jibril, a.s.) further asked, "What is Ihsan (perfection)?" Allah's Messenger (ﷺ) replied, "To worship Allah as if you see Him, and if you cannot achieve this state of devotion then you must consider that He is looking at you." (Sahih al-Bukhari 50)
Taqwa, based on the knowledge of tawhid, is the reason why Muslims all over the world avoid what is haram (forbidden), such as interest, pork, alcohol, immorality etc. despite the fact that these things are allowed in almost all countries in the world now. But taqwa does not only mean avoiding forbidden things, but any act of worship, of doing good things, is the cause of taqwa.
Every action in daily life – buying goods, helping family members, helping employees, pay debts in time – fall under the definition of “acts of worshipping Allah”. This makes worship in Islam different form worship in other religions, faiths

and ideologies. (Abdullah, et al., 2018) All this is summarised in the following ayat of the Qur'an: **"Indeed, Allah orders justice and good conduct and giving to relatives and forbids immorality and bad conduct and oppression. He admonishes you that perhaps you will be reminded."** (Qur'an, 16:90)

CONSEQUENCES OF BELIEF ON ECONOMIC ACTIONS

A believer, who is aware that God is looking at him, will certainly avoid everything which is forbidden. On the other hand, the lack of ethical rules inevitably leads to an increase of selfish behaviour of economic agents. Self-interest without self-control inevitably will lead to greed, but also to arrogance and envy. It is important to mention that the ignorance of religious values in the capitalistic economic system has not always been a dominant path. Max Weber argued that religious ideas from groups like the Calvinists played a role in shaping the capitalistic spirit. (Weber, 1930) In other words, the Protestant work ethic influenced people to engage in secular work, develop enterprises, and accumulate wealth for investment, contributing to the unplanned emergence of capitalism. So, it is quite necessary to have a strong ethical background for economic development. The constant consciousness about the presence of the Creator, Allah, s.w.t., changes the behaviour of a person. Even if he or she is doing a bad deed, such as taking interest, the person knows that this deed is recorded and the person will be held accountable – no matter a camera has recorded it or whether there have been any human witnesses. Therefore, a person, even if the official legal system allows something prohibited according to religious laws, he/she will avoid it, in order to record a good deed and deserve a place in Paradise. Of course, this does not mean that there is no need for police or any other due diligence in economic transactions, but the level of trust should be much higher in a society where religious values are practised.

Such thinking is completely contrary to a secular system, where people only fear a state authority and if a person thinks that he/she is smarter than this authority, he/she will possibly avoid the laws of a country. Therefore, we can witness more and more unethical behaviour in economic transactions, causing a massive increase in misinformation of stakeholders, insider trading, exploitations, corruption, environmental pollution and fraudulent behaviour. The lack of trust will reduce economic behaviour, especially in the field of finance. When a contracting party fears that the other party will not use the invested money for agreed purposes or will not show the real profits, then the motivation for investments will fall. Continuous monitoring of the other party is not a solution, because someone can always play out the rules.

THE PROHIBITION OF RIBA (INTEREST)

The Rules with Regard to Riba

In Islam, the word "riba" is used for interest. Riba is strongly forbidden in Islamic law. According to Ibn Rushd, the types of riba in Islam can be divided into two groups: (Ibn Rushd, 1996)

1. *Riba buyu* (riba at the exchange of goods):
   - *riba al-fadl* (surplus interest)
   - *riba al-nasi'ah* (delay interest)
2. *Riba duyun* (riba at loans):
   - *riba al-jahiliyya* (lateness interest)
   - *da'wa ta'ajjal* (interest due to pre-payment)

Riba buyu accrues when goods are traded for goods of the same genus in different quantities and/or if there is a delay in a transaction with goods of the same kind. This type of interest is described in the following hadith: *"Gold for gold, silver for silver, wheat for wheat, barley for barley dates for dates, and salt for salt - like for like, equal for equal, and hand-to-hand; if the commodities differ, then you may sell as you wish, provided that the exchange is hand-to-hand."* (Hadith narrated by Muslim and Tirmidhi)

In the hadith, six commodities are mentioned: gold, silver, wheat, barley, dates and salt. Islamic jurists have interpreted this hadith in different ways. One school of thought emphasises the measurability, whereas others the characteristic of these goods as money and foodstuff. Anyway, *riba buyu* can be divided into two groups: *riba al-fadl* and *riba al-nasi'ah*.

Riba al-fadl is defined as follows: "It is an increase in the measure of one of two compensations of the same genus in a sales contract." (Zuhayli, 2003) Translated into modern financial transactions, this would mean that an exchange of € 1,000 for € 1,050 is strictly forbidden, no matter whether the exchange happens as a spot transaction or with a delay. On the other hand, some items can be exchanged with a surplus, but without delay. If the goods are used as money or as foodstuff (but are of a different genus), then an exchanged with a surplus is allowed, but without a delay. For example, it is allowed to exchange €1,000 for $1,100, but it must be a spot transaction. This rule avoids hidden transactions with interest. Without this rule, someone could lend €1,000 and ask for $ 2,000 in one year. In this way, the rules for the prohibition of interest would be bypassed. But, the Prophet, p.b.u.h., has forbidden such transactions, because they contain *riba an-nasi'ah*. But, an exchange of items of a different genus, for example to sell a car on credit for a higher price than the price for cash, is permissible.

Riba duyun can be divided into the following:

- *riba al-jahiliyya* (lateness interest)
- *da'wa ta'ajjal* (interest due to pre-payment)

The main difference between these two types of interest is that in the first type the money lender is the beneficial of a forbidden transaction, whereas at the second type the debtor is the beneficial of a forbidden transaction. *Riba al-jahiliyya* is mentioned in the following *ayat* of the Qur'an: **"O you who have believed, do not consume *riba*, doubled and multiplied, but fear Allah that you may be successful."** (Qur'an, 3:130) *Riba al-jahiliyya* is an excess on the principal which the debtor will have to pay, if he/she is unable to pay back his/her debt on time. All jurists agree that it is strictly forbidden to increase the amount owed in compensation for deferring the payment, regardless of whether the debt resulted from a loan or a sale. (Zuhayli, 2003) On the other hand, interest due to pre-payment accrues when the lender and debtor agree in advance that the lender will decrease the debt, if the debtor will return his/her debt before the stipulated date of repayment. This is forbidden by the jurists of all four juristic schools. (Zuhayli, 2003) This rule is based on the following *ayat* in the Qur'an: **"And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged."** (*Qur'an*, 2:279)

Reasons for the Prohibition of Riba

Analysing the rules regarding riba, we can conclude that it is forbidden to exchange items of the same genus with a surplus or exchange similar items with a delay. It is quite clear that if someone is ready to borrow an item and return a higher value of the same item, it can be clearly concluded that this contracting party is exploited by the other party. Ibn al-Qayyim explains the exchange rules for precious metals (money): "(…) as for precious metals and other goods for which interest can accrue, when they are exchanged for the same goods, it is prohibited to go before the physical exchange takes place. This should prevent that this good becomes a source of deferred payment, which is the main cause of interest. In this way, the Prophet, peace be upon him, kept Muslims away from touching with interest, by imposing the condition that the takeover of property must take place at once. Also, in order to prevent to become a means of real interest, he introduced the obligation of equality in the sharing of similar types of goods, even when these goods may have a different quality." (Islahi, 1996)
Ibn al-Qayyim connects the mentioning of foodstuffs with their use as money: "When people would be allowed to exchange food on credit, they would do this only when it is profitable and would never sell their goods at once, because they would hope realise a profit by selling them later. In this case, affected people could hardly buy food of their choice, because ordinary people often do not have cash. People, especially in rural areas, carry little cash and usually exchange one type of grain for another. That is why it was wisely and mercifully by the Legislator to prohibit deferred payment in exchange of food items, as He did in the case of precious metals." (Islahi, 1996)
Al-Ghazali sees the hoarding of money as a key reason for the existence of interest. He connected hoarding and taking interest by saying: "One who practices interest on Dirhams and Dinars is denying the bounty of Allah and is a transgressor, for these coins are created for other purposes and are not needed for themselves. When someone is trading in Dirhams and Dinars themselves, he is making them as his goal, which is

contrary to their objectives. Money is not created to earn money, and doing, so is a transgression (…) The two kinds of money are means to acquire other things; they are not meant for themselves. In relation to other goods, Dirhams and Dinars are like prepositions in a sentence; as the grammarians define them, ‘a preposition is that which is used to give proper meaning to words,’ or their position is like a mirror reflecting colours (of other things but no colour of its own). If a person is permitted to sell (or exchange) money with money, then such transactions will become his goal, and as a result will be imprisoned and hoarded like anything. Imprisonment of the ruler or a postman is a transgression, for they are then prevented from performing their functions; same is the case with money. It is a transgression.” (Ghazanfar & Islahi, 2009)

Therefore, the development of modern Islamic financial products has to be done in such a way, so money holders do not have an economic advantage compared to all other economic agents. Money is needed by all economic agents (no matter whether they are rich or poor), so this big demand can lead to the abuse of the economic power of money holder, who can in such a situation ask for a surplus. In such a case, money, instead of being only medium of exchange, becomes a good, which is desired due to its special characteristics, but not because it is a medium of exchange. Therefore, earning income through interest essentially takes advantage of the misfortune of another party. Islam prohibits the exchange of similar goods with any surplus, ensuring that the essence and purpose of money remain intact.

ECONOMIC CONSEQUENCES OF INTEREST (RIBA)

When we look in conventional textbooks about finance, we will always the formula for the so-called “net present value”. Mathematically, the net present value is calculated according to the following formula:

$$NPV = -A_0 + \sum_{i=1}^{t} \frac{CF_t}{(1+i)^t}$$

where:

NPV = net present value
CF = net cash flow during the period t
t = number of time periods
i = interest rate (minimal return)
A0 = Acquisition Costs in period 0

This formula can be found in some textbooks about Islamic finance, although the authors do not elaborate the theoretical background of the formula. In this case, cash-flows of any future period are discounted with the interest rate of a risk-free alternative (often government bonds). In other words, an investor compares the internal rate of return of an investment with the interest rate of a risk-free alternative. If the investment has a positive net present value, this means that the investor will receive a higher return on his investment, than putting his money on the interest-based financial product. On the other hand, a negative net present value means that the investment is not able to earn the specified minimal interest, which the investor can receive from the interest-based product.

A simple mathematical analysis of this formula indicates several problems of an interest-based system:

1. If capital markets provide high returns through fixed income securities, investors will likely avoid real investments. Consequently, this will reduce overall investments, shifting economic activity from the real sector to the financial sector. Real sector investments will only become attractive again when interest rates decrease. However, during this period, real sector firms will reduce their economic activities, leading to higher unemployment rates. Therefore, the discount rate acts as a barrier to investment for companies. The higher the discount rate, the lower the likelihood of investments being made. (Bećirović, Plojović, & Ujkanović, 2012)
2. Net present value method suggests that the earned cash flows during the period will be invested again at the same interest rate. Therefore, it is necessary to use resources at a maximum. The following example shows this. We assume that an individual owns productive land, which he/she can manage with the following alternatives:

- Using the land intensively for 20 years and receive a cash flow of 13,000 in the first year and in the following years cash flows decrease by 10% annually. However after this period, the land cannot be used for productive purposes anymore.
- The other alternative is the sustainable use of land with an annual cash flow of 6,000, where the land can be used "indefinitely".

The acquisition cost of the land is 50,000 and the investor calculates with an interest rate of 10%.

According to these assumptions the first alternative has a net present value of 13,825, whereas the second alternative has a net present value of only 10,000. If the investment decision is exclusively made according to the net present value, the first alternative will be chosen. However, using this alternative, the land will be unusable after 20 years, so future generations will not be able to use this land anymore and have income from it due to intensive usage. On the other hand, the second alternative would generate an eternal cash flow and future generations could use the land. However, discounting says that higher cash flows at an earlier stage have to be preferred, so extensive exploitation of resources is fostered, because these cash flows can be invested and receive an interest income. Such thinking leads to damages of the environment, exploitation and to selfish behaviour, without considering the interests of future generations. Thus, thinking according to net present value leads to investor behaviour where the distant future is discounted excessively relative to the near future. This is the real reason for time preference, receiving high cash flows as soon as possible to reinvest or consume the earned money as soon as possible. (Bećirović, An analysis of time preference theory of interest and its impact on the business environment, 2015)

3. The net present value compares internal return of an investment with the return of risk-free investments in the capital markets or the interest rate on saving accounts. This means that there will always be a high supply of money, which has to be employed. By borrowing money, total indebtedness of the economic agents will increase, which will lead to economic problems, especially when the economy is not developing according to expectations. For example, if an investor wants to invest €100,000 and expects a ROI of 10%, he/she will be ready to take a loan at 7%, because profit will be at € 3,000. However, if profit falls below the interest rate of 7%, then the investor will be unable to repay the loan.
4. The part of the formula 〖(1+i)〗^t also implies the problem of compound interest. Investors will lend their money again and again, which will inevitably lead to an exponential increase of deposits, which will again be employed. When we apply these assumptions on a macroeconomic level, we will see that the gross domestic product has to grow faster than the average interest rate. But why? We will show the reason by using a simple model with the following inputs:
    - The initial value of the gross domestic product (GDP) is 200 monetary units (MU)
    - The initial value of the savings is 100 MU
    - Annual constant growth rate of GDP is 3%
    - Constant interest rate is 6%

Table 1

COMPARING THE DEVELOPMENT OF DEPOSITS AND GROSS DOMESTIC PRODUCT (GDP)

Year	**Gross Domestic Product (GDP)**	**Savings**	**Interest Expenditures**	**Interest expenditures in % of GDP**
0	200	100	0.00	0.00
10	268.8	179.1	10.1	3.8%
20	361.2	320.7	18.2	5.0%
30	485.5	574.3	32.5	6.7%
40	652.4	1028.6	58.2	8.9%
50	876.8	1842.0	104.3	11.9%
Increase	**5.9 fold**	**33.0 fold**		

This example shows clearly that savings are growing enormously. Due to compound interest and an interest rate of 6%, savings double every twelfth year. This growing income will also increase consumption and thus increase GDP. Growing savings have the consequence that the share of interest payments on the gross domestic product is also growing. In order to keep a balance between the growth of domestic products and interest payments, the growth of the gross domestic product must be equal to or even higher than the average interest rate. If this balance is not sustained, then interest payments will increase and income from labour (income from dependent work and entrepreneurship) will decrease, so money holders would receive a growing share of the country's wealth. This model also shows that people would work exclusively to pay interest on their debts, if the growth of GDP is much smaller than the average interest rate. Therefore, investments must rise not only absolutely, but also relatively compared to the savings in order to avoid a recession and massive unemployment. But this solution cannot be efficient on the long-term, because an ongoing increase of investments leads to a decrease of returns. However, an increase of investments in present also leads to higher capacities in the future. These capacities will be used, if there is sufficient demand. Because every company wants to sell as much products as possible, it will be impossible to sell all products, so a number of companies will go bankrupt, because they are unable to sell their products. Furthermore, an endless growth of GDP is impossible, because natural resources are limited. So interest will over the long haul create severe problems for an economy.

UNDERSTANDING GHARAR (EXCESSIVE RISK)

The Definition of Gharar

Literally, the word "gharar" means risk or danger. The word "tagrir", which is the verbal noun of gharar, describes a situation where someone unknowingly exposes himself or his property to jeopardy. (Al-Dhareer, 1997) This means that one or both contracting parties do not possess enough information about the object of the contract or contain conditions which expose someone to excessive risk. This excessive risk can cause a wealth decrease to one of the contracting parties. Therefore, well-known Professor Mustafa al-Zarqa defines gharar as follows: "It is the sale of probable items whose existence or characteristics are not certain, due to the risky nature that makes it similar to gambling." (Zuhayli, 2003)
Regarding to financial contracts, the commandment of gharar has the consequence that a client has the right to receive all necessary information during the contract conclusion. For example, an investor has the right to receive detailed information how his profit share is calculated. Furthermore, a client is not allowed to conclude a contact about an object (e.g. service), which existence is not sure in the future. This rule has severe consequences in the commercial insurance and derivative market. For example, in a modern insurance contract, the insured pays regularly premiums to the insurer. However, the insurer only pays damage to the insured, if there is an insured event. So, if such an event will not happen during the period of contract, the insured will not receive a part of his paid money. According to the rules of gharar, such a contract term is not allowed and therefore modern commercial insurance contracts are not allowed in Islam. Therefore, we will have to have a more detailed look on the rules of gharar, in order to avoid this prohibition in modern contracts.

The Economic Consequence of Gharar

Gharar in financial contracts can be found especially in commercial insurance contracts. According to Zuhayli, the insurance contract falls under the ownership contract, which contains a large percentage of risk and guarantees, because the insured

does not know when concluding the contract how much money he needs to invest and how much money he will receive. On the one hand, there is a possibility that already after the payment of the first instalment, there will be damage that must be compensated, or, on the other hand, it may happen that there will never be any damage. Insurance companies, because of this uncertainty, can have large revenues without expenses. (Zuhayli, 2003)
A simple calculation shows this uncertaintly. If we assume that a person wants to insure a car, which is valued at €25,000. For this service, the person will have to pay a sum of €1,000. Furthermore, we assume the probability of a damage is at 2%. In this case, we can calculate the profit and losses of the insured and the insurance company according to the following table:

Table 2
PROFIT AND LOSS OF THE INSURANCE COMPANY AND INSURED

Situation	Insurance company	Insured
1: Damage (2%)	-24,000	+24,000
2: No damage (98%)	+1,000	-1,000
Expected profit/loss	+500	-500

If a damage occurs, the insured "wins", because the premium paid is normally less than the damage paid. On the other hand, if no damage occurs, the insured loses his paid premiums. It can be seen that when one side wins, the other side always has to lose. Who will be the winner in this contract depends on the probability of the insured event occurring. If we assume a probability of 2% for a damage, then the insurer would have a profit of €500 from each insured (-24000*2% + 1000*98%). The greater the number of insured persons, the greater the insurance company's earnings. Because insurance companies calculate the premium offered based on the probability of an insured event, insurance companies will have a large cash flow from their contracts. This is the explanation why classical insurance companies manage a lot of liquidity and why insurance companies are important investors in the classical financial system. But, on the other hand the insured will pay a premium continuously and probably never experience a damage. (Al-Suwailem, 2006)

CONCLUSION

The goal of this paper was to show pivotal differences between Islamic and conventional finance. Islam strictly forbids the taking and paying of interest. The reason is to avoid the exploitation of the other contracting party by the economically dominant contracting party. This does not mean that the other contracting party is automatically poor or less informed – big companies or countries can depend on loans from the financiers in order to finance investments and current expenses and therefore have to pay an extra amount (interest) in order to receive the necessary money. Such a system inevitably leads to injustices, with effects on everyone, because money is the

general medium of exchange. The development of just financial contracts is not easy as it seems, at least due to two reasons: the economic power of money holders and the legal framework in many countries, which is developed to suit the conventional interest-based system.
Insurance contracts are also part of the economic system. But often the insured pay much more than they will ever benefit. Here, it is necessary to go back to the roots of insurance: facing risks together, without benefitting from someone's damage. By developing cooperative insurance organisations, companies and individuals will bear the risks of damage together, which will increase solidarity among people.
Finally, all rules mentioned with regard riba (interest) or gharar (excessive risk), as well as other commandments, will only be observed, if people are convinced that they are truly divine commandments. Muslims believe in the commandments mentioned in the Qur'an and Sunnah, and therefore are ready to observe them. But it is necessary to present solutions considering the intentions of these commandments, which can be practically implemented. Imitating conventional solutions and giving them beautiful Arabic names, is not only contrary to the intentions of Islamic teachings, but will not be accepted by the majority of practising Muslims.

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ISLAMIC BANKING IN BOSNIA AND HERZEGOVINA: REGULATORY CHALLENGES

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Abstract
Islamic finance has been becoming mainstream worldwide for its ethical and risk-sharing approach. However, conventional legal frameworks and regulatory requirements set operational limits that make Islamic finance a big challenge in Bosnia and Herzegovina. The paper will present an overview of challenges and regulatory barriers to using profit-sharing contracts such as those of Mudarabah and Musharakah. It also calls for legal changes, educational efforts, and capacity-building in the banking sector to increase awareness and the market share of Islamic finance products. The article compares the practices of conventional banking with the principles of Islamic finance, suggesting ways that could be conducive to increasing the market size for Islamic finance in Bosnia and Herzegovina. The growth of Shariah-compliant financial products needs to expand in the region to cope with the increasing demand for Shariah-compliant financial products and services.
Keywords: Banking, Islamic banking, regulation, profit-sharing

INTRODUCTION

Islamic finance is guided by the principles of Islamic law, which prohibits interest (riba), uncertainty (gharar), and investments in businesses associated with haram activities, like alcohol, gambling, or pork-related industries. There are more principles of Islamic finance, but these are the most important. Islamic finance is the operational form of the Islamic moral economy, whose ultimate goal is reintegrating human well-being and social justice (Avdukic et al., 2021). Instead, it emphasizes profit sharing, risk sharing, asset-backed financing, and ethical investments. The two most popular contracts in Islamic economics theory are Mudarabah and Musharakah. Mudarabah is based on profit-sharing and implies that one party gives out the capital and the other gives expertise, with the profits shared between them. Musharakah involves a joint venture in which all parties put in the capital and the knowledge and share both the risks and rewards (Ayub, 2007). The other key (and more widely used) contracts are Ijarah and Murabaha, which take the overall schema of Islamic financial products to new horizons. These models represent highly flexible Sharia-compliant solutions for meeting financing needs, although they are similar to some conventional financing structures. These models aim to achieve justice, transparency, and shared prosperity, ensuring fairness and equitability in all forms of financial transactions.

In Bosnia and Herzegovina, a country with a significant Muslim population (around 50%), there has been an increasing demand for financial products and services that adhere to Islamic principles (World Bank, 2016). This has been fueled by personal and business needs, as individuals and enterprises in the country increasingly require funding consistent with their religious beliefs (Dusuki & Abdullah, 2007). The global expansion of Islamic finance has contributed to spreading awareness of and familiarity with Islamic financial instruments in Bosnia and Herzegovina. Unfortunately, though, the existing legal environment in the country contains significant barriers to the complete establishment of Islamic finance rules. For example, classic legal laws require the disclosure of interest rates or fixed returns, to which implementing contracts like Mudarabah or Musharakah by Islamic banks becomes impossible since these contracts are based on the sharing of profits and not predetermined returns. This proves that, with the increasing global demand for Islamic finance, there is an immediate need for an Islamic financial supporting infrastructure that can meet the increasing demand and also conform to local legal regulations. Research in this direction has proved that a flexible operational and structural platform is required for growth, as it will offer immense support to customers, banking operations, and risk management processes.

The primary aim of this article is to reflect on the difficulties that hinder the realization of Islamic finance in Bosnia and Herzegovina. Despite an apparent demand for it, various regulatory, legal, and operational obstacles put a cap on its substantial realization of Islamic finance principles (Meskovic et al., 2024). These limitations involve restrictive legal environments, problems related to models of profit-sharing and trade, and mobilizing funding by Islamic law. This article will, therefore, take the identification of the problems one step further to investigate possible solutions and prospects of Islamic finance in Bosnia and Herzegovina. This article will attempt to understand possible ways of overcoming such barriers via studies of potential legal reforms, regulatory adjustments, and educational initiatives. The article will also examine the potential for growth in the Islamic finance industry, considering the dynamism in the global environment and the growing interest in ethical and Sharīʿah-compliant financial products.

The central research question of this study is whether existing legal and regulatory frameworks in Bosnia and Herzegovina hinder the implementation of Islamic finance and whether potential legal reforms could facilitate the adoption of Shariah-compliant financial products. that the existing regulatory framework-the original design for conventional banking presents significant barriers to applying the principles of Islamic finance.

Reforms that would introduce profit-sharing contracts, such as Mudarabah and Musharakah, will enable Bosnia and Herzegovina to offer an inclusive banking system in order to cope with increasingly growing demand for Shariah-compliant financial solutions, increased awareness by the general public, and professional training in Islamic finance.

OVERVIEW OF ISLAMIC FINANCE PRINCIPLES

The most important principle of the Islamic financial system is the prohibition of *riba*, a term covering all forms of interest. According to the Shariah law, interest-based lending for income is unfair and exploitative because it represents an unearned burden on the borrower and does not share the risks of the transaction with the lender (El-Gamal, 2006). Instead, Islamic finance advocates contracts under which the profit is shared between the lender and the borrower; therefore, the participants share the attached risks and returns. This ensures that transactions are fair in sharing profits and losses (Ayub, 2007). The emphasis on mutual benefits eliminates the potential for exploitation, and thus, a more just economic system is encouraged, which is the fundamental purpose of finance under Shariah guidance.

Islamic finance places a significant emphasis on sharing risk and profits, ensuring that both parties to a financial transaction share the possible loss and profit. In islamic finance theory, such financing models are mostly implemented through two main contract structures: *Mudarabah* and *Musharakah*.

Mudarabah is a profit-sharing partnership in which one party provides the capital (*rab-ul-mal*) while the other contributes expertise and management (*mudarib*). The distribution of profits and losses is pre-determined. However, losses are to be borne only by the financier except if the losses are the manager's fault or are because of negligence or misconduct. This contract structure encourages entrepreneurship because the manager can carry out a project without direct financial risk but is an active participant, whereas the capital provider benefits from any financial success of the venture (Meskovic et al., 2024).

Musharakah is a contract in which all partners contribute capital and share profits and losses in proportion to their respective investments. This, in turn, makes *Musharakah* conducive to cooperation by aligning the interests of all partners. The risks and rewards under *Musharakah* are shared based on a fair profit-or-loss-sharing ratio. The model is especially preferred in long-term projects where the sharing of risks is indispensable for mutual benefit (Ahmed, 2011).

Islamic finance ensures that all transactions are backed by tangible assets or services, which means the various financial activities are strictly linked to the real economy. This important principle aims to mitigate speculative activities and gain financial stability by basing transactions on the real economy (Ayub, 2007), ensuring more stable and sustainable economic model.

Murabaha is one of the cost-plus financing modes in which a bank purchases an asset and resells it to a client at a markup with the payment deferred. The markup, which defines the bank's profit margin, is disclosed at the time of the contract, reducingopacity and cutting ambiguity in the deal. Since the cost and the profit margin are both exposed, this transaction complies with Islamic rules, which do not allow interest (*riba*) and ambiguity (*gharar*). *Murabaha* is the most widespread instrument of Islamic finance. Its simplicity and compliance with Shariah law make it particularly popular among Muslims today.

Ijara depicts an arrangement in which the bank buys an asset and then rents the same to a customer for a specified period. This means that the ownership of the asset lies with the bank, but the client is allowed to use it in one form or another for rent payment. According to the contract terms, at the end of the lease, the user can obtain ownership of the asset. *Ijara* complies with Islamic financing principles in that it prohibits payments of interest and ensures that real, tangible assets back each financial transaction. In simple words, this structure provides an effective tool for carrying out financial activities related to purchasing high-value assets like real estate or machinery.

Comparative Overview

Islamic banking differs from conventional banking in several key aspects:

- Interest vs. Profit-sharing: Conventional banks primarily earn income by charging interest on loans (*riba*), while Islamic banks generate profits through profit-sharing, leasing, and asset-backed sales. This fundamental difference ensures that Islamic banks focus on risk-sharing, where both parties share the risks and rewards, rather than risk-transfer, where the borrower bears the entire burden (El-Gamal, 2006).

- Ethical investments: Islamic banks are prohibited from investing in businesses involved in activities considered haram, such as gambling, alcohol, and pork production. In contrast, conventional banks have no such restrictions, allowing them to invest in a broader range of industries, including those not compliant with Islamic principles (Ayub, 2007).

- Asset-backed transactions: Islamic finance requires all financial transactions to be backed by tangible assets or services, ensuring that financial activities are closely tied to the real economy. This approach reduces speculation (*gharar*) and promotes stability. Conventional banking allows for more speculative and unsecured financial activities, where not all transactions are necessarily tied to tangible assets (Ahmed, 2011).

METHODOLOGY

This research is conducted qualitatively to understand the obstacles faced by Islamic banks in Bosnia and Herzegovina at the regulatory and operational levels. This methodology is structured around a literature review of the regulatory framework for the banking industry in Bosnia and Herzegovina. Each of these methods has been designed to investigate contemporary barriers to implementing Shariah-compliant financial products and to foster the growth of Islamic finance within the region.

An extensive literature review was conducted to study the principles of Islamic finance, the regulatory regime in Bosnia and Herzegovina, and current operating challenges within Bosnia and Herzegovina. The study involved the examination of academic papers, legal documents, and financial regulators' reports to understand global Islamic finance practices and the issues about Bosnia and Herzegovina. The critical resources gathered were the academic articles about Islamic finance, together with its financing models, and documents that stipulated the banking law of Bosnia and Herzegovina in the context of the Law on Banks (2017) and the Law on the Protection of Consumers of Financial Services. The review was an integral baseline for understanding the primary barriers in the legal and regulatory framework, which restrict the full implementation of Islamic finance within Bosnia and Herzegovina.

This research adopts a case study approach toward Bosnia Bank International (BBI), the only Islamic bank in Bosnia and Herzegovina. The paper contains a case study on BBI's operational framework to understand how it tries to operate under the principles of Islamic finance while being bound by conventional banking regulations.

LEGAL AND REGULATORY FRAMEWORK OF ISLAMIC FINANCE IN BOSNIA AND HERZEGOVINA

The normative legal framework for banking in Bosnia and Herzegovina has been designed to support financial stability, transparency, and safeguarding of consumers. The central part of that framework is the Law on Banks, which regulates the establishment, operation, and regulation of the most essential standards of capital adequacy, risk management, and corporate governance of banks. The law also defines the responsibilities of the Banking Agency of the Federation of Bosnia and Herzegovina in monitoring and enforcing these regulations to ensure that the sector maintains its integrity.

Islamic finance in Bosnia and Herzegovina has particular challenges in its regulation under the present system. The existing laws do not explicitly support Sharia-compliant financial products, which do not allow the creation and application of profit-sharing contracts and trade-based models, specifically *Mudarabah* and *Musharakah*. The fact of the matter is that it is difficult to implement any of these and face the challenge because only one bank in the country offers Islamic banking, and it is classified as a traditional bank under the name of BBI that has to operate under similar legal and regulatory requirements.

As Efendić (2011) noticed, BBI is less efficient than its conventional counterparts, mainly in terms of cost efficiency, which is relatively low due to the absence of regulatory accommodations for Islamic banking. For example, BBI's cost efficiency was measured at a mere 46%, pointing to the necessity of retooling regulations to support Islamic financial products better.

This also manifests another challenge to issuing Islamic financing products whose principles prohibit interest (*riba*) in that it is a requirement that interest rates on loans, as well as returns on deposits, be absolutely stated. The existing legal framework is principally based on the regulation of conventional banking, according to Kozarević et al. (2014), and thereby indirectly forms a barrier to Islamic banks. For this reason, the legal framework restricts these banks from issuing the full line of wholly Shariah products. This includes limitations associated with the application of risk-sharing contracts, such as *Mudarabah* and *Musharakah*, which are fundamental to Islamic finance but challenging to operationalize in Bosnia and Herzegovina due to the lack of a specialized legal environment for the implementation of the said contracts.

Another weakness that befalls Islamic banks is their inability to establish risk management policies tailored to their needs, which makes their activities even more cumbersome under the existing conventional banking system.

The existing legal framework in Bosnia and Herzegovina imposes significant restrictions on profit-sharing contracts, such as *Mudarabah* and *Musharakah*, which are central to Islamic finance. These contracts rely on flexible regulatory treatment that allows for profit and loss sharing without predetermined interest rates. However, current regulations mandate that clients must be informed in advance of the exact amounts they will be charged or receive, conflicting with the variable nature of profit-sharing agreements. As Efendić (2011) points out, Bosnia Bank International struggles with offering these Shariah-compliant contracts under the existing regulatory framework, as it is required to function under the same legal rules as conventional banks. This creates significant challenges in implementing true profit-sharing mechanisms, which inherently involve variable returns.

The most important law for banking business in Bosnia and Herzegovina is the Law on Banks (2017). Article 2 (Definition of Terms) mentions all terms used in the law have the following meanings. Regarding the definition of bank, deposit, and a loan, it says the following:

„a) A bank is a joint-stock company with headquarters in the Federation of Bosnia and Herzegovina (hereinafter: the Federation), which has a license to operate from the Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter: the Agency), whose activities include receiving deposits and funds with the obligation to repay and granting loans for its own account, and may also perform other activities in accordance with this law.“

The definition in this law refers to a traditional, conventional banking structure where banks operate under interest-based transactions (loans and deposits), which is not permissible in Islamic banking. The idea of accepting deposits with the obligation to repay with interest is prohibited under Shariah law because it involves *riba* (usury or interest). For Islamic banks, the activities of receiving deposits and providing financing must be compliant with Shariah principles. Islamic banks operate without interest and instead use profit-sharing or other Shariah-compliant modes of financing (such as *Murabaha*, *Mudarabah*, or *Ijarah*). Thus, Islamic banks need to adapt this legal framework to ensure that their operations align with Islamic laws, even though the framework described is designed for conventional banks.

"ee) A deposit is considered a cash deposit based on a contract concluded with the bank where the bank commits to accept, and the depositor commits to place a certain amount of money with the bank. By this contract, the bank acquires the right to manage the deposited funds and is obligated to return them under the conditions specified in the contract."

Islamic banks accept deposits under the principle of *qard* (interest-free loan) or as *Mudarabah*(profit-sharing). In *qard*, the bank guarantees the repayment of the deposit, while in mudarabah, the depositor shares in the profit or loss of the bank's investments. The key difference from conventional banking is that Islamic banks cannot promise a guaranteed return or interest, only a share in the profit.

"ff) A loan is considered a contract by which the bank commits to making available to the borrower a certain amount of money, for a fixed or indefinite time, for a specific purpose or without a defined purpose, and the borrower commits to pay the agreed interest to the bank and return the received amount of money at the time and in the manner determined by the contract."

The loan definition here involves the bank lending a sum of money to a borrower, who agrees to pay interest and repay the principal according to the contract terms. This type of contract is based on *riba*, which is prohibited in Islamic law. Islamic banks do not provide interest-bearing loans. Instead, they offer financing products such as *Murabaha*(cost-plus financing), where the bank buys a product and sells it to the customer at a markup, or *ijarah*(leasing), where the bank leases an asset to the customer. The profit for the bank is derived from the sale or lease, not from charging interest on a loan. Therefore, the conventional definition of a loan is incompatible with Islamic finance, which prohibits interest and instead promotes trade-based, profit-and-loss sharing arrangements.

Another important law relevant to Islamic banks in this market is the Law on the Protection of Consumers of Financial Services. Article 15: Providing Information to Consumers in the Negotiation Phase, says:

„Banks, microcredit organizations, and leasing providers are obliged to provide the consumer with information about the terms and all significant characteristics of the service they offer in the form of a standard information sheet on a representative example of the service in written or electronic form, which relates to contracts on monetary deposits/loans/microloans/leasing, authorized overdrafts, or the opening and management of accounts, as well as contracts for the issuance and use of payment cards (hereinafter referred to as the offer) in a way that will allow the consumer to

compare offers from different providers of the same services and assess whether the contract meets their needs and financial situation, but which at no time will mislead the consumer.

The information sheet referred to in paragraph (1) of this Article should contain 5) The amount and variability of the nominal interest rate, 6) The effective interest rate, and the total amount that the consumer must pay or that must be paid to them, 7) The amount and number of loan installments and the periods in which they are due (monthly, quarterly, etc.), 11) The interest rate applied in the event of a delay in fulfilling obligations and the rules for its adjustment, as well as other fees payable in the event of non-fulfillment of obligations.“

The first issue in this law is the interest (*riba*). The mention of nominal interest rates (point 5) and effective interest rates (point 6) conflicts with the core principles of Islamic finance. As mentioned before, Islamic financial institutions do not charge interest on loans. Instead, they utilize profit-sharing, leasing (*Ijarah*), trade-based (*Murabaha*), or partnership (*Musharaka*,*Mudharaba*) contracts where profit is derived from legitimate trade or investment activities, not interest. Therefore, in an Islamic finance context, the information sheet would instead provide details about the profit rates, rental payments (for *Ijarah*), or the profit-sharing mechanism (for *Musharaka*/*Mudharaba*) rather than interest rates.

Islamic finance emphasizes the importance of transparency and the need to provide all material information to ensure fairness and clarity in financial contracts. The requirement to provide detailed information about the financial product (such as the total cost, payment schedules, etc.) aligns well with the Islamic finance principle of full disclosure (*Tawheed*) and avoiding *gharar* (excessive uncertainty). This article's mandate for comparing different offers and ensuring that the consumer is not misled supports the ethical principles in Islamic finance that prioritize the well-being of the consumer and fairness in financial dealings.

Point 11 refers to the interest rate applied in case of delayed payments and the rules for its adjustment, which is problematic in Islamic finance. In Shariah-compliant contracts, while late payment penalties are discouraged, institutions may charge a fee to cover administrative costs or encourage prompt payment. However, this fee cannot be considered as income or profit for the institution. In Islamic finance, a common practice is for any penalties collected from late payments to be directed toward charitable purposes in order to avoid any benefit from *riba*. Alternatively, banks may use other non-interest-based mechanisms, such as late payment compensations based on actual costs incurred rather than interest.

Therefore, while the requirement to provide transparent and comparable information about financial products aligns well with Islamic finance values, the references to interest-based elements, such as nominal and effective interest rates and late payment penalties, are incompatible with Shariah-compliant finance. Islamic financial institutions would replace these elements with Shariah-approved alternatives like profit-sharing, rental rates, or fixed profit margins, ensuring that all transactions comply with Islamic ethical principles.

Trade-based financing models like *Murabaha* and *Ijara*, which are essential components of Islamic finance, also face regulatory hurdles in Bosnia and Herzegovina. The legal requirement for transparency and the prohibition of disguised interest complicates the implementation of these models within the conventional banking framework. According to Efendic and Meskovic (2012), Islamic banks such as BBI face challenges in offering Shariah-compliant financing because of the restrictive legal environment. The law on banks does not permit trading, which means that Islamic banks cannot use *Murabaha*,*Salaam,* or *Istisna's* contracts.

The legal requirement for clear disclosure of costs and returns presents one of the main regulatory obstacles for Islamic finance in Bosnia and Herzegovina. Conventional banking rules specify that banks give customers exact information on predicted returns and interest rates. This runs counter to the Islamic finance concept of risk-sharing, in which actual business performance must determine returns since guarantees of them are impossible. While keeping Shariah compliance, Meskovic et al. (2024) observe that any Islamic bank would struggle to meet these disclosure standards. Further complicating their activities, Islamic financial institutions must find a balance between the requirement for openness and the basic Islamic premise that returns are uncertain and depend on the success of the underlying commercial activity.

PRACTICAL CHALLENGES IN IMPLEMENTATION

Using Islamic contracts such Mudarabah and Musharakah inside Bosnia and Herzegovina's current legal system presents great difficulties. Similar challenges were noted in a 2013 Serbian market research by Bečirović & Dudić. The Law on Banks outlines particular criteria on openness, pre-defined charges, and interest disclosure that cannot be mixed with the flexible and profit-sharing character of Islamic finance arrangements. Efendić (2011) notes that these limitations make it practically impossible for the sole pure Islamic bank in the nation, Bosnia Bank International, to completely implement Shariah-compliant financing arrangements. BBI has to run within the same legal framework as traditional banks, hence it is challenging to match the profit-sharing ideas fundamental to agreements like Mudarabah and Musharakah.

Lack of sufficient knowledge and experience in Islamic finance among bank staff members presents still another significant obstacle. Most bankers in Bosnia and Herzegovina may not completely grasp the ideas and operations of Islamic finance as most of them are taught traditional banking techniques. Concerned also by Kozarević et al. (2014), who emphasize the requirement of capacity building in Islamic finance risk management, this knowledge gap impedes the efficient promotion and implementation of Islamic financial products. Like Bosnia and Herzegovina, Kammer et al. (2015) underline that the lack of technical knowledge in Islamic finance generally restricts the sector's development, especially in emerging nations.

Many consumers in Bosnia and Herzegovina also lack knowledge about Islamic financial ideas and products. This ignorance could cause misunderstandings and resistance to applying Islamic financial services. Increasing acceptance and demand depends on educating clients on the advantages and practices of Islamic financing.

While Meskovic (2022) emphasizes that BBI Bank has placed major effort into public education till 2022, Solo et al. (2020) underline even more how public education on Islamic banking is necessary to address these difficulties and improve client acceptance.

Clients often have expectations based on conventional banking practices, such as fixed interest rates and guaranteed returns. These expectations do not align with the risk-sharing and variable return principles of Islamic finance. As noted by Amine (2016), this misalignment is common across regions where Islamic finance is being implemented, as clients often expect Islamic products to behave similarly to conventional ones (Amine, 2016). Bridging this gap requires significant effort to educate clients and align their expectations with the unique aspects of Islamic financial products.

On the other hand, we must emphasize that BBI is a champion in the implementation of subsidized financing lines in Bosnia and Herzegovina. Zogić et al (2024) note that the bank has implemented many financing lines and helped physical and legal persons to expand their capacities and overcome financial obstacles related to liquidity. Although based on the conventional banking model, these lines often offer a 0% rate for the customer.

POTENTIAL SOLUTIONS AND RECOMMENDATIONS

Changing current laws and rules to fit Sharia-compliant financial products will help Bosnia and Herzegovina's Islamic finance adoption go more smoothly. This covers trade-based ideas like Murabaha and Ijara as well as changing the Law on Banks to let profit-sharing agreements like Mudarabah and Musharakah exist. Particularly in relation to interest and predefined returns, these revisions would need to change transparency and disclosure criteria to fit Islamic financial values. Efendić (2011) argues that since the present regulatory system drives Islamic banks to operate under conventional banking rules, legal reform is absolutely necessary for allowing BBI to deploy the whole spectrum of Islamic financial products. Furthermore, implementing particular laws for Islamic banking, in line with models elsewhere, would offer a clear legal framework encouraging the expansion of the industry. Belouafi and Belabes (2010) contend that allowing the particular requirements of Islamic finance in a traditional system depends on a flexible regulatory environment.

Successful application of Islamic finance depends on investments in the training and growth of bank staff members. This entails thorough courses on operating techniques, Islamic financial ideas, goods, and concepts. Lack of knowledge in Islamic banking among professionals presents a major obstacle for Bosnia and Herzegovina, therefore restricting the efficient management and promotion of Sharia-compliant financial products. Focused education programs will help bank staff members to better manage and advocate Islamic financial services, therefore enhancing their knowledge and abilities. Kammer et al. (2015) stress even more the need for capacity development in Islamic finance in order to close the knowledge disparity globally. Improving education among potential consumers about Islamic finance can help to increase demand and acceptance of it. This can be achieved via targeted awareness campaigns, educational seminars, and informational pamphlets stressing the benefits and workings of Islamic financial products. A fundamental barrier in Bosnia and Herzegovina, as Meskovic (2022) points out, is the broad ignorance of Islamic financial concepts among the people. This knowledge discrepancy could lead to misinterpretation and opposition to dealing with Islamic banks. He emphasizes even more the need for public education.

Creating innovative Islamic financial solutions assists banks or other companies to meet the several wants of customers. These could include fresh profit-sharing schemas, investment products, and finance choices compliant with Shariah guidelines yet satisfying the specific requirements of the market. Expanding Islamic banking in emerging nations depends on creativity, as Amine (2016) notes since tailored solutions are needed to meet local demand and regulatory constraints. Islamic banks in Bosnia can diversify their offerings and attract more customers by means of new instruments like Sukuk or Shariah-compliant investment vehicles.

Restructuring current financial products to eliminate interest and ensure they are underpinned by actual assets allows them to suit Islamic values. For example, Murabaha agreements—cost-plus financing—may be created from conventional loans; leasing items can be altered to fit Ijara patterns. Emphasizing its flexibility for the local market, Lojo-Bajrić and Hadžić (2020) investigate the possibility of using declining Musharakah for home financing in Bosnia and Herzegovina. This approach would enable Islamic banks to offer a wider range of compliant financial products, therefore maintaining their competitiveness while adhering to Shariah rules.

FUTURE PROSPECTS AND OPPORTUNITIES

Given Bosnia and Herzegovina's high Muslim population and growing demand for Shariah-compliant financial products, Hadzic et al. (2012) find that Islamic finance has tremendous market potential in this part of the world. As more people and companies learn to know Islamic financing, this will rise. In the financial industry, the untapped market presents great potential for expansion. Trokić (2016) claims that if diaspora remittances were tested using Shariah-compliant vehicles like the Islamic Bosnian Diaspora Mutual Fund, the sum would rise dramatically and significantly help the national economy. This Islamic mutual fund pools remittances for SMEs in Bosnia; so, fresh financial sector growth prospects are within reach. Based on rent based on the market, Lojo-Bajrić and Hadžić (2020) stated that Islamic financial institutions in Bosnia and Herzegovina have more room for maneuvering and there is the prospect of larger applicability.

If we want society to benefit from these institutions, it is essential to work on introducing and implementing laws that support the development and operation of Islamic financial institutions. This includes creating a clear regulatory framework for Shariah-compliant products. Regulatory bodies should look to develop specific regulations that address the unique needs of Islamic finance, such as accommodating profit-sharing models and asset-backed financing (Kammer et al., 2015). A dedicated framework will provide stability and encourage Islamic financial institutions to grow (Kammer et al., 2015).

Countries like Malaysia, Saudi Arabia, and the UAE have integrated Islamic finance into their conventional banking systems by developing regulatory frameworks that allow the accommodation of Shariah-compliant financial products. For instance, the Islamic Financial Services Act 2013 in Malaysia provides a clear regulatory framework for the functioning of Islamic banks side by side with conventional banks under Islamic principles. These models can be replicated by Bosnia and Herzegovina merely through regulatory reforms that will serve the needs of both conventional and Islamic finance. With the establishment of a dual banking system where Islamic banks can operate under dissimilar sets of rules in line with Shariah, Bosnia, and Herzegovina would be able to successfully manage the surge in Islamic finance without necessarily compromising financial stability. Malaysia is the country with the most developed Islamic financial system, and this is not a coincidence. Meskovic et al. (2023) proved that regulation plays the most important role in financial system development.

The Malaysian Islamic Financial Services Act 2013 thus puts into law separate jurisdiction for said Islamic banks to operate businesses alongside conventional banks. Similarly, in the United Kingdom, special provisions were introduced through the Financial Services and Markets Act 2000 (Regulated Activities) Order to accommodate alternative finance investment bonds or Sukuk as one way of opening its jurisdiction to Shariah-compliant financial transactions. It can initiate a dual banking mechanism whereby Islamic banks are operating under different regulatory policies that have been designed to meet certain principles. Also, the amendment of existing legislation, such as the Law on the Protection of Consumers of Financial Services, which dictates fixed-rate disclosure of interest, should be amended in the direction of allowing the disclosure of profit rates or rental receipts, as is already being done by countries such as the United Arab Emirates, whose central bank has issued extensive Shariah-compliant regulations supporting Murabaha, Ijara, and other Islamic instruments. These examples can help in establishing a more flexible banking environment in Bosnia, more inclusive and friendly, in order to meet the increasing demand for Islamic financial products.

Developing and implementing educational programs for both bank employees and potential clients is critical for enhancing understanding and acceptance of Islamic finance principles. Providing specialized training to bank employees will ensure they are well-versed in Sharia-compliant products, helping bridge the current knowledge gap. For clients, awareness campaigns should explain the benefits and unique features of Islamic finance to foster trust and increase demand.

Encouraging the development of innovative Islamic financial products tailored to meet the needs of the local market will help Islamic banks remain competitive with conventional banks. Amine (2016) emphasizes the importance of creating new financial instruments that align with Shariah principles while addressing the specific requirements of clients in Bosnia (Amine, 2016). This could include developing products for home financing, investment funds, and SME financing that cater to Bosnia and Herzegovina’s unique market needs.

Public awareness campaigns about the benefits and operations of Islamic finance create trust and confidence in the minds of potential clients. Meskovic (2022) further stresses that focused marketing campaigns have to be created to better inform the general public about the stability and resilience of Islamic financial products, which were more resistant to shocks during the global financial crisis.

For instance, targeted educational campaigns on awareness can be issued adopting Malaysia's campaigns where national awareness programs play a critical role in raising the knowledge of Islamic finance among the general public. Finally, international collaborations with institutions involved in Islamic finance, for example, IsDB, will lead Bosnia in capacity building in Islamic finance through training and development programs that raise awareness among employees and clients alike. These actions would spell out the pragmatic, actionable way ahead for Bosnia and Herzegovina in creating an enabling environment where Islamic finance can flourish.

IMPLICATIONS

Recommendations for the policymakers and financial institutions from this article are valuable not only for Bosnia and Herzegovina but also for other countries with similar environments. Legal and regulatory reforms proposed can provide a clear roadmap for the appropriate integration of Islamic finance into the national financial system. Bosnia and Herzegovina would do well by moving toward and embracing the dual banking system. Such a system in which Shariah-compliant products exist alongside conventional banking seems appropriate for a country like this with a 50% Muslim population. Hopefully, this would lead to a better regulatory environment, more foreign investments, and increased economic growth. Looking at countries like Malaysia and the UAE, this model increases not only financial inclusion but can also contribute to financial stability.

Important insights into capacity building and public awareness are raised in the article. Given the nature of financial institutions, especially BBI, there should be intensive training of internal staff and its clients about Islamic finance products. Staff retention programs are crucial, however. This would lead to improved product design and customer satisfaction, and Islamic finance would take over the market share in Bosnia and Herzegovina. In turn, institutions that introduce Islamic financial solutions will find themselves well-positioned to capitalize on a growing demand for ethical and Sharia-compliant options.

The Bosnian case has wider implications for the Islamic finance industry. It shows a number of challenges countries with conventional legislation are likely to face when trying to accommodate Islamic finance. These findings also inform similar efforts in other regions, based on a framework for legal reform, public education, and capacity building. Successful implementation of Islamic finance in Bosnia and Herzegovina could open new opportunities for regional cooperation. Also, integration with global Islamic finance markets is possible, further enhancing the country's financial resilience and diversification.

CONCLUSION

Barriers to introducing Islamic finance in full capacity in Bosnia and Herzegovina are complex. They include restrictions in existing legal frameworks, a lack of proper expertise amongst bank employees, and limited client awareness. These limitations require regulatory reforms as remedies, together with capacity building through training and awareness campaigns and innovative Islamic financial product designs. Overcoming these challenges will be crucial for the further development of Islamic finance in Bosnia and Herzegovina. By providing a favorable regulatory environment, enhancing the knowledge and skills of banking professionals, and creating awareness among clients, the potential of Islamic finance can be realized in practice.

These solutions require the collaboration of all stakeholders. Such collaboration includes regulatory body (Federal Banking Agency) as well as financial institutions and community leaders. Together they can create a more inclusive and diversified financial sector. Such a sector can further support Bosnia and Herzegovina's economic growth and social welfare.

Removing regulatory barriers would add long-term value to the financial system and the economy of Bosnia and Herzegovina. In reforming the legal framework of Bosnia and Herzegovina to make accommodations for Sharia-compliant financial products, there is potential for attracting foreign investments from Islamic countries. Another very important area is that of inclusive financial products, which would widen access for Muslims and ethical investors. A strong Islamic finance sector would enhance economic resilience through risk-sharing and asset-backed financing. This promotes financial stability. Addressing these challenges could position Bosnia as a regional hub for Islamic finance, driving sustainable growth and financial inclusion.

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THE ROLE OF WAQF IN REVIVING THE ISLAMIC MORAL ECONOMY IN BOSNIA AND HERZEGOVINA

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Abstract:
The role of waqfs in revitalizing the Islamic moral economy in Bosnia and Herzegovina is of great importance for the social, economic, and spiritual development of the community. Waqfs, as charitable institutions based on the permanent allocation of property for public benefit, represent a significant component of the Islamic moral economy. Through investments in educational, religious, social, and economic projects, waqfs facilitate strengthening social cohesion, fostering solidarity, and reducing social inequalities. In the modern context, waqfs in Bosnia and Herzegovina have the potential to revitalize a moral economy based on values such as justice, equality, and sustainability. Efforts aimed at the temporary restitution and restoration of waqf properties, much of which was confiscated during the 20th century, as well as the increasing number of domestic benefactors, contribute to the development of infrastructure, education, and social protection. Through these activities, waqfs not only promote local economic growth but also revive traditional Islamic values that encourage ethical resource management. In this way, waqfs serve as a bridge between the past and the future, offering a sustainable development model aligned with the moral principles of the Islamic economy.
Keywords: waqf, Islam, moral economy, justice and fairness, social responsibility

INTRODUCTION

Islamic moral economy is a concept based on Islamic principles and values, aiming to create a fair and sustainable economic system (Chapra, 2000).

Waqfs play a key role in Islamic moral economy. They perfectly align with the principles of justice, fairness, social responsibility, and sustainability in the following ways:

1. *Justice and Fairness:* Waqfs enable the redistribution of wealth and resources within society.[1] Waqf properties or their income are used for the public good, often in education, healthcare, social services, and infrastructure, thus reducing economic inequality.

[1] The Quranic verse in Surah Al-Hashr mentions the reason why wealth needs to be distributed: *"...so that it may not merely circulate between the rich among you..."* (Al-Hashr, 59:7).

2. *Social Responsibility:* Waqfs provide enduring support for social projects and initiatives, ensuring that monetary endowments aimed at building schools, health and social institutions, mosques, and other public facilities serving the community and fulfilling societal needs have a lasting impact.
3. *Institutionalized and Sustainable Giving:* While zakat and sadaqah address immediate needs, waqf provides enduring resources for long-term projects. Thanks to waqf, a rich Islamic civilization was established. Even today, in Bosnia and Herzegovina, we take pride in and eagerly showcase to visitors the monumental waqf structures and the rich cultural and architectural heritage built upon waqf foundations.
4. *Ethical Business Practices:* The management of waqfs must be transparent and accountable. Responsible management of waqf properties is a core value in Islamic moral economy.

5. *Sustainability:* "Waqfs contribute to economic and environmental sustainability. Properties endowed as waqfs are often utilized in ways that ensure long-term benefits for the community, preserving resources and the environment for future generations.

In essence, waqfs are an institutionalized mechanism that enables the practical application of Islamic economic principles, providing a stable and sustainable way to support societal needs and development (Chapra, 2000).

Objectives of the Paper

1. To explore the contribution of waqfs to societal development through Islamic moral economy and their role in shaping economic, social, and cultural structures in Bosnia and Herzegovina.
2. To analyze the application of the waqf concept in Bosnia and Herzegovina, with a focus on adapting to modern economic challenges and sustainable development.
3. To evaluate the impact of waqfs on the socio-economic development of the community, including combating poverty, improving education, healthcare, and infrastructure.
4. To examine the application of Islamic moral economy principles (justice, social responsibility, sustainability) in the contemporary functioning of waqfs.
5. To identify challenges and propose strategies to improve the work of waqfs in the modern context.

6. To examine the potential for developing new waqf models that address contemporary social and economic challenges, such as poverty and unemployment.

Each of these objectives can help in better understanding the role of waqfs in Islamic moral economy and their potential contribution to modern society.

Methodology

The paper uses qualitative analysis of textual data (historical documents, legal texts, academic articles) and a comparative approach to compare waqf practices in Bosnia and Herzegovina with those in other Muslim countries. Historical analysis provided insight into the development of waqfs through different social contexts, while normative evaluation assessed contemporary management practices through Islamic principles of justice, sustainability, and social responsibility. This methodology connects the theoretical foundations of moral economy with practical recommendations for modernizing waqfs. It concludes that waqfs can significantly contribute to sustainable development through social, educational, and economic projects.

THE IMPACT OF ISLAMIC MORAL ECONOMY ON THE SOCIAL AND ECONOMIC DEVELOPMENT OF BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina, during Ottoman rule and even afterwards, provides a good example of the application of Islamic moral economy, especially in the field of waqfs:

Expansion of Waqfs During the Ottoman Period

1. *Development of Infrastructure and Social Services:* During the Ottoman rule, waqfs played a key role in constructing and maintaining public infrastructure, such as mosques, madrasas, hammams, bridges, hospitals, roads, and other services.
2. *Education and Culture:* Many well-known educational and cultural facilities in Bosnia and Herzegovina, such as the Gazi Husrev-beg Madrasa and Library in Sarajevo, were established as waqfs. These waqfs provided free education and cultural activities, contributing to the intellectual and cultural development of the community.
3. *Urbanization of Bosnian-Herzegovinian Cities:* Waqfs were instrumental in the emergence and urbanization of many Bosnian-Herzegovinian cities. During the formation of urban centers, the same principle was consistently applied, where waqfs played a pivotal role.

4. *Economic Waqf Structures:* Numerous economic waqf facilities were intended to support waqfs that, by their mission and purpose, did not generate financial or material value. Caravanserais, bazaars, shops, mills, and similar assets were endowed to finance religious and educational waqfs.

Waqfs After the Ottoman Period

Preservation and Adaptation of Waqf Properties: After the withdrawal of the Ottomans, waqfs continued to play a significant role in society, although they faced various challenges, including confiscation, usurpation, and nationalization of properties during different political systems. It is important to recall that Bosnia and Herzegovina, and its waqfs, have passed through five distinct political systems to date[2]. Despite these challenges, waqf properties have remained vital in maintaining the religious and cultural identity of Muslims in Bosnia and Herzegovina.

Revitalization of Waqfs in Modern Times: After the last aggression on Bosnia and Herzegovina, significant efforts were made to restore and revitalize waqfs, which contributed to rebuilding social infrastructure and supporting vulnerable groups. Alongside other organs and institutions of the Islamic Community, the Waqf Directorate actively works on reclaiming and managing waqf properties, including the restoration of religious buildings, provision of social assistance, support for education, and establishment of numerous economic projects (Ahmed, 2007).

Social Function of Waqfs

Support for Vulnerable Social Groups: Waqfs have been a primary source of social support, providing public kitchens (imarets), free accommodation for travelers, and financial aid to the poor. This practice aligns with the principles of Islamic moral economy, emphasizing care for the socially disadvantaged and marginalized groups.

Integration with Local Communities: Waqfs were often founded by local notables and closely linked to local communities, enabling better resource distribution and strengthening social cohesion. Together with the private and civil sectors, waqfs and local communities built infrastructure (Gamal, 2006).

Legal Framework and Management of Waqfs

Shariah Courts and Administration: During the Ottoman period, waqfs were regulated and overseen by Sharia courts, ensuring that waqf properties were used in accordance with the founder's wishes expressed in waqf deeds and Islamic laws. This administration was crucial for preserving the moral and economic functions of waqfs.

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[2] The Ottoman Empire, the Austro-Hungarian Monarchy, the Kingdom of Serbs, Croats, and Slovenes, the Kingdom of Yugoslavia, the Socialist Federal Republic of Yugoslavia.

Continuity in Management: Despite changes in political structures, the system of managing waqfs largely remained intact, enabling the long-term preservation and functionality of these institutions. Bosnia and Herzegovina has provided a good example of the application of Islamic moral economy through waqfs, contributing to socio-economic development, education, and the preservation of cultural heritage. Although waqfs have faced challenges, their impact on society remains significant and relevant to this day. It is an indisputable fact that all political systems that in any way usurped waqfs eventually failed, while waqfs outlived them (Kader, 2021).

Waqfs as a Model for Local Community Development: Since ancient times, waqfs, alongside the public and private sectors, have been represented as a model for local community development. This practice was particularly evident during Ottoman rule, where all three sectors played a role in the establishment and urbanization of Bosnian-Herzegovinian cities. Today, the laws of our region define waqfs as a model of public-private partnership (PPP), and their revival is now advocated by EU and US countries.

It is important to note that the implementation of Islamic moral economy was not perfect and did not always succeed in overcoming all the challenges and injustices of the time. Nevertheless, the practice of waqf and other elements of Islamic moral economy left a lasting impact on the social and economic development of the Balkans (Asutay, 2020).

Current State and Prospects of Islamic Moral Economy in the Field of Waqfs in Bosnia and Herzegovina

According to Rijaset IZ BiH (2023), in Bosnia and Herzegovina, waqfs continue to play an important role in societal development through various projects. Numerous examples exist, but for this paper, we will highlight only a few:

a) Waqf Directorate

1. *Restoration and Maintenance of Religious and Cultural Sites:* The Waqf Directorate manages all waqfs in Bosnia and Herzegovina and secures significant funds used for the reconstruction, restoration, and maintenance of mosques, educational institutions, and other cultural-historical and socially beneficial structures across Bosnia and Herzegovina. For example, the restoration of the Aladža Mosque in Foča, the Arnaudija Mosque in Banja Luka, and the Derviš-hanuma Madrasa in Bosanska Gradiška were financed through waqf funds. These projects reflect the fundamental principles of Islamic moral economy, such as the preservation of communal benefits and the care for cultural heritage.

2. *Social or Health Projects:* The Waqf Directorate engages in projects related to healthcare services and social assistance. The construction of two parental

houses in Sarajevo and Tuzla for parents and children battling cancer, as well as the continuous distribution of hemodialysis machines to dialysis centers across Bosnia and Herzegovina, are just some examples of social and healthcare projects. Providing healthcare support to vulnerable groups is a significant example of applying the principles of solidarity and social justice within Islamic moral economy.

3. *Educational Waqf Projects:* The Waqf Directorate has realized dozens of educational waqf projects that now function independently. Universities, madrasas, and kindergartens are part of projects built and equipped thanks to waqf funds. The Waqf Directorate places special emphasis on the realization of economic waqf projects, whose revenues fund numerous missionary activities as well as the maintenance and operation of waqf properties. These projects highlight the importance of the economic self-sustainability of waqfs and their role in building a stable social system.

4. *Collaboration Model:* All waqf projects implemented across Bosnia and Herzegovina are realized through partnerships between the Waqf Directorate, local councils (medžlises) of the Islamic Community, and other organs and institutions of the Islamic Community. This model of cooperation contributes to more efficient project implementation and promotes the values of community and trust in Islamic economy.

b) Gazi Husrev-beg's Waqf

1. *Self-Sustained Waqf:* This is a unique, independent waqf[3] that finances its operations through its revenues and assists other institutions.[4] It is economically self-sufficient and holds legal entity status.

2. *Religious and Educational Institutions:* Gazi Husrev-beg's Waqf in Sarajevo is one of the most renowned and oldest waqfs in Bosnia and Herzegovina. This waqf funds and manages the Gazi Husrev-beg Mosque, participates in financing the madrasa—one of the most important educational institutions in the country—as well as the library and other cultural institutions. These projects exemplify how waqfs can preserve religious and educational traditions and contribute to the cultural development of society.
3. *Social Assistance:* This waqf also provides aid to socially vulnerable individuals through various projects, including free meal distributions. Such

[3] According to the Statute of the Waqf Directorate, Article 7, a Special Independent Waqf is an independent waqf that constitutes a significant economic entity and whose revenues can finance a specific institution of the Islamic Community in accordance with the waqf deed (*waqfiyyah*).
[4] For more details about the Gazi Husrev-beg Waqf, visit the website www.vakuf-gazi.ba.

programs symbolize the implementation of the core principles of Islamic moral economy, which encourages fair resource distribution and assistance to the most disadvantaged.

c) Waqfs in Tuzla

Among the most notable active waqfs in Tuzla are Turali-beg's and Behram-beg's waqfs. These waqfs have progressed year after year, particularly in economic terms. Their revenues finance numerous missionary activities such as organizing religious life, maktab education, youth training, and similar activities. These projects demonstrate how waqfs contribute to strengthening the community and preserving religious and cultural values through their initiatives.

Scholarships and Educational Programs: The waqf actively participates in funding education, particularly Behram-beg's Madrasa, regarded as one of the best schools in the canton. Additionally, it provides scholarships to students from socially disadvantaged families. These programs enable young people from poor backgrounds to receive quality education, which represents a significant contribution to equality and social inclusion.

Support for Cultural Events: The waqfs in Tuzla also support various cultural events, such as exhibitions, literary evenings, and seminars, thereby contributing to the preservation of cultural heritage.

Revitalization and Construction of New Waqf Facilities: In the past twenty years, there has been evident activity in the economic enhancement of waqfs in the Tuzla area, particularly in the field of restoring and constructing new residential-commercial waqf facilities. These projects highlight strategic planning and long-term vision in the development of waqf resources. The Tuzla Islamic Community Council (MIZ Tuzla) has also established its own construction company, which handles the construction and equipping of waqf facilities. Examples of smart and strategic planning include the new facilities of Turali-beg's Waqf and Behram-beg's Madrasa in Tuzla.

Educational and Cultural Achievements: These educational and cultural projects, including four faculties, ten madrasas, a high school, 20 kindergartens, and numerous educational centers across Bosnia and Herzegovina, represent waqf wealth that future generations will proudly cherish.

d) Waqfs in Mostar

Waqfs in Mostar, managed by the Islamic Community Council of Mostar (MIZ Mostar) and in cooperation with the Waqf Directorate, contribute to preserving cultural and historical heritage and improving social life. Notable projects include the restoration of waqf facilities such as the 'Tekija on Buna' complex, Karađoz-beg Mosque, Karađoz-beg Madrasa, and Šarić Mosque, which are key symbols of Islamic architecture and cultural identity in this region. Revitalizing these facilities not only contributes to preserving cultural heritage but also supports the local economy by increasing visitor numbers and utilizing local resources.

Education and Scholarships: MIZ Mostar continuously supports educational programs, including scholarships for students from socially disadvantaged families. Additionally, they organize various educational seminars and workshops for youth, encouraging the development of human resources and providing better access to education for young people, which is a key principle of Islamic moral economy.

Revitalization of Waqf Properties: Special focus has been placed on the restoration and repurposing[5] of waqf facilities for social needs as well as their economic utility. Recent projects include the construction of residential-commercial buildings and spaces for communal activities. These efforts demonstrate how strategic planning can achieve the sustainability of waqf properties and create additional opportunities for the development of local communities.[6]

e) The Waqf Fund "Bosniaks"

The Waqf Fund 'Bosniaks' represents a unique example of how waqf funds can be directed towards education and the development of young talents. Established by the late President Alija Izetbegović, the Fund symbolizes the connection between Islamic values and contemporary societal needs (Rijaset IZ BiH, 2023).

1. *Scholarships for Students:* The Fund awards a significant number of scholarships each year, enabling young people from across Bosnia and Herzegovina to complete their education, even under difficult socio-economic conditions. A particular focus is placed on returnee communities, where the Fund provides support to elementary and high school students. These scholarships are not only financial assistance but also a tool for achieving social inclusion and equality, aligning with the goals of Islamic moral economy.
2. *Cultural and Educational Activities:* The Fund organizes literary competitions, seminars, and similar activities, promoting education, culture, and Islamic values. Such programs support the intellectual development of

[5] The repurposing of waqf property refers to changing the original purpose for which the waqf was established, governed by strict rules in Islamic law (fiqh), and in our case, by the Rules on the Transformation of Waqf Property. According to these rules, the repurposing of waqf property is allowed only under specific conditions to preserve the purpose of the waqf and ensure its lasting benefit to the community. If it is determined that the original purpose of the waqf is no longer feasible or beneficial (e.g., due to changes in social circumstances), repurposing the property is permitted under strict conditions, such as: The new purpose must align with the fundamental objectives of the waqf and Islamic law, The repurposing must result in greater or equal benefit for the community. The decision to repurpose must be made by a qualified authority (competent institution), which, in our case, is the Board of Directors of the Waqf Directorate.

[6] The intended length of the text does not allow us to list all waqf projects. For more details, please visit the website of the Islamic Community of Mostar at https://medzlismostar.ba/.

young people and strengthen their connection to cultural heritage, contributing to identity preservation and the building of a society based on moral principles.

3. *Social Projects:* In addition to scholarships, the Fund supports projects aimed at assisting vulnerable social groups, including one-time assistance for returnees and support for local communities. These activities reflect the spirit of solidarity and responsibility toward the weaker members of society, which is a fundamental value of Islamic ethics.[7]

f) Support for Vulnerable Social Categories

Waqf activities in Bosnia and Herzegovina play a crucial role in providing aid to people in need and the homeless, as well as financing institutions that care for individuals with developmental difficulties. Various social programs are funded through waqf resources, implemented by organs and institutions of the Islamic Community in collaboration with the Waqf Directorate, the Social Welfare Office, the Youth Network, the Department for Marriage and Family, and others. The Waqf Directorate, in cooperation with the citizens' association 'Heart for Children with Cancer,' has built two parental houses for children with cancer and their parents, located in Sarajevo and Tuzla. These projects represent the practical application of the Islamic concept of mercy (rahma) and solidarity, showcasing how waqfs can actively contribute to improving the quality of life.

g) Development of Local Infrastructure

Waqfs are involved in the development and maintenance of local infrastructure, including the construction of facilities, roads, water supply, sewage, and electrical systems in rural areas. These projects often have a long-term positive impact on living conditions in these communities, simultaneously promoting sustainable development and economic empowerment of the local population.

These examples clearly highlight the importance of waqfs as a key element of Islamic moral economy, contributing to the development and stability of Bosnian society through educational, social, and cultural projects. Further development of waqfs, alongside improved management and the expansion of their activities, can significantly strengthen the practical application of Islamic economic principles.

Adapting Waqfs to Modern Economic Challenges and Societal Needs

Despite their deep history and crucial role in social, educational, and religious institutions, waqfs face a series of challenges in modern times. Many of these challenges arise from changes in social, economic, political, and legislative frameworks, but there are opportunities to overcome them. Identifying these

[7] For more information about this significant waqf established by the late President Alija Izetbegović, visit the official website of the Fund at https://fondbosnjaci.co.ba/.

challenges and devising strategies to address them is key to preserving and advancing waqfs in Bosnia and Herzegovina (Askari at all, 2014).

CONTEMPORARY CHALLENGES

a) Legal Uncertainty and Lack of Legislative Protection

One of the biggest challenges waqfs face is the lack of adequate legal protection, as there is no specific legislative framework for managing waqfs. The legal protection of waqfs currently relies solely on the Law on Freedom of Religion and the Legal Status of Churches and Religious Communities[8], which is the only law providing some protection for the property of religious communities, including waqfs. Article 10 of this law explicitly states that churches and religious communities have the right to acquire, possess, and manage property, with waqfs, under the Islamic Community Constitution[9], constituting a specific type of property that can be acquired and used following legislation.

Waqf properties face serious challenges, such as usurpation, privatization, and mismanagement, increasing the risk of their permanent loss. In the post-war period, privatization of property[10], coupled with insufficient administrative and legal protection of waqf facilities, further threatens the preservation of these assets. An additional problem lies in laws that are not clearly defined regarding the specifics of waqfs, complicating their protection and the implementation of appropriate administrative and legal procedures (Kader, 2021).

b) Financial Sustainability and Asset Management

Waqfs face the challenge of ensuring long-term financial sustainability. Many waqfs, particularly those reliant on income from land or other assets, encounter issues such as poor management, declining asset value, inefficient resource utilization, and rising maintenance costs. Additionally, older structures require significant restoration and

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[8] Law on Freedom of Religion and Legal Status of Churches and Religious Communities in Bosnia and Herzegovina, Article 10: 1. Churches and religious communities may acquire property in accordance with the law. 2. Churches and religious communities own their property and property rights, which they freely manage and dispose of. 3. Churches and religious communities have the right to restitution of confiscated property throughout the territory of Bosnia and Herzegovina, without discrimination, in accordance with the law.

[9] **Article 27:** The property of the Islamic Community consists of waqf assets, property rights, financial resources, and other assets. **Article 28:** The property is used by the Islamic Community for its activities and cannot be used for other purposes. **Article 29:** The property of the Islamic Community is acquired from: waqf assets and other movable and immovable property of the Islamic Community, regular contributions, zakat, sadaqat al-fitr, and qurbani, income from institutions and organizations of the Islamic Community that generate profit, economic activities, funds, gifts, wills, and other revenues and contributions.

[10] Unfortunately, Bosnia and Herzegovina adopted the Law on Privatization before the Law on Restitution, which had a negative impact on nationalized waqf property. A large percentage of the nationalized waqf property was transacted as a result of this law.

adaptation expenses to meet modern standards. The problem is further complicated by a high percentage of non-viable waqf properties, especially land parcels located in inaccessible areas, which are difficult to valorize or integrate into sustainable projects (Auda, 2008).

c) Challenges in Management and Transparency

Waqfs often face inefficient management structures and a lack of transparency, which can lead to distrust within the community. Key issues include irregularities in reporting income, expenses, and investments, as well as insufficient oversight and auditing of waqf activities. An additional challenge is the failure to adhere to the provisions of the waqf deed (*waqfiyyah*) and the wishes of the founder (*waqif*), which not only undermines the principles of moral economy but also erodes the trust upon which waqf institutions have built their reputation for centuries. Such non-transparency and deviation from waqf rules directly threaten the continuity and reputation of these vital social institutions (Ashker & Wilson, 2006).

e) Increasing Competition for Resources

Competition for resources such as land, investments, and public funds is becoming more pronounced, posing a significant challenge for waqfs. They increasingly face competition from private investors and other public or private initiatives that offer similar services or benefits. While businesspeople traditionally hold waqfs in high regard, this respect does not always extend to tolerating their competitiveness in the market. Businesspeople are often willing to donate or provide funds to waqfs as grants but are less inclined to accept their active participation in the market economy. This attitude stems from the historical perception of waqfs as exclusively social organizations. However, waqfs have both the right and the obligation to engage in economic activities to ensure their contribution to society through sustainable initiatives. Thus, a conflict arises between traditional perceptions of waqfs and their need for contemporary economic engagement.

POTENTIAL STRATEGIES FOR OVERCOMING CHALLENGES

Strategies for Adaptation and Modernization

To ensure that waqfs remain relevant in contemporary society and continue contributing to the community, it is essential to implement strategic measures that address legal, financial, institutional, and social aspects.

a. Strengthening the Legal Framework and Institutional Support

Waqfs require a robust legal framework and strong institutional support to ensure the protection of their assets and improve their management. This support includes:

Specific Legislation on Waqfs: Adoption of laws that recognize the specificities of waqf properties, including clearly defined procedures for registration, management, and dispute resolution. These laws should prevent misuse and usurpation of waqf assets.

Centralization of Legal Oversight: Establishing specialized legal teams or institutions to monitor compliance with waqf laws, provide legal support to managers, and address legal issues.

Harmonization of Legislation: Aligning laws with the normative acts of the Islamic Community that address waqf properties and local needs, while adapting to international standards that enable effective management.

b. Improving Financial Sustainability

Waqfs must adapt to the modern economic context through diverse approaches to generating revenue and preserving assets:

Diversification of Revenue Sources: Investments in new sectors such as tourism, renewable energy, and technology can generate stable income. For example, waqfs could develop solar energy projects or build tourist facilities in attractive locations. Past implementations of similar projects in Mostar and Tešanj have proven to be very effective.

Commercialization of Underutilized Assets: Through leasing, selling, or exchanging inefficiently used properties, waqfs can free up funds for investment in sustainable projects.[11]

Restoration and Revitalization of Facilities: Investing in the restoration of cultural-historical facilities can attract funds through donations, tourism, or public-private partnerships.

c. Transparency and Accountability

Increasing transparency is crucial for the trust of the broader social community and the efficient management of waqfs. This includes:

[11] The decision to transform a specific waqf property is made by the Council of Muftis upon the recommendation of the Waqf Directorate, following a detailed procedure in accordance with the Rules on the Transformation of Waqf Property. Articles 4 to 9 of the said Rules precisely regulate the transformation process and the authority responsible for decision-making.

Digitalization of Management: Implementation of software tools for real-time monitoring of revenues, expenses, and asset status. These tools enable transparent reporting to the community and donors.

Regular Financial and Legal Audits: Introducing mandatory internal and external audits to ensure compliance with laws and Sharia principles.

Public Reporting Platforms: Creating online portals where financial operations, projects, and investment plans of waqfs are regularly published.

d. Overcoming Challenges of Increased Competition

Waqfs face growing competition for resources in the modern economy, including land, investments, and public funds. To address these challenges, waqfs need to balance their traditional functions with the need for market participation. Strategies include:

Developing Business and Investment Models: Waqfs can invest in profitable projects that generate income while simultaneously having a positive social impact, such as eco-friendly farms[12], educational institutions, and healthcare centers. Creating Sustainable Portfolios of real estate and commercial facilities allows for stable income while preserving the core principles of waqfs.

Adapting Business Models: Educating the community and business partners on the significance of market activities of waqfs can reduce traditional resistance to their economic participation.
Promoting Social Responsibility of Waqfs Through projects that combine economic and social goals, waqfs contribute to a better perception of their role in the market economy.

Diversification of Financial Resources: Waqfs can expand their financial resources by investing in unconventional sectors such as tourism, technology, and renewable energy.
Accessing international funds and grants for socially significant projects provides additional support without directly conflicting with the private sector."

[12] An ecological farm is an agricultural holding or household that employs organic farming methods with the aim of sustainable management of natural resources, environmental protection, and the production of healthy food. These farms avoid the use of synthetic fertilizers, pesticides, and genetically modified organisms, relying instead on natural processes such as crop rotation, composting, and biological pest control to maintain soil fertility, plant, and animal health. The goal of an ecological farm is to preserve ecosystems and balance agricultural production with nature. https://www.agroportal.hr/ekoloska-poljoprivreda/3429. Accessed on 05 December 2024..

Innovations in Products and Services: Developing innovative solutions such as digital platforms, green energy solutions[13], and specific tourism services enables waqfs to occupy unique positions in the market.
Focusing on sectors with lower competition, such as cultural tourism or educational programs, can reduce competitive pressure.

Strengthening Partnerships and Institutional Cooperation: Waqfs can establish strategic partnerships with the private sector, non-governmental organizations, and government institutions to jointly implement socially significant projects. The public-private partnership (PPP) system is an effective model.
Cooperation with local communities increases the sense of belonging and support for waqf projects.

Adaptation of the Legal Framework: Active lobbying for favorable regulatory changes can ensure better protection and positioning of waqfs in the market economy. Securing tax incentives for projects with social impact encourages the development of sustainable initiatives.
Strategies for adapting and modernizing waqfs enable them to remain relevant and efficient in contemporary society. By strengthening the legal framework, increasing financial sustainability, enhancing transparency, and applying innovative approaches, waqfs can become dynamic institutions that preserve tradition while meeting the needs of modern society.

APPLICATION OF ISLAMIC MORAL ECONOMY PRINCIPLES IN THE CONTEMPORARY CONTEXT

The principles of Islamic moral economy, such as justice, social responsibility, and sustainability, provide the foundation for waqf activities in the modern context. Through the application of these principles, waqfs can transform into dynamic and relevant institutions that not only preserve traditional values but also actively contribute to addressing contemporary societal challenges (Asutay, 2020).

1. Justice

Justice, as a cornerstone of Islamic moral economy, involves the equitable distribution of resources and opportunities in society. Waqfs can serve as a key instrument in achieving this principle through:

Redistribution of Wealth: Waqfs facilitate the allocation of assets and resources to marginalized groups, providing them with opportunities to improve their socio-economic position. Examples include free schools, healthcare institutions, and social inclusion programs."

[13] Green energy solutions refer to the use of renewable energy sources and energy-efficient technologies to reduce greenhouse gas emissions, enhance sustainability, and protect the environment. (International Renewable Energy Agency (IRENA), 2022).

Provision of Basic Services: By investing in education, healthcare, and affordable housing, waqfs ensure fair access to resources, particularly for those who cannot afford them. In this way, they reduce socio-economic inequalities and strengthen social cohesion.

2. Social Responsibility

Social responsibility in Islamic moral economy involves the obligation of individuals and institutions to act in the interest of society. Waqfs play a crucial role in this process:

Support for Public Goods: By financing the construction and maintenance of schools, hospitals, and cultural centers, waqfs contribute to improving living standards and creating shared resources.

Development of Local Communities: Waqfs can implement projects that directly empower local communities, such as training programs, employment initiatives, and rural development schemas.

Education on Social Values: Through educational programs, waqfs can promote the principles of social responsibility, solidarity, and inclusion among community members.

3. Sustainability

Sustainability in Islamic moral economy encompasses economic, environmental, and social dimensions. Waqfs can contribute to this goal through:

Environmentally Sustainable Projects: Investments in renewable energy, conservation of natural resources, and biodiversity[14] protection can provide long-term benefits for society and the environment. Projects such as solar farms or forest conservation not only yield ecological benefits but also generate stable revenues.

Long-Term Investments: Waqfs can focus on investments that provide stable income and continuous support for social programs. This includes real estate, infrastructure, and socially responsible funds.

Promoting Sustainable Development: Waqfs can spearhead projects that link economic activities with social goals, such as social enterprises or green initiatives that employ local populations and enhance environmental awareness.

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[14] Biodiversity is the variety of all living organisms on Earth, including species diversity, genetic diversity within species, and ecosystem diversity. The conservation of biodiversity is crucial for maintaining ecological balance and the functioning of natural systems.

4. Modernization and Innovation

To effectively apply the principles of Islamic moral economy, waqfs must adopt innovative approaches in their operations:

Digitalization and Technology: The development of digital platforms for waqf management enables greater efficiency, transparency, and access to donors on a global scale.

Public-Private Partnerships: Collaboration with the private sector, non-governmental organizations, and state institutions can lead to the development of projects with multiple social impacts.

Education and Training of Personnel: Introducing professional development programs for waqf managers helps them understand modern trends in management, finance, and sustainable development.

5. Development of Contemporary Waqf Models

Contemporary waqfs should combine traditional principles with innovative approaches to adapt to the needs of today's society:

Social Waqfs: Focusing on addressing specific issues such as poverty, unemployment[15], and education through direct interventions.

Ecological Waqfs: Projects dedicated to environmental protection, promoting renewable energy, and preserving natural resources.

Combined or Hybrid Models[16]: A combination of profitable investments and social activities ensures financial stability and continuous contributions to the community.

The application of Islamic moral economy principles ensures that waqfs remain relevant and effective in contemporary society. Through justice, social responsibility, sustainability, and innovation, waqfs can actively contribute to addressing societal challenges, promoting the common good, and preserving moral values. The modernization of waqfs, while maintaining their traditional principles, is crucial for their future role as pillars of sustainable development and social solidarity.

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[15] The Islamic Community has implemented a significant number of waqf projects over the past fifteen years, through which it has provided employment for a large number of unemployed individuals.

[16] Hybrid waqfs are a combination of traditional waqf principles and modern economic practices. Revenue is generated through commercial activities or investments and then used for socially beneficial purposes such as education, healthcare, and social assistance. The goal is to ensure self-sustainability and enhance social impact.

CONCLUSIONS

1. Waqfs are carriers of moral economy through the redistribution of wealth and resources, reduction of socio-economic inequalities, and support for shared interests. Their role in promoting justice, fairness, and social responsibility reflects the fundamental values of Islamic moral economy, making them indispensable factors in societal development.
2. The lack of an adequate legal framework hinders the consistent application of moral economy principles, such as transparency, accountability, and ethical governance. Historically, waqfs have successfully withstood political changes, demonstrating their resilience and adaptability as a model of ethical development.
3. Contemporary challenges, such as market competition and legal uncertainty, also present opportunities for innovation. Adapting waqfs to modern needs ensures that moral economy remains relevant, securing the sustainability and continuity of their socio-economic functions.
4. Through investments in education, healthcare, and infrastructure, waqfs continue to promote principles of social responsibility and sustainability. In this way, they directly ensure the well-being of the most vulnerable members of society, fulfilling the core objectives of moral economy.

Waqfs are not only historical symbols of solidarity and social justice but also crucial instruments for the practical application of Islamic moral principles. Their value in the modern context lies in their ability to adapt to contemporary challenges while preserving the core values of justice, sustainability, and social responsibility. The revitalization of waqfs in Bosnia and Herzegovina has the potential to strengthen economic, cultural, and social development while serving as a model of collective action for creating a more just society.

The future of waqfs depends on timely recognition of their role in development policies aligned with the principles of Islamic moral economy. Their modernization and protection not only ensure the continuity of tradition but also enable waqfs to become relevant and dynamic drivers of sustainable development. By strengthening the legislative framework, ensuring transparency in management, diversifying income sources, and actively involving the community, waqfs can continue linking the past with the future, providing a sustainable and inclusive model for societal development.

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INVESTMENT FUNDS AS A POSSIBILITY FOR USING ISLAMIC FINANCIAL CONTRACTS IN SERBIA

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Abstract:
The Islamic financial system represents a concept of finance that operates without interest, based on the principles of profit-and-loss sharing and fairness. With global assets exceeding one trillion US dollars, the Islamic financial system is gradually gaining popularity globally, including the Balkans. Currently, the only Islamic bank in the region is Bosnia Bank International. In this paper, we analyze the possibility of applying Islamic financial contracts through investment funds within the existing legal framework in Serbia. Given that the Islamic financial system prohibits interest, investment funds, which rely on profit-and-loss sharing, present a suitable instrument for attracting investors who adhere to Islamic finance principles. The analysis shows that while UCITS funds, which primarily invest in interest-bearing instruments, are not aligned with Islamic principles, Alternative Investment Funds (AIFs) offer greater flexibility. AIFs can invest in real estate, commodities, and shares in business entities, making them suitable for Islamic financial instruments such as musharaka, mudaraba, ijara etc. We conclude that AIFs present a promising opportunity for integrating Islamic finance into Serbia's financial system, attracting ethical investments, and fostering economic growth. Future research should focus on overcoming existing limitations and improving the regulatory environment to enable further development of Islamic finance in Serbia and the Balkans.
Keywords: Islamic financial system, investment funds, Serbia, Alternative Investment Funds (AIFs), Open Investment Funds (OIFs), Undertakings for the Collective Investment in Transferable Securities – UCITS, musharaka, mudaraba, ijara, murabaha, salam, istisna', ethical finance.

INTRODUCTION

Islamic finance is a method of finance that has become a widespread phenomenon since the 1970s. Islamic financial institutions currently manage assets worth over one trillion US dollars. However, Islamic finance is only slowly making its way to the Balkan regions. Currently, the only Islamic bank in the Balkans is Bosnia Bank International, which was established on October 19, 2000, as the first bank in Europe operating under the principles of Islamic banking. However, there is increasing discussion in Serbia about investments from the United Arab Emirates, where there has been talk of opening the so-called "Royal Bank" from Abu Dhabi (Bećirović, 2014).

Due to the growing interest in Islamic finance, in this paper, we want to analyze the possibility of using Islamic Financial Contracts through investment funds under legal regulatory framework in Serbia. Since Islamic finance does not allow the giving and taking of interest, the financial instruments based on profit and loss sharing, which include investment funds, can be adopted to appeal to the investors following the principles of Islamic finance.

ISLAMIC FINANCIAL INSTRUMENTS

There are two main groups of contracts when it comes to investing in accordance with principles of islamic finance: partnership contracts and debtor contracts. Partnership contracts largely resemble classical partnerships. In this case, the investor becomes a partner in a new or existing company and shares profits and losses with the other partners.

The first contract is known as “musharaka.” Here, the partners invest capital for a specific commercial venture, sharing profits and losses among themselves. Musharaka, generally, is quite similar to classical partnerships and limited partnerships. It is essential to note that the fundamental rule in all partnerships under Islamic law is that a fixed amount of profit, in absolute terms, cannot be stipulated to be paid to the partners, as this would be considered interest.

The second type of partnership is “mudarabah’’ that also refers to passive partnership. In this case, the investor (“rabb-ul-mal”) provides funds, while the money user (entrepreneur, company, etc.) takes on the role of mudarib.

From the perspective of Islamic law, investments in shares are, in general, permitted. The crucial aspect here is to analyze what type of company the money is being invested in. For instance, it is not permissible to invest funds in a company primarily engaged in the production of alcohol, cigarettes or pornography.

Besides shares, there are also so-called “Islamic bonds” or Sukuk. These Islamic bonds are based on classical Islamic debt instruments such as leasing (“ijara”). However, it is important to note that “Islamic bonds” are based on partnership. A partnership among investors arises when a securitization of the contract occurs (Bećirović, 2014).
Deferred payment sales (“bay mu’ajjal”) is one of the most important debtor contracts in Islamic finance. This refers to the sale of a commodity, which is not money, on

deferred payment terms at the same or a higher price than if the commodity were sold immediately for cash. Since money is not exchanged for money (i.e., there is no exchange of the same type of commodity), the increase in price does not fall under interest according to Islamic law.

In practice, deferred payment sales are implemented through “murabaha.” Murabaha is a purchase through an intermediary. In this case, the buyer gives an order to the Islamic bank or financial institution to buy a specific product for a certain price, with the buyer promising to buy back the goods. It is crucial that no contract is made between the parties. When the Islamic bank purchases the goods, i.e., takes ownership of the goods, the buyer must fulfill their promise. The Islamic bank sells the ordered goods to the buyer at a predetermined price. The buyer can pay for the goods immediately or in installments at a higher Price (Usmani, 2003).

The term “ijara” refers to the leasing of the benefits of property for a certain compensation.[17] In this case, the Islamic bank acquires an item that will be leased to the user. This contract has the greatest similarity to operating leasing, while financial leasing is not allowed in Islam due to its similarity to interest-based loans. Of course, there are minor differences between operating leasing and ijara, such as the fact that all obligations arising from ownership are borne by the lessor (for example: tax payments, insurance, maintenance of the property), while obligations arising from the use are paid by the lessee, for example: routine expenses, such as energy bills or fuel (Zuhayli, 2003).

“Bay salam” means advance payment for a commodity that will be delivered in the future according to the agreed description. This means that at the conclusion of the contract, the subject of the contract does not yet exist. An example of “bay salam” is when a farmer sells a certain amount of wheat for cash one year in advance. In this case, the Islamic bank (as the buyer of the commodity) must pay the agreed price in advance, and the goods will be delivered after one year. Thus, the Islamic bank will ultimately obtain the physical item at the end of the contract.

Istisna' represents a second type of sale, where goods are traded before they are produced. In the case of istisna', the client orders the manufacturer to produce certain goods in a specific form, and the manufacturer is obligated to organize the necessary labor and materials. The main difference between istisna' and salam is that the subject of istisna' is always a specific product that cannot be found on the market, while bay salam can generally be concluded for any goods. Another difference is that with istisna', the price does not have to be fully paid in advance. Additionally, a salam contract cannot be unilaterally terminated, whereas this is possible with istisna' before work begins. Furthermore, the delivery time does not have to be precisely determined in istisna' (Usmani, 2003). From a practical perspective, istisna' contracts can be used in construction contracts. The Islamic financial institution may undertake the obligation to build, for example, a house, while the client begins paying for the house before the construction is completed and continues the payment after the completion of the construction.

There is also a non-interest-bearing loan. Here, the financial institution gives another person or entity a certain amount of money, which the user must return in the same amount, without subtraction or addition, after a certain period. This contract can be used by the Islamic bank, for instance, when a client temporarily overdraws the available amount in their current account.

Investment funds in Serbia

Investment funds are institutions for collective investment in which financial resources are gathered. The collected financial resources of the fund are invested in various types of assets, in accordance with the regulations governing investment funds, as well as the investment objectives stated in the operating rules and prospectus, when there is an obligation for its publication, to achieve profits and reduce investment risks.

The assets of the investment fund are owned by the members of the investment fund, proportionate to their participation in the fund, and are separate from the company managing that fund. The operations of investment funds in Serbia are regulated by the Law on Open Investment Funds with Public Offering and the Law on Alternative Investment Funds, while the oversight of the operations of management companies is conducted by the Securities Commission (Securities Commission, Serbia, 2024).

Under Serbian law,[18] investment funds are categorized into two main groups: Open Investment Funds (OIFs) and An Alternative Investment Funds (AIFs).

Open Investment Funds

An Open Investment Fund with Public Offering, also called Undertakings for the Collective Investment in Transferable Securities or UCITS fund, aims for the collective investment of assets collected through the public offering of investment units in the fund, primarily in transferable securities or other liquid financial assets. It operates according to the principle of diversification of investment risk, and its investment units can be redeemed, either directly or indirectly, from the assets of the open investment fund at the request of the unit holders. The Open Investment Funds with Public Offering are accessible to the investment public and are directed at small investors who do not meet the criteria for professional clients under capital market

[18] Law on Open-Ended Investment Funds with Public Offerings ("Official Gazette of the Republic of Serbia," No. 73/2019 and 94/2024) and Law on Alternative Investment Funds ("Official Gazette of the Republic of Serbia," No. 73/2019 and 94/2024)

regulations. Therefore, UCITS funds are subject to more numerous restrictions than alternative investment funds.

There are five types of UCITS Funds, depending on the investment goal:

UCITS Preservation Fund: This fund invests in short-term debt securities and cash deposits, aiming to preserve the value of investments and protect against inflation. As the name suggests, these funds strive for capital preservation, making them the lowest risk funds. While investing in these funds won't yield high returns, investors can be assured of the value of their investments remaining stable. The returns of such funds are usually slightly higher than inflation and bank deposit interest rates.

Income UCITS Fund: This fund invests in debt securities. Although the value of the investment may increase, the main goal of these funds is to provide regular income to their members. Consequently, conservative investors, seniors who need supplemental income for their pensions, and those looking to lower portfolio risk typically invest in these funds. These funds generate income that is higher than what preservation funds achieve, accompanied by a greater level of risk. The riskiness of these funds can vary dramatically based on the issuer of the securities they invest in. Additionally, these funds are exposed to interest rate risk — when interest rates rise, the value of income funds decreases.

Growth UCITS Fund: This fund invests in equity securities, aiming to provide high returns over the medium to long term. Such funds invest the largest portion of their assets in stocks, making them riskier than the preceding funds. However, the risk level may vary greatly depending on the specific characteristics of the businesses they invest in and the investment strategies employed. Younger individuals and investors willing to accept significant investment risks primarily invest in these funds.

Balanced UCITS Fund: This fund invests in both equity and debt securities. Its goal is to provide a blend of security, income, and growth for the invested assets. These funds are suitable for investors interested in moderate growth of their investments with moderate risk.

General Purpose UCITS Fund: This fund is a novelty in Serbian legislation and can invest in all asset types in accordance with the limitations set by the Law on Open Investment Funds. Consequently, its riskiness depends on the ultimate decision regarding which types of assets it will invest in.

Alternative Investment Funds

An Alternative Investment Fund (AIF) collects funds from investors with the intention of investing them according to a defined investment policy for the benefit of those investors, and it does not require operational licensing under the laws governing the organization and operation of open investment funds with public offerings. The Law on Alternative Investment Funds is primarily aimed at professional and semi-professional investors, given that the investment policies of AIFs allow for greater investment freedom, which may involve higher concentration of investments in specific companies or issuers, providing financial support to the invested company, and influencing the management of the company being invested in, among other things.

Alternative Investment Funds (AIFs) raise money through public or private offerings and can be established or organized as open-ended or closed-ended, depending on whether there is a right to redeem investment units or shares from the fund's assets at the request of the fund's members. If money is raised through a public offering, shares are offered to professional, semi-professional, and retail investors, while private offerings are limited to professional and semi-professional investors who have sufficient knowledge and understand the risks involved in investing in such funds.

The Law[19] defines several types of privately offered AIFs, with the classification criterion being the type of assets invested in (e.g., private equity AIF, venture capital AIF, privately offered real estate AIF, etc.).

An open-ended AIF represents a separate asset, without legal personality (legal entity), organized and managed by an Alternative Investment Fund Management Company (AIFMC) in its own name and on behalf of the AIF's members, in accordance with the law, the fund's rules of operation, and/or its prospectus, if required. Units in an open-ended AIF are redeemed at the request of members, directly or indirectly, from the fund's assets, under the terms and conditions specified in the fund's rules of operation and/or prospectus, if required, and before the liquidation process or termination of the AIF. Open-ended AIFs with public offerings can invest in certain types of assets that UCITS funds are not allowed to invest in, permitting them to take on slightly higher risks.

Types of closed-ended AIFs include:

Closed-ended AIF without legal entity – a separate asset, without legal personality, organized and managed by an AIFMC in its own name and on behalf of the AIF's members, in accordance with the law and the fund's rules of operation. Units in such AIFs cannot be redeemed from the fund's assets at the request of members. A closed-ended AIF without legal personality is always managed by an AIFMC.

Closed-ended AIF with legal entity – a legal entity established as a joint-stock company or limited liability company, founded and managed by an AIFMC in its name and on its behalf, in accordance with the law, the fund's rules of operation, and/or its prospectus, if required, and the AIF’s statute. Shares in such AIFs cannot be redeemed from the fund’s assets at the request of members. Close-ended AIF with legal entity and intenal management – a close-ended AIF with legal entity that

[19] Law on Alternative Investment Funds ("Official Gazette of the Republic of Serbia," No. 73/2019 and 94/2024)

manages its own assests without an AIFMC and simultaneously acts as its own AIFMC.

Compatibility of Investment Funds in Serbia with principles of Islamic finance

The compatibility of Investment Funds with principles of Islamic finance mainly depend on the type of assets the fund is investing in.

In accordance with the Law, the investment funds can invest in various forms of assets, but there are limitation depending on whether a fund is established as an Open-ended fund with a public offering (UCITS fund) or as an Alternative investment fund (AIF). UCITS funds can invest in transferable securities, money market instruments, units of other UCITS funds, cash deposits, debt securities, securities issued by international financial institutions, and financial derivatives. Most of these assets are interest based and are not permissible in accordance with the principles of Islamic finance.

The assets of Alternative investment funds (AIFs), depending on their type, can be invested in transferable securities, money market instruments, units of UCITS funds, shares in other AIFs, bank deposits, debt securities and loan receivables. Most of these assets are also interest based. However, in addition to these, AIFs can also invest in commodities traded on commodity exchanges, real estate, shares in limited liability companies, and more. The second group of investments can be in line with both Law in Serbia and principles of Islamic finance.
Taking this into account, Alternative investment funds can enable the use of Islamic partnership instruments for investing, i.e., investments in shares and other business entities. Additionally, from the perspective of mobilization, investment funds are similar to the "mudaraba" contract, making them a good opportunity for mobilizing and investing money in accordance with the principles of Islamic finance. Islamic debt contracts through alternative investment funds can invest in business entities engaged in operational leasing, deferred payment sales, as well as salam/istisna' transactions. It is important to emphasize here that the restriction on investing the assets of a closed-end investment fund does not apply to investments in business entities (general partnerships, limited liability companies, limited partnerships, and closed joint-stock companies).

CONCLUSION

Under the current regulations governing investment funds in Serbia, a number of original Islamic financial instruments can be utilized. The laws on Investment Funds allow for capital accumulation in a manner similar to the theoretical framework of Islamic finance.
This is especially true for Alternative Investment Funds (AIFs) that present a promising avenue for integrating Islamic financial principles into Serbia's financial

system. By leveraging the flexibility of AIFs and structuring them to align with principles of Islamic finance, Serbia can attract investments from a wider investor community, especially from the Middle East, and expand its financial ecosystem. This integration not only aligns with global trends in ethical and sustainable finance but also opens new opportunities for economic growth and diversification in the region. Future research and policy development should focus on addressing the limitations and creating a more conducive environment for Islamic finance to succeed in Serbia and the broader Balkan region.

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ATTITUDES AND POSSIBILITIES OF APPLICATION OF ISLAMIC METHODS OF BUYING AN APARTMENT/PROPERTY IN NOVI PAZAR AND THE REPUBLIC OF SERBIA THROUGH THE SYSTEM OF DIMINISHING PARTNERSHIP (MUSHARAKA MUTANAQISA)

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Abstract
The area of the Balkans, in general (from Turkey to Croatia), caught the "fever" of building construction after the world economic crisis (2008). Especially big cities like Belgrade, Sarajevo, Zagreb, and Podgorica started to get modern residential and business blocks. However, smaller cities such as Novi Pazar in the Sandžak region, in the Republic of Serbia, are also covered by the trend of massive residential construction and transformation from an area characterized by houses to an area with a large number of buildings. The reasons for this in general in the Balkans should be sought in the impossibility or lack of knowledge of capital investment in modern flows (funds, shares, etc.).
However, this is not the topic of this paper, because the topic is to investigate attitudes and possibilities of applying Islamically acceptable and ethically correct ways of buying real estate. For this reason, this paper will present the results of a survey on how the citizens of Novi Pazar and the wider area evaluate the need for Islamic ways of buying real estate through the institute of contractual relationship "diminishing partnership" (Musharaka Mutanaqisa). The idea is that through the current legislation, like Bosnia and Herzegovina, citizens of all denominations are offered the Islamically correct concept of buying an apartment with deferred payment, but also to measure attitudes and opinions about the idea of establishing an institute/organization/bank that would offer such products. The goal is to measure the attitudes of the population in Novi Pazar, which is predominantly Islamic, and the attitudes of citizens in the wider area of the Republic of Serbia, which is predominantly Orthodox Christian.
Keywords: Housing construction, sale of real estate, loan, interest-free loan, Diminishing Musharaka (Musharaka Mutanaqisa).

INTRODUCTION

Following the global economic crisis of 2008, the Balkans, stretching from Turkey to Croatia, experienced a surge in construction activity. Major urban centers like Belgrade, Sarajevo, Zagreb, and Podgorica saw a rapid emergence of modern residential and business complexes. Smaller cities, such as Novi Pazar in Serbia's Sandžak region, have also been swept up in this trend, transitioning from predominantly single-family homes to increasingly dense apartment buildings. This construction boom across the Balkans can be partially attributed to limited knowledge of alternative investment opportunities, like funds or stocks, which might have otherwise diverted capital flows.

Serbia experienced a significant construction surge. Table 1 shows the percentage of GDP attributed to two sectors in Serbia from 2008 to 2023, Construction and Real Estate Business. So trends of Indicator F construction, show the share of construction in GDP fluctuated, starting at 4.4% in 2008, decreasing until 2013 to a low of 3.0%, and then increasing steadily. The highest value was in 2019, with construction reaching 5.7% of GDP before the Covid 19 crisis. Recent years (2021-2023) saw moderate values, with construction contributing around 5.0% of GDP. Second Indicator L- Real Estate Business, had a more stable contribution to GDP, starting at 7.8% in 2008 and peaking at 9.0% in 2009. It generally declined over the years, reaching a low of 6.9% in 2020 and again in 2022. In 2023, real estate business contributed 7.2% to GDP. This data reflects the dynamics of Serbia's economic landscape, particularly in construction and real estate, with notable growth in construction in recent years, indicating possible development or infrastructure expansion efforts. (Bajramović, 2023 and Statistical Serbia Report 2024)

Table 1

GROSS ADDED VALUE BY ACTIVITIES OF REPUBLIC OF SERBIA

	REPUBLIC OF SERBIA															
Period	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Data type	Gross added value by activities															
Indicator	Share in GDP %															
F - Construction	4.4	3.6	3.4	3.8	3.8	3.0	3.2	3.8	3.9	4.1	4.5	5.7	4.7	5.2	4.8	5.0
L - Real estate business	7.	9	8	7	8	7	8	7	7	7	7	6.	7.	7.	6	7

Source: https://www.stat.gov.rs/sr-latn/vesti/statisticalrelease/?p=15314

Construction is a crucial business activity for any country, including those in the Balkan region. In Western economies and most countries, the sale of construction products (such as apartments, stores, and garage spaces) is closely tied to banks, credit placements, and loan offers for companies involved in construction or real estate trading. Although a significant portion of the Balkan population is Islamic, there are not many Islamic-compliant financing options for purchasing real estate. Except for Bosnia and Herzegovina and Turkey, which offer some Islamic banking products, other countries with Islamic populations—such as Serbia, Montenegro, Kosovo*, and Albania—do not provide such financial services.

BBI Bank's notable use of TKL financing in the Republika Srpska entity demonstrates that the bank actively implements these models across Bosnia and Herzegovina, not just in the Federation of B&H, where the Muslim population is concentrated. This approach challenges the stereotype that Islamic banking products are only utilized by Muslims. Furthermore, this type of financing encouraged clients to deepen their relationship with BBI by exploring products beyond TKL, illustrating that BBI's commitment to CSR yielded tangible financial benefits. (Zogić et al., 2024)

SURVEY: ATTITUDE RESEARCH OF AWARENESS AND WULLINGNESS TO USE THE "MUSHARAKA MUTANAQUISA" MODEL IN SERIBA AND THE CITY OF NOVI PAZAR

Big changes have taken place in the field of construction after the world crisis of 2008. However, as shown in Table No. 2, we separately watch the region of Novi Pazar and the rest of Serbia because they have different religious and social perspectives. That's why we decided to conduct surveys of the population's attitudes about awareness and willingness to use the "Musharaka Mutanaqisa" model in the territory of Serbia and the city of Novi Pazar for the purposes of this work. The reason why we did not decide on the wider area of Kosovo, Albania, and North Macedonia concerns the language barrier. The sample of surveys was more than 100 so it can be shown as statistically correct. As can be seen in Table no. 2, the total number of respondents is about 229 in the rest of the Republic of Serbia and the response was the highest in the first two days of the survey, the number 249 was reached at the end, but 229 is used for analysis.

Table 2
TWO SAMPLE SURVEY

	Serbia	**Novi Pazar city**
Sample N	229	103
model of collecting data	Online surway	Online surway
Link	https://forms.gle/ Ce67fDiow Gqawbo78	https://forms.gle/ D6SYyfEcno TEkJvr7
Promoted	free promotion	Facebook/ Instagram
Date	25.08-29.08.2024	23.08-29.08.2024

Source: Authors on data of two surveys (2024)

The aim was to conduct a nearly identical survey across all the mentioned areas, including the city of Novi Pazar. Why Novi Pazar? This city has the youngest population in Europe but also faces one of the highest unemployment rates, approximately 50%. According to unofficial data and media reports, 23,265 people are unemployed. Official unemployment figures are calculated at the regional level, including Raška and Kraljevo, where unemployment is below 10%, which skews the regional average to around 11%, masking the real situation in Novi Pazar.

Another reason for selecting Novi Pazar is its role as a trading hub for nearby cities such as Tutin, Sjenica, Priboj, and Nova Varoš in Serbia, as well as Rožaje, Berane, Plav, and Gusinje in Montenegro. Additionally, Novi Pazar serves as an academic center, attracting a large number of students from the Sandžak region, which spans northern Montenegro and southwestern Serbia.

Moreover, the city of Novi Pazar as a whole region of the Balkans is experiencing a rapid increase in construction, particularly in residential and commercial buildings. This growth is driven by the rising demand for housing and business spaces, fueled by the younger population and the influx of students. However, challenges such as the affordability of housing and the availability of financing options, including those compliant with Islamic principles, remain significant issues. These factors make Novi Pazar a unique case for studying attitudes toward modern financial models and urban development trends in the region.

Novi Pazar as a region stands out with a significant increase in the number of completed apartment units and population growth over the past two decades. Between 2001 and 2010, 943 apartment units were completed, while in the period from 2011 to 2021, this number rose to 3,210, representing an impressive growth of 340%. At the same time, the population grew from 100,410 in 2001 to 107,859 in 2021, an increase of 7.42% (Bajramović, 2023). One of the couple of regions that had increased. These figures indicate a rising demand for residential space and substantial investments in apartment construction, supported by positive demographic trends in this region. The population growth further supports the idea of expanding apartment needs in this area.

For these reasons, it was important to compare the perspectives of citizens from Novi Pazar with those from other parts of Serbia. Table 3 shows us how these two samples have different ways of living. For example, in the Novi Pazar sample, 65% of respondents live in houses, only 26.9% do not have children, and 54.8% live with their parents, with a monthly income between €1,000 and €1,500. In contrast, in the sample from the rest of Serbia, 75.2% identify as Orthodox Christians, 71.1% live in apartments, 50% do not have children, and 75.2% do not live with their parents, with a monthly income exceeding €2,000.

So it was very important to see how these samples have views on the same things: attitudes about awareness and willingness to use the "Musharaka Mutanaqisa" model in the territory of Serbia and the city of Novi Pazar. So the hypothesis is made this way.

The hypothesis that is set as H0 proposes that *citizens who are of the Islamic faith are interested in applying Islamic methods of real estate purchase. However, they may forgo this option upon learning that, under the Musharakah Mutanaqisah system, the majority owner of the property is the bank. In contrast, citizens of the Orthodox faith are expected to show no interest in such financial products.*

Table 3
MOST COMMON ANSWERS IN TWO SURVEYS

No.	Question in Survey	Largest % Answers in Novi Pazar Sample	Largest % Answers in Serbia Sample
1	Religion	98.1% (Islam)	75.2% (Orthodox Christian)
2	Age	43.3% (30-40 years)	43.5% (30-40 years)
3	Gender	60.6% (Male)	83.7% (Male)
4	Education	38.5% (University degree)	36.2% (University degree)
5	Marital Status	76% (Married)	55.3% (Married)
6	Children	26.9% (No children)	50% (No children)
7	Living with parents	54.8% (Living with parents)	75.2% (Not living with parents)
8	Housing type	65.4% (House)	71.1% (Apartment)
9	Homeownership	74% (Owner)	65% (Owner)
10	Monthly family income	35.6% (€1,000–1,500)	52.4% (Over €2,000)
11	Familiarity with Islamic Financial Products	45.2% (Partly familiar)	48% (Not informed)
12	Awareness of interest-free Financing Options	76% (Familiar)	50.8% (Unaware)
13	Method of Financing Real Estate Purchase	44.2% (Cash)	60.2% (Bank loan)
14	Interest in Interest-Free Financing	76% (Sounds interesting)	71.1% (Sounds interesting)
15	Key Factor in Choosing Financing Method	54.8% (Religious compliance)	43.1% (Total cost)
16	Preferred Source of Information about Islamic Financing	48.1% (Internet)	59.3% (Internet)
17	Willingness to Use Islamic Banking	66.3% (Would use it)	65.9% (Depends on conditions)
18	Agreement on Supporting Islamic Financial Products	76.9% (Totally agree)	44.7% (Totally agree)
19	Awareness of the "Musharaka Mutanaqisa" Model	54.8% (Not aware)	66.3% (Not aware)
20	Interest in "Musharaka Mutanaqisa" Model Despite Complexity	45.2% (Very interesting)	41.8% (Potentially interesting)

Source: data from two surveys

Table 4

*SPSS COMPARISON OF QUESTIONS 13 AND 20 (13.The most common way of financing procurement of real estate? * 20. Musharaka Mutanaqisa (diminishing partnership) you own as much % of the real estate as you bought from the bank)*

13. Most common way of financing procurement of real estate? — a. Cash		% of Total	you own as much % of the property as you bought	% within 13. Most common way of financing procurement of real estate?	Count
20. With Musharaka Mutanaqis (diminishing partnership) you own as much as % of the real estate	1	0,4%	50,0%	1,6%	1
	a. Very interested	10,0%	24,5%	37,7%	23
	b. Somewhat interested	10,0%	24,5%	37,7%	23
	c. I wasn't interested.	2,6%	40,0%	9,8%	6
	d. I stopped being interested	0,0%	0,0%	0,0%	0
	e. I'm not sure, I need more information	3,5%	34,8%	13,1%	8
Total		**26,6%**	**26,6%**	**100,0%**	**61**

c. Loan from friend/ family				b.Loan from bank			
% of Total	you own as much % of the property as you bought	% within 13. Most common way of financing procurement of real estate?	Count	% of Total	you own as much % of the property as you bought	% within 13. Most common way of financing procurement of real estate?	Count
0,4%	50,0%	5,9%	1	0,0%	0,0%	0,0%	0
4,8%	11,7%	64,7%	11	24,9%	60,6%	41,0%	57
2,2%	5,3%	29,4%	5	26,2%	63,8%	43,2%	60
0,0%	0,0%	0,0%	0	3,5%	53,3%	5,8%	8
0,0%	0,0%	0,0%	0	0,4%	100,0%	0,7%	1
0,0%	0,0%	0,0%	0	5,7%	56,5%	9,4%	13
7,4%	**7,4%**	**100,0%**	**17**	**60,7%**	**60,7%**	**100,0%**	**139**

Total							
				d. Other			
% of Total	**you own as much % of the property as you bought**	**% within 13. Most common way of financing procurement of real estate?**	**Count**	**% of Total**	**you own as much % of the property as you bought**	**% within 13. Most common way of financing procurement of real estate?**	**Count**
0,9%	100,0%	0,9%	2	0,0%	0,0%	0,0%	0
41,0%	100,0%	41,0%	94	1,3%	3,2%	25,0%	3
41,0%	100,0%	41,0%	94	2,6%	6,4%	50,0%	6
6,6%	100,0%	6,6%	15	0,4%	6,7%	8,3%	1
0,4%	100,0%	0,4%	1	0,0%	0,0%	0,0%	0
10,0%	100,0%	10,0%	23	0,9%	8,7%	16,7%	2
100,0%	**100,0%**	**100,0%**	**229**	**5,2%**	**5,2%**	**100,0%**	**12**

Source: Authors data from SPSS

RESULTS

The survey that was conducted in Novi Pazar and the rest of the Republic of Serbia showed certain differences in general attitudes related to marriage, family, earnings, and property. However, these two samples showed us that they are almost identical in terms of "diminishing partnership" regardless of the different religious groups and ways of life. Thus, out of 229 respondents from the rest of the Republic of Serbia, 139 are users of housing loans, 57 of them completely, and 60 to some extent say that they would like the Musharak Mutanaqis system. In Table 4. therefore 84.17% of home loan users want a "Diminishing Partnership" as a way to finance the purchase of real estate. The results are very encouraging that Islamic banks have a place in the economic system of the Republic of Serbia and the Balkans in general.

The hypothesis set as H0 is not confirmed. Although it was assumed that citizens who are of the Islamic faith are interested in applying Islamic methods of real estate purchase but might give up this option if they discovered that, under the Musharaka Mutanaqis system, the majority owner is the Bank, while citizens of the Orthodox faith were not expected to be interested in such products, the survey results tell a different story. The conducted survey in Novi Pazar and the rest of the Republic of Serbia revealed significant differences in attitudes regarding marriage, family, earnings, and property. However, when it comes to the "diminishing partnership" system, both samples showed similar levels of interest, regardless of different religious affiliations or lifestyles. Specifically, among the 229 respondents from the rest of Serbia, 139 are housing loan users, with 57 fully and 60 partially expressing interest in the Musharaka Mutanaqis system. This means that 84.17% of home loan users are in favor of "Diminishing Partnership" as a method of real estate financing. Other samples of Novi Pazar show us that 45.2% is very interesting in the Musharaka Mutanaqis system. These results highlight the potential for Islamic banking in the Republic of Serbia and the Balkans as a whole.

CONCLUSION

The correct Islamic way of buying real estate implies the absence of interest, but the buyer is charged a margin (earnings) known in advance, which cannot be changed. Saudi Arabia and the United Arab Emirates as part of BRICS use this method in the banking system. In Great Britain, with the unchanged application of domestic legislation, there is the possibility of taking out such loans. Similarly, Bosnia and Herzegovina has implemented these systems. Instead of a conclusion, a possible suggestion is that the Islamic community in Serbia sends an official request for the introduction of Islamic financial products in the Republic of Serbia, such as BBI Bank, To start with Musharak Mutanaqis. This is just an initial idea, and the business community, religious institutions of the Islamic community, banks, and the state need to work together to make this a reality in the future.

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ETHICAL DILEMMAS IN THE HALAL INDUSTRY OF BALKAN COUNTRIES

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Abstract
The halal industry in the Balkan countries is characterized by a blend of traditional and contemporary perceptions of halal. The halal market is defined by openness and inclusivity, allowing active participation of various stakeholders regardless of their religious affiliation. While the fundamental principles of halal are defined by halal standards, there are no predefined solutions for ethical questions and dilemmas. This paper presents five key dilemmas: a holistic understanding of halal, labelling and recognition of halal products, pricing, trust in non-Muslim producers, and halal product identity. The essence of each dilemma is explained and adopted solutions aimed at ensuring transparency, integrity, and reliability of halal products are presented. The conclusions emphasize the importance of continuous education and the need for clearly defining ethical norms as prerequisites for maintaining the integrity of halal and the trust of halal consumers.
Keywords: halal, ethical dilemmas, halal industry, Balkan countries

INTRODUCTION

The halal industry in the Balkan countries, in its current form, began its developmental journey in 2005 with the creation of the Bosnia-Herzegovinian standard BAS 1049 - Halal Food, Requirements, and Measures. In parallel with this process, the Islamic Community in Bosnia and Herzegovina initiated discussions about the certification system and the operational model of the halal industry, involving representatives from the industry, chambers of commerce, and academic institutions. The establishment of the Agency for Halal Quality Certification created the basic institutional framework, which progressively expanded from Bosnia and Herzegovina and Croatia to other Balkan countries, including Serbia, North Macedonia, Montenegro, and other European countries. At the same time, the Agency played an active role in international standardization, accreditation, and the development of halal business operations.

The development of the halal industry in the Balkan region involved addressing various normative, organizational, religious, economic, cultural, market, and ethical issues and dilemmas. While the halal status of products and services are clearly defined by the halal standard, ethical issues do not have predefined and universally accepted solutions. Therefore, this paper pays particular attention to ethical dilemmas, as they significantly affect the perception of halal and trust in its integrity.

This paper focuses on five key ethical dilemmas that illustrate the complexity of halal. The identified dilemmas relate to a holistic view of understanding halal, the role of consumers, the recognition of halal products in the market, the pricing of halal products, and issues of halal integrity. In the discussion of ethical dilemmas in the Balkan halal industry, each aspect is illustrated with an appropriate example. The elaboration of these dilemmas and their resolution primarily relies on normative provisions of the halal standard BAS 1049, and other documents adopted by the Institute for Standardization and Metrology of Islamic Countries (SMIIC). However, despite the existence of agreed solutions for most of the dilemmas mentioned, these issues remain a subject of discussion due to differences in the understanding of halal, its religious and ethical principles, and the practice of halal certification.

Halal and Ethical Dilemmas Framework

In this paper, the term "halal industry" is used as a designation encompassing the production of halal products, the provision of halal services, and the halal certification system. In addition to "halal industry," recent literature also adopts terms such as *Halalonomics*, defined as the national system of the halal economy (Hodžić, 2022), and *halal ecosystem*, which includes Shari'ah-compliant financial instruments, fostering ethical practices, enhancing market reach, and ensuring business operations adhere to Islamic principles (Raimi et al., 2024).

Decision-making plays a central role in both classical and halal economies. It involves choosing between different alternatives, often addressing dilemmas with moral or societal implications. A dilemma is defined as "a choice between two or more alternatives in which the outcomes are equally undesirable or equally favourable" (LLC, 2024). Additionally, an *ethical dilemma* narrows this choice to decisions involving conflicting values and beliefs, where neither option is entirely acceptable from an ethical perspective (CFI Education, n.d.). In some interpretations, both choices may be morally unacceptable to the individual (Thpanorama, 2024). Unlike ethical dilemmas, ethical questions are less demanding as they focus primarily on whether something is ethically acceptable, where "the ethical course of action will be the 'least bad' option" (UKCEN, 2024). In comparison, they are generally less complex than dilemmas, which require decisions among multiple solutions that are equally acceptable or unacceptable.

Ethical dilemmas in theoretical discourse are classified as hypothetical, real, open, closed, completed, and incomplete. In the context of the halal industry, *real dilemmas* concern practical issues predominantly related to compliance with standards. On the other hand, *hypothetical dilemmas* are more common in academic discourse and literature, addressing situations that are unlikely to occur in real life (Sainte Anastasie, 2024). Ethical dilemmas are often fundamentally connected to cultural, traditional, religious, and spiritual values. Their interpretation is further influenced by general education levels, historical context, and sociological factors. Individuals resolving ethical dilemmas, especially within the context of the halal industry, frequently face societal pressures, as their decisions are often judged by the public through different value perspectives.

This terminological framework provides a basis for analyzing the dilemmas faced by the halal industry and its consumers in navigating complex decisions while maintaining the integrity of halal principles.

Holistic Understanding of Halal

Halal is fundamentally a religious category, but over time, it has evolved to encompass various linguistic and cultural dimensions, becoming part of the traditions of many nations worldwide. In the Balkan traditions, halal is understood through four meanings: *food permissible for Muslims, fair earnings, forgiving an injustice or offense, and giving something for free as a gift.* This diversity of meanings has shaped halal into a concept that is now part of the shared linguistic heritage and culture of coexistence between Muslims and non-Muslims in the region.

Although halal is predominantly associated with food, in the modern context, it extends beyond dietary rules and represents *a specific lifestyle in all areas of work and behaviour* (Jašić et al., 2022), reflecting a holistic understanding of halal. This includes cleanliness, environmental awareness, fair treatment of workers and suppliers, and the overall way of conducting business. Some ethical issues associated with a holistic understanding of halal include responsible resource management, commitment to animal welfare standards, reducing environmental harm, ensuring the integrity of all stages in the food supply chain, and protecting consumer interests (Rahman et al., 2024). This list also includes issues regulated differently by the legal systems of various countries, such as worker exploitation, fraud, corruption, deception, false representation, forgery, bribery, conflicts of interest, and others.

The key question of the halal industry in achieving a holistic understanding of halal is whether companies need to meet only the technical requirements of halal standards or also need to adhere to the ethical principles associated with Islamic values and the nature of halal.

At first glance, the answer appears straightforward: the halal standard stipulates that a producer demonstrating the ability to meet the requirements and measures for all processes, products, or services aligned with Islamic rules qualifies for a halal quality certificate (BAS 1049, 2023). However, these provisions do not include ethical principles, meaning that adherence to ethical norms is not mandatory for producers. The separation of technical requirements from ethical expectations represents a critical challenge for the halal industry, which is ideally viewed as an inseparable combination of technical and ethical criteria. Consequently, as long as the halal status of a product is not compromised, certification bodies have no basis to suspend or revoke the halal certificate, regardless of the significance of the ethical principle involved.

The ethical dilemma intensifies when a halal-certified company deliberately violates an ethical principle, thereby jeopardizing trust in the halal industry. At that point, the halal certification body must decide whether to revoke the halal certificate for such a company. What mechanisms are available to halal certifiers to address this issue?

Resolving this dilemma starts from the premise that halal certification is voluntary (ISBIH, 2024), and significant ethical principles are still not thoroughly prescribed by halal standards[20]. Certification requirements are primarily outlined by halal standards, and each company signs a halal certification agreement (Halal.ba - Certification, 2024). Based on the provisions of the OIC/SMIIC standard, the certification body can, through the certification agreement, obligate the company to adhere to specific, clearly defined ethical norms. This establishes legal grounds for suspending halal certificates when ethical principles are violated, not just when the halal status of a product is compromised[21] (OIC/SMIIC 2, 2019).

However, if the producer has not contractually committed to ethical norms, the halal certification body lacks legal mechanisms for suspension. There is no clear consensus on whether the halal certification body must, can, or should revoke the halal certificate of an ethically compromised producer. Therefore, it is crucial for halal certification bodies to adopt clear guidelines that integrate the technical and ethical aspects of halal and include them in halal certification agreements. That will encompass all critical aspects of the holistic understanding of halal, maintain the integrity of the halal industry and ensure consumer trust.

Perception and Labelling of Halal Products

The markets of Balkan countries are characterized by the religious and cultural diversity of consumers and the absence of exclusive halal market niches. Halal consumers are present throughout the market, making it challenging to segment, group or separate halal products in retail outlets. A primary expectation of halal consumers is the ability to easily identify halal products. When this requirement is

[20] The OIC/SMIIC 18:2021 Halal Quality Management System – Requirements standard introduces the concept of ethical values in the halal industry. The adoption of a standard on the implementation of Islamic ethical principles and values in management systems is forthcoming. (https://www.smiic.org/en/standards – accessed on August 27, 2024.)

[21] The Halal Certification Agreement is a legally enforceable arrangement signed between the applicant that has demonstrated compliance with halal requirements and the halal certification body/schema owner. This agreement governs the rules for the right to use the logo granted for halal products, services, processes, and/or management systems. (Clause 3.3, OIC/SMIIC 2:2019 Conformity Assessment – Requirements for Bodies Providing Halal Certification, Second Edition 2019-07-22)

not met, distinguishing halal from non-halal products in retail becomes difficult. Reading labels or memorizing information about all certified products is an overly complex task for consumers.

A straightforward solution is for all halal products to carry a halal label. However, this presents a significant challenge for some producers who must navigate diverse or even conflicting consumer expectations. From the perspective of a halal producer in Bosnia and Herzegovina, the dilemma surrounding halal product labelling is symbolically expressed in a question posed by a company from Sarajevo: *"What will our customers in Mostar and Banja Luka say?"* This question reflects concerns that Catholic and Orthodox customers (symbolized by Mostar and Banja Luka) might stop buying their products after certification and the application of a halal label.

Halal producers face the dilemma of balancing the need for Muslim consumers to recognize halal products while overcoming potential resistance and misunderstanding from non-Muslim consumers. The question arises: will the halal label on products be perceived by non-Muslims as an imposition of Islamic religious and ethical values?

In Bosnia and Herzegovina, this dilemma was resolved with the help of research on consumer attitudes towards halal product labelling. The research indicated that two-thirds of consumers across Bosnia and Herzegovina support labelling products with a halal logo (GMS, 2008). These results were encouraging and led the Halal Quality Certification Agency to decide on mandatory labelling of halal-certified products. The decision is codified in clause 12.1.2.1 of the Halal Standard, which establishes the principles for halal product labelling[22] (BAS 1049, 2023). Exceptions to this labelling requirement are possible under certain conditions and with the Agency's approval (Halal.ba - Halal Logo, 2024). It is worth noting that some companies have no dilemmas regarding halal product labelling, as they consider it an integral part of the certification process.

The recent edition of BAS 1049:2023 is aligned with standard OIC-SMIIC 1 – Halal food (BAS 1049, 2023). This standard is used as a referential Halal standard across Balkan countries including Bosnia and Herzegovina, Serbia and Montenegro. In Croatia, the halal standard has been registered as HRN BAS 1049:2010 (HRN4You,

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[22] An identical provision is prescribed by the international halal standard OIC/SMIIC 1:2019 General Requirements for Halal Food, Clause 12.1.2.1. Labelling: "All Halal products should be appropriately labelled so that they can be identified and differentiated from non-Halal products. For certain products that are sold without packaging, it is possible to mark the point of sale."
The Malaysian Standard MS 1500:2019, Halal Food - Production, Preparation, Handling and Storage - General Guidelines (Third Revision), Clause 4.6.1 Storage, transportation, display, sale, and servings of halal food, states: "All halal food that are stored, transported, displayed, sold and/or served shall be categorised and labelled halal."

2010). This alignment of standard requirements provides a platform for a uniform labelling system across the Balkan region.

Halal at a Higher Price

The implementation of halal standards imposes additional costs on producers, including the procurement of halal-compliant raw materials, investment in technology, employee training, and maintenance of the halal quality system. These factors can lead to increased product prices after halal certification, leaving producers with the dilemma of how consumers might respond to the adjusted pricing.

Producers face a choice of whether to raise prices and pass the additional costs to customers or maintain existing prices, effectively absorbing the costs and rewarding their customers. This pricing dilemma, caused by the costs of halal certification, can be examined from both the producer's and the consumer's perspective.

For halal producers, pricing decision is primarily driven by market dynamics and financial calculations. Certification provides access to a new market niche but raising prices risks alienating price-sensitive customers. On the other hand, maintaining current prices and absorbing the additional costs prioritizes customer satisfaction over profits. This suggests that producers are dealing with an economic rather than an ethical dilemma.

From the consumer's perspective, they may accept price increases as reasonable or view them as exploitative. According to European competition law, *price exploitation* is identified when prices have “no reasonable relation to the economic value of the product supplied” (Cleary Gottlieb, 2020). In this paper *price exploitation* refers to leveraging a monopolistic position, or the absence of competition within the halal market niche, to profit at the expense of halal consumers, who may feel obligated to continue purchasing halal products due to their religious commitment, despite the higher, unfair or excessive prices. Price-sensitive halal consumers may face an ethical dilemma: should they purchase halal products at a higher price or risk buying more affordable, non-halal-certified alternatives?

Understanding the concept of added value, the costs associated with quality assurance, and pricing strategies play a critical role in the market positioning of halal products. When the implementation of halal standards increases production costs, producers are entitled to decide whether to maintain current prices or increase them. This choice exposes producers to the risk of profit loss if the price remains unchanged or the possibility of a boycott by halal consumers if prices are significantly increased.

Alternatively, producers can mitigate potential negative reactions by transparent communication of the reasons behind price increases and promoting halal as an added value. Moderate price increases combined with adequate promotion of the product's added value can prevent consumer doubts about the ethical business practices of halal producers.

At the time of writing this paper, no data was available on the sensitivity of consumers in Balkan countries to price changes caused by the implementation of new quality standards. Therefore, it can only be hypothesized that halal consumers would consistently choose certified halal products, even at a higher price. Gathering empirical data on consumer sensitivity related to price fluctuation may guide producers in pricing strategies.

Halal Integrity and Non-Muslim Producers

The halal certification process can be considered as a technocratic procedure. According to the halal standard BAS 1049 and other SMIIC standards, the producer's adherence to Islam is not a requirement for halal certification. A producer who fulfils the requirements of the halal standard is entitled to receive a halal certificate.

However, obtaining a halal certificate does not guarantee instant trust among halal consumers. General perceptions, the prior reputation of the company and its owner, or even the location of production are external factors that may influence product acceptance. In regions where the traditional understanding of halal as a religious obligation is strong and where halal certification is a relatively new concept, the integrity, commitment, and dedication of non-Muslim producers could be questioned. Traditional halal consumers often express scepticism, questioning how the owner or workers of a company can sincerely adhere to principles that are not part of their religious beliefs and even they may not fully understand them.

Ensuring integrity and trust in products from non-Muslim producers is a key concern directed at halal certification bodies, which serve as mediators between halal producers and consumers. After accepting applications, halal certification bodies must ensure that non-Muslim producers thoroughly understand and genuinely commit to the ethical dimensions of halal production, which go beyond merely implementing the technical requirements of halal standards.

Prior to the halal certification, every company is required to adopt and make publicly available its commitment to halal. In this statement, the company voluntarily agrees to fulfil all halal requirements and establishes mechanisms within its organisational structure to ensure halal quality. At a minimum, companies must commit to meeting the requirements of the halal standard. Additionally, certification bodies may require companies to adopt Islamic Work Ethics, which are considered an essential component for both the company and their employees to prevent misconduct (OIC/SMIIC 2, 2019).

Halal certification is a voluntary process, and halal certification bodies do not have coercive mechanisms to mandate producers to undertake specific activities. This significantly weakens the authority of certification bodies and increases the risk of potential non-compliance. As a result, certification bodies face the dilemma of whether to accept applications for halal certification from companies that agree to meet all technical but not ethical principles of halal.

In such cases, any unethical behaviour by the halal-certified company or failure to adhere to ethical norms is attributed to the certification body. If an unethical act occurs, the company may face a loss of revenue due to reduced sales, while the certification body risks losing its reputation and bearing moral responsibility. This risk can be mitigated by incorporating critical ethical requirements into the halal certification agreement. Doing so ensures that both the producer and the certification body demonstrate a higher level of responsibility towards ethical principles and a commitment to adhering to them in their business practices.

Form, substance and halal product identity

A halal certification of products whose names and appearance resemble non-halal products is not available in certification practice in Balkan countries. These include items whose names contain references to alcoholic beverages like beer, champagne, or wine, as well as certain meat products traditionally made from non-halal animals.

When a product is primarily evaluated based on its ingredient list and production recipe, it fulfils the principle that combining and mixing halal ingredients results in a halal product. The form, appearance and name of the product do not alter its composition, meaning it remains halal. Thus, appearance, name, and manner of consumption are considered behavioural and ethical rather than technical issues of halal compliance.

Products that resemble or evoke associations with haram products, through their external characteristics, raise two dilemmas. The first pertains to the responsibility of halal certification bodies to decide whether such products should be certified. The second dilemma concerns halal consumers, who must determine whether they are willing to consume such products. The actions of both the certification bodies and the consumers largely depend on their understanding of halal and the extent to which Muslims identify with non-halal, even at the level of form or packaging appearance, rather than the product's content.

It is unknown whether any country explicitly prohibits the sale of halal beer, wine, or champagne. Similarly, the labelling and distribution policies for such products are not standardized globally. A useful example for regulating this issue within halal certification is provided by the Malaysian halal standard, which stipulates that halal products must not, through their appearance or names, contradict Islamic principles or confuse consumers. This also applies to generic or industrial ingredient names, which must not include terms identical to or synonymous with haram products (Standards Malaysia, 2019). In both cases, the standard uses the term "shall," indicating a mandatory requirement.

Whether others will follow Malaysia's example and how the halal industry will address these issues primarily depends on halal authorities, institutions responsible for halal standardisation, and other regulations governing the halal market. Adopting the Malaysian model as a feasible solution could prevent confusion and misunderstanding among halal consumers and provide clear guidance for the halal industry.

CONCLUSION

The halal industry in the Balkan region is characterized by a blend of traditional and modern interpretations of halal principles. The market is open and inclusive, allowing voluntary participation by producers regardless of their religious affiliation. While the halal industry and certification system are well-regulated, certain ethical dilemmas require additional attention and consideration.

This paper elaborated on five ethical dilemmas that illustrate the complexity of understanding and implementing critical aspects of the halal industry. The labelling dilemma was addressed using the example of Bosnia and Herzegovina, where empirical data from consumer surveys helped resolve issues related to labelling products with halal logos. Provisions mandating labelling, as a part of the BAS 1049 standard, ensure consistency across the Balkan region.

The pricing dilemma highlighted the sensitivity of consumers to price increases which may discourage them from buying halal-certified products if prices rise significantly. In the absence of empirical research, it is suggested that producers promote halal as an added value to justify price adjustment.

Forms, names and symbols that associate with haram products remain inconsistently regulated on a global scale. The Malaysian standard is the only one that explicitly prohibits the use of non-halal terms and symbols on halal product packaging and may serve as a good example to amend other standards and regulations to prevent any confusion in identifying halal products.

Building trust in products from non-Muslim producers requires halal certification bodies to ensure compliance with halal standards through transparency and adequate halal education. Adherence to the key ethical principles can significantly increase halal consumer’s trust.

The ethical dilemmas discussed in this study highlight the importance of adhering to both the halal standards and the principles of Islamic Work Ethics. The complexity of ethical dilemmas in the halal industry demands a greater focus on education and the continuous advancement of halal standards. All key stakeholders including certification bodies, producers, consumers, and regulatory authorities, must collaborate to maintain the integrity of the halal industry.

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THE ROLE OF AGRICULTURAL WAQF IN THE MODERN DEVELOPMENT OF LOCAL COMMUNITIES: THE ROLE AND EXPERIENCES OF THE WAQF DIRECTORATE OF THE ISLAMIC COMMUNITY IN BOSNIA AND HERZEGOVINA

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Abstract
The paper examines the historical and modern role of agricultural waqfs in Bosnia and Herzegovina, particularly through the efforts of the Waqf Directorate of the Islamic Community. Agricultural waqfs have the potential to drive socio-economic development by supporting local food production, providing employment, and fostering self-sustainable projects in rural and suburban communities. The document highlights successful initiatives like grain sowing, fruit planting, and greenhouse production as examples of waqfs fulfilling both economic and religious responsibilities. Despite these achievements, challenges such as land fragmentation, low profitability, and limited agricultural infrastructure hinder the full potential of waqfs. Addressing these issues through strategic planning and investment is necessary for future growth. Agricultural waqfs could play a crucial role in reducing rural depopulation, strengthening local economies, and contributing to social cohesion if supported by the Islamic Community and relevant authorities.
Keywords: Waqf, Waqf Directorate, Agriculture, Development

INTRODUCTION

Since the arrival of the Ottomans in Bosnia and Herzegovina, the *Waqf* (endowment) has played a significant role in driving economic and social development. With the formation of cities around *Waqfs* and the growing trust among the local population, the *Waqf* structure provided for all the population's needs (employment, religious needs, markets, social needs, etc.). With the departure of the Ottomans, there was a shift in the government's attitude toward *Waqfs*, leading to a neglectful approach and the widespread confiscation of *Waqfs* by the then-authorities, for whose restitution the Islamic Community in Bosnia and Herzegovina, as the legal custodian of *Waqfs*, is still waiting. The restoration of destroyed *Waqfs* and the establishment of new ones to meet the contemporary needs of Bosnia and Herzegovina's citizens have led *Waqfs* into a new era of prosperity.
The purpose of this paper is to present the experiences and role of the Waqf Directorate in revitalizing and advancing agricultural *Waqfs*, with a focus on the challenges it

faces, and to consider the current and future role of this type of *Waqf* in the development of local communities in Bosnia and Herzegovina.

The paper outlines the structure and characteristics of *Waqf* land in Bosnia and Herzegovina, the foundations and opportunities for developing agricultural *Waqfs*, followed by the completed projects of the Waqf Directorate and local structures of the Islamic community (*Majlises*) aimed at strengthening the potential of agricultural *Waqfs*. The paper addresses the challenges of initiating and developing agriculture, considering the characteristics of *Waqfs*, the economic feasibility of investing in this type of *Waqf*, and the development prospects for the future. The results of relevant research are included and contextualized in the paper. The methods used in the paper are textual analysis, historical, and comparative methods.

AGRICULTURAL WAQF AND ISLAMIC VALUES

Until the Industrial Revolution, agriculture was the most important economic sector, driving and sustaining nations and civilizations. With the development of technology and the adoption of philosophies focused on maximizing profit, the economic aspect of agriculture became particularly emphasized, often being compared with the profitability of other sectors. Consequently, in countries with pronounced urbanization, agriculture took on a secondary significance, while industrial production and the use of various means for treating agricultural products raised questions about *halal*—the permissibility of consuming different types of food, the health aspects, and the price of organic food. Agricultural land fulfils Islamic values and the objectives of Sharia law in several ways:

1. Ensuring the economic and infrastructural development of the community at various levels, which is the primary goal of the *Waqf* as an institution. This can be seen in the Prophet's (PBUH) advice to Umar (RA) regarding the establishment of the first *Waqf*: "Make the property a *Waqf* that cannot be sold, gifted, or inherited, and its income should be used for the public good!" (Bukhari, 2772);

2. Providing healthy and *halal* food, which is a Quranic principle derived from the verse: "Eat of the good and lawful things that Allah has provided for you." (Qur'an, 16:114), a principle that has become particularly relevant with globalization and the existence of Muslims in societies unfamiliar with the principles of *halal* consumption;

3. Promoting solidarity, achieved by using resources like land and its revenues for the common good;

4. Using land as one of God's blessings for lawful purposes;

5. Cultivating and utilizing land (*imaret*) as one of the fundamental tasks of humankind in this world.

AGRICULTURAL WAQF AND THE LOCAL COMMUNITY

Agricultural *Waqfs* are directly linked to the development of rural and suburban areas. In the past, these *Waqfs* supported agricultural production in local communities, strengthening the community's microeconomy. The local population had access to *Waqf* land, contributing to their own livelihood, while the income from renting and selling produce was reinvested into the community and used for further development of the *Waqf*. This model provided an economic foundation for the community as well as its advancement. The potential of agricultural *Waqfs* in the development of rural and suburban areas remains significant even today: from an economic perspective, *Waqfs* offer opportunities for local self-employment on *Waqf* estates, increased local food production, and reduced dependency on imports, as well as the establishment of local producers’ cooperatives. From a social perspective, *Waqfs* can provide food distribution and the opportunity to organize humanitarian projects, such as free meals for the poor. From a religious perspective, *Waqfs* enable the performing of various acts considered good deeds and promoting and upholding different Islamic values.

The Structure of Waqf Land in Bosnia and Herzegovina

Arable land is a valuable asset for its owners. Throughout history, various authorities have recognized this and unjustly seized vast *Waqf* properties. In the context of Bosnia and Herzegovina, a significant event was the Agrarian reform implemented by the Kingdom of SHS, which resulted in the confiscation of land equal to one-third of the total area of Bosnia and Herzegovina (all land that was not directly cultivated but rented was taken), as well as a set of laws from the Socialist Federal Republic of Yugoslavia (SFRY), which confiscated real-estate (any real-estate that was not used for strictly religious purposes) that had not been previously seized, eventually leading to the dissolution of the Waqf Directorate.

It was only after the end of the aggression on Bosnia and Herzegovina in 1996 that the Waqf Directorate was re-established, taking over the responsibilities it had before being dissolved, protecting *Waqfs* from further seizure and decline, and restoring destroyed *Waqfs* while establishing new ones. In less than 30 years, the *Waqf* in Bosnia and Herzegovina has gained new momentum thanks to both domestic and foreign donors, as well as the dedicated individuals who have worked for the benefit of the *Waqf*.

Historians tell us that in the past, more than one-third of agricultural land, and sometimes even half of the buildings in major cities across the Islamic world (Egypt, Palestine, Syria, Turkiye), were *Waqf* properties. Today, *Waqf* revenues are often insufficient even to cover mosque maintenance, requiring state budget subsidies for ministries of *waqf* in most Muslim countries (Kahf, 2003). In Bosnia and Herzegovina, the *Waqf* was once a very powerful institution that spurred the development of local communities, transforming them from neighbourhoods into bazaars, towns, and even cities.

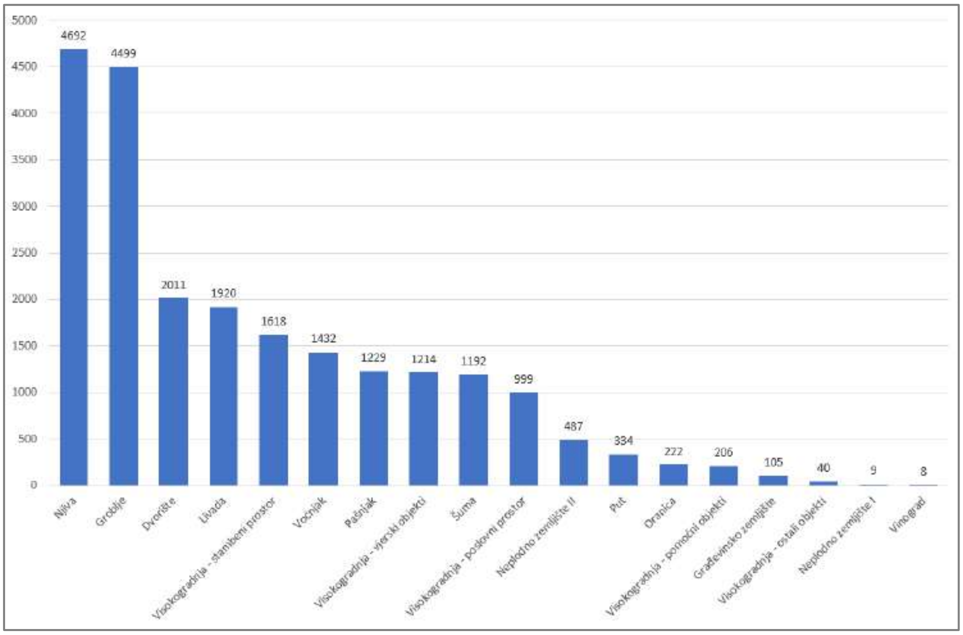
Today, *Waqfs* in Bosnia and Herzegovina mostly have enough resources for self-financing, but not for reconstruction and adaptation projects. They rely on new investments in *Waqf* assets through public calls for incentives from various levels of government, support from donors within Bosnia and Herzegovina, and support from donors and organizations abroad as well.

Agricultural *Waqf* land, thanks to new endowments after the war, now represents a significant potential for the development of local religious communities (*Jamaat*) and surrounding areas. In terms of the number of land plots, agricultural land makes up about 43% of the total number of *Waqfs* in Bosnia and Herzegovina, accounting for 83.76% of the total *Waqf* area in the country, covering over 35 million square meters. However, a large portion of this land does not generate income, with rental revenues from the land representing only 1.13% of total *Waqf* income in 2022 and 1.59% in 2023 (Strategy for development of Waqf and the Waqf Directorate of the IC in B&H 2025-2034, 2024).

The reasons for this low revenue share from agricultural *Waqfs* lie in the fact that agricultural land, as a primary sector of the economy, generates less income than properties used for rental purposes. Additionally, the land plots vary in quality and yield, as do the agricultural crops grown on them. Lastly, the distance from populated areas and roads, as well as the geographic location, affect the feasibility of leasing or cultivating the land, all of which result in significantly lower income and raise questions about the profitability of cultivating *Waqf* land and investing in it.

Graph 1

STRUCTURE OF WAQFS IN BOSNIA AND HERZEGOVINA: NUMBER OF LAND PLOTS BY CATEGORY



Summary overview of waqf property in Bosnia and Herzegovina. Data was taken from the Waqf Directorate database.

CULTIVATION PROJECTS

Projects of the Waqf Directorate

The Waqf Directorate is the institution that, according to the Constitution of the Islamic Community (IC), manages *Waqf* properties in Bosnia and Herzegovina. Although its primary focus is not agriculture, this aspect of its work is significant due to several reasons: the religious and constitutional obligation to maintain and develop *Waqfs*; the prominent role that *Waqf* has traditionally played in providing halal food; the current potential of this branch of the economy to benefit the *Waqf*; the crucial role of agriculture in the future to provide food for a growing global population; and the ongoing demand for healthy and halal food.

Due to the physical impossibility of directly managing all *Waqfs*, the Waqf Directorate manages them through local municipalities of the IC (*Majlis*), which find ways to utilize *Waqf* properties, while all legal and administrative matters such as establishing new endowments, rental agreements, etc., require the approval of the Waqf Directorate.

The Waqf Directorate, in cooperation with several *Majlises*, has so far implemented several projects for the cultivation of *Waqf* agricultural land. It is not possible to precisely estimate the long-term success of these projects, due to the lack of comprehensive data and measurable indicators of success across all the *Majlises* where these projects were implemented.

1. Spring Sowing Project

Since 2012, the Waqf Directorate, based on its planned activities and the large areas of unused *Waqf* land (primarily less promising plots), has initiated concrete activities in reviving *Waqfs*. In cooperation with several *Majlis* municipalities, it implemented a pilot project for cultivating scarce crops on *Waqf* land. Initially, non-grafted saplings were planted without irrigation systems, as funds were allocated only for the purchase of saplings. Several years after the planting, representatives of the Waqf Directorate visited some of the *Majlises* (Breza, Gračanica-Visoko, Goražde, Olovo, etc.) involved in the pilot project to assess the condition of the crops. Unfortunately, most of the crops did not succeed, primarily due to human factors, as the saplings were not properly or professionally maintained, and the lack of an irrigation system. After assessing the situation, the Waqf Directorate responded immediately. In the next phase of the project (2019), it insisted that *Majlis* partners ensure professional consultations and assign a person to continuously oversee the crops. Additionally, irrigation systems and other necessary supplies were provided, significantly improving the results of the plantings. Successful implementations of this project were carried out by *Majlises* municipalities in Fojnica, Bratunac, Vlasenica, Tešanj, Kakanj, Visoko, Bugojno, Bijeljina, Janja, and others. In 2019 alone, over 25 tons of various fruits, vegetables, and grains were planted on 775,000 square meters across Bosnia and Herzegovina as part of this project.

2. Fruit Planting Project

As part of the autumn planting in 2016, the Waqf Directorate established long-term fruit plantations on *Waqf* land in Vlasenica and Bratunac. In Vlasenica, 10.000 sq. meters of land were cultivated with walnuts, apples, and plums, while another 10.000 m2 in Bratunac were planted with grafted walnut trees. The Waqf Directorate also financed the planting of 180 walnut saplings in the Jablanica *Jamaat* within the Tešanj Islamic Community Municipality. (Report on Walnut Planting in Jablanica *Jamaat*, 2017)

3. **Raspberry Planting**

In 2016, the Waqf Directorate financed the planting of 4,000 raspberry saplings on more than 5,000 square meters in Čelić, with the necessary materials provided. (Agreement on the realization of the project of raising raspberry plantations on the waqf plot, 2016)

4. **Financial Support for Individual *Majlis'* Projects**

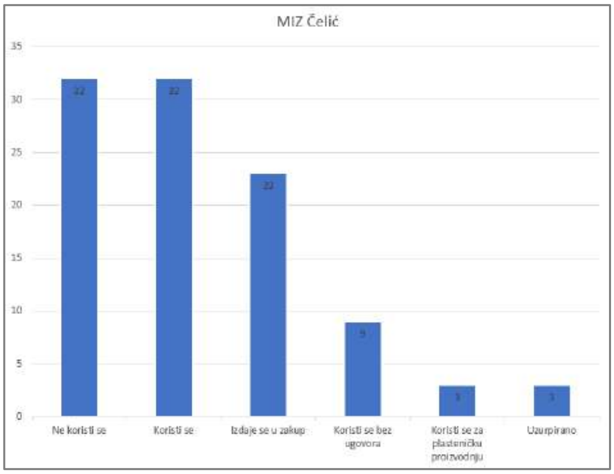
The Waqf Directorate continually provides financial support to *Majlis* municipalities for the implementation of fruit planting and agricultural land cultivation projects.

PROJECTS OF THE *MAJLIS* MUNICIPALITIES

The *Majlis* municipalities of the Islamic Community usually possess varying amounts of agricultural land within their territories. The level of utilization and success varies depending on the geographical location, financial capabilities to hire labor, and the number of employees within the *Majlis*. In this section, we will present several successful examples of revitalizing unused *Waqf* land.

MIC Čelić is located in the northern part of Bosnia and Herzegovina. The *Waqfs* in this *Majlis* are fragmented and small in size, mostly consisting of orchards and arable land. The total area of the land plots is 700,000 square meters, of which 40% is arable. According to 2024 data, 66% of the 102 agricultural plots are either rented or directly used by the local community, 31% remain unused and overgrown, and 3% have been illegally seized by neighbours. The *Majlis* has a registered agricultural estate within the municipality. (Enhancing the *Waqf* Property of the Islamic Community Čelić, 2022)

Graph 2
UTILIZATION OF WAQF PLOTS IN MIC ČELIĆ



Presentation of the utilization of waqf plots based on the data of MIZ Čelić.

The usage in Graph 2 refers to the regular and occasional use directly by the Jamaat; usage without a contract mainly refers to the use of fruit orchard yields, while the usurped lands are smaller areas where unauthorized structures have been built. The reasons for not using the plots vary, such as distance from the inhabited area, poor soil quality, small area size, frequent flooding, etc.

A positive example from this Majlis is the "United Waqf," a collection of plots that are used, leased, and maintained according to an agreement between three Jamaats, with profits shared proportionally. (Enhancing the Waqf property of the Islamic Community Čelić, 2022)

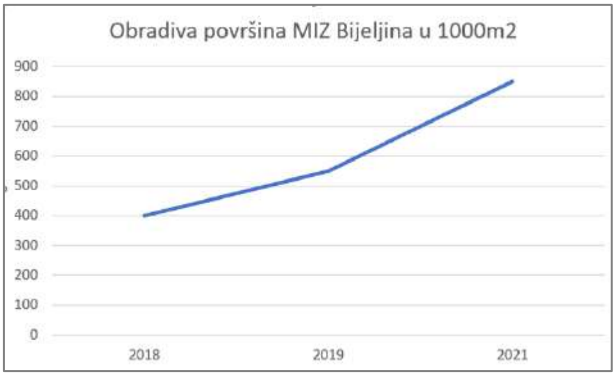
Although it has relatively good results and a high level of land use, the Majlis aims to ensure further efficiency through planned investments. The investment plan aims to establish 20 dunams of greenhouses, dig 10 wells with water pumps, plant 50 dunams of orchards, build a cold storage facility, and improve access roads. According to analyses, the return on investment is high, with an expected payback period of 5 years. (Enhancing the Waqf property of the Islamic Community Čelić, 2022)

MIC Bijeljina is located in the northeast of Bosnia and Herzegovina, in the fertile plains where the Drina meets the Sava. Since 2014, the Majlis has been implementing a project to improve the use of waqf property. MIC Bijeljina owns 15 hectares of agricultural land, which it cultivates with its own machinery and labor, and additionally cultivates land owned by Jamaat members for a monetary fee. The area of additional land the Majlis cultivates has increased each year, reaching 25 hectares in 2018 and 70 hectares by 2021. The proceeds from agriculture have been used to purchase machinery, irrigation systems, etc., creating new jobs, and demonstrating that investing in agricultural land pays off.

MIC Bijeljina is an example of how well-planned investment in its own production and workforce can greatly increase revenue compared to renting property. The Majlis' spring and fall sowing projects are also financially supported by the Waqf Directorate. (Autumn wheat sowing on the waqf agricultural estate of MIC Bijeljina, 2023) MIC Bijeljina has also established its own agricultural estate "Waqf Agricultural Estate Bijeljina." (Agreement on the realization of the project of raising wheat and barley plantations on the waqf plot, 2019). When it comes to investment profitability, according to Majlis reports, total revenues from corn sowing alone amount to around 180% of invested funds, although in the reporting year 2021, revenues were reduced by about 50% due to drought. (Report on yields achieved as part of the agricultural planting project on the waqf agricultural estate of MIC Bijeljina, 2022).

Graph 3

CULTIVATED AREA OF MAJLIS FROM BIJELJINA IN 1000 m2.



Presentation of the increase in arable land in Majlis IC Bijeljina according to Majlis' reports to the Waqf Directorate.

MIC Janja, located about 30 kilometers south of Bijeljina, owns 200.000 square meters of agricultural land and additionally cultivates agricultural land belonging to members of the Islamic community. The Majlis' projects include the sowing of wheat and corn, as well as the cultivation of potatoes, in cooperation with the Waqf Directorate and the agricultural cooperative from Janja. As part of the land cultivation project, they secured working machinery and employed several workers who performed tasks related to the improvement of waqf property. (Spring sowing and potato cultivation on the waqf of MIC Janja. Request for donation as part of the "Improvement of Waqf" project, 2018). In 2022 alone, seasonal agricultural income was used to invest in the purchase of two trailers and the acquisition of 11.000 m2 of land, and 3 tons of potatoes and 1.5 tons of flour were donated. (Report on yields achieved as part of the agricultural planting project on waqf land, 2022).

Although Majlises that strategically develop waqf land, turning to their own production or renting, successfully operate with a surplus, investing tens of thousands of KM in machinery and the purchase of new land, their reliance on additional financial assistance for planting from the Waqf Directorate and public tenders from various levels of government indicates that an adequate level of agricultural machinery scale and quality has not yet been achieved.

CHALLENGES IN WORK

Although the potential of agricultural waqfs in the modern era exists, their revitalization is not without challenges. In this section, we will present the main challenges of initiating and developing agricultural waqfs:

1. Fragmentation of plots suitable for agricultural development. Although there are relatively many waqfs in Bosnia and Herzegovina, they are not structurally suitable for larger plantations, and thus not for significant and purposeful use of agricultural machinery in production, except in northern B&H in the mentioned examples.
2. Low profitability results from insufficient possibilities for using agricultural machinery and increasing labor engagement, which leads to a withdrawal from agricultural production that exceeds personal needs and is oriented toward trade, export, etc.
3. Agricultural income is mostly seasonal for individuals and not regular monthly income, due to the absence of agricultural cooperatives. Majlises can establish cooperatives, which require dedication, significant land areas, a plan, and initial resources. An additional challenge is inflation and the rising cost of seeds, fertilizers, and labor.
4. Starting production, acquiring tools and machinery, and financing labor require initial investments until a satisfactory scale and quality are achieved, which can take years, assuming that investment can be realized from its own income after a certain period.
5. The possibility and strategy for product placement often lacking, leading to price fluctuations in direct sales, which further reduce the profitability of agricultural production.
6. Absence of development strategies at higher levels, which would partly satisfy the market with halal, healthy, and domestic products, but also maintain prices that would justify further investment and engagement in agriculture, thereby avoiding large price fluctuations, reducing profitability, and contributing to inflation.
7. **Engaging expert personnel for market analysis, local development strategies, and soil quality** requires additional investment in personnel, especially during the initial phase of production.
8. **The constant outflow of the population abroad and the competitiveness of the labor market** pose challenges for all Balkan countries, and according

to all competitiveness parameters with the EU market, B&H is generally at about 50%.

9. **Decentralization of waqf management in B&H** represents an obstacle to significantly investing waqf revenues back into the waqfs themselves, prioritizing development projects, and achieving independence from unstable external support.

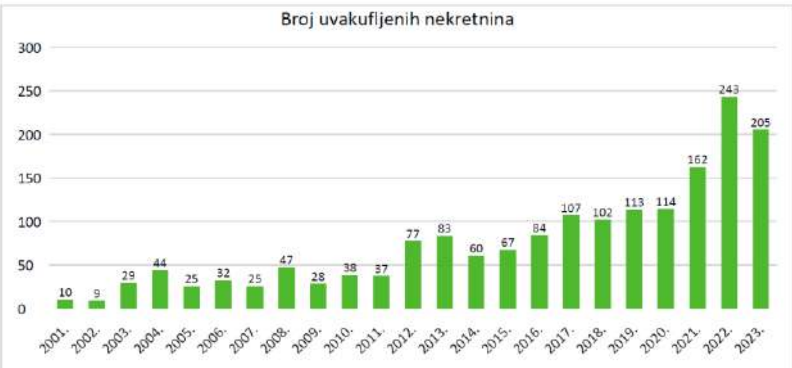
FUTURE ROLE OF WAQF IN THE DEVELOPMENT OF LOCAL COMMUNITIES

Modern trends of rising food prices, as well as a decline in food quality, are increasingly prompting the Majlises of the Islamic Community that have unused agricultural land to think more about ensuring those types of food can be produced in Bosnia and Herzegovina, as well as securing financial benefits and putting waqf assets to use.

The long-term strategy for the development of waqf in Bosnia and Herzegovina aims to address the challenges faced by waqf property. This includes activating unpromising waqf plots by planting perennial trees or afforestation, as well as applying adequate established methods for using waqf land. In the upcoming period, more and more Majlises have concrete plans for cultivation or wish to explore the possibilities, justification, and quality of utilizing agricultural waqf land. These include the following Majlises: Bihać, Donji Waqf, Jajce, Zenica, Bijeljina, Čelić, Puračić, Srebrenik, and Zvornik.

A positive aspect indicating the potential of agriculture, besides the current extent of waqf land, is the increasing number of properties being endowed year after year (see Graph 3). Due to the fact that a large portion of agricultural waqf land is fragmented and sometimes inaccessible, planning and implementing significant projects requires activities aimed at land consolidation to create larger areas, which is already being realized to a certain extent.

Graph 4
NUMBER OF ENDOWED PROPERTIES ANNUALLY IN B&H



Source: Strategy for development of Waqf and the Waqf Directorate of the IC in B&H 2025-2034 (2024).

According to official statistics from the Federation of Bosnia and Herzegovina, the relative share of formally employed individuals in agriculture out of the total number of employees is quite low, approximately 2%, although this number is steadily increasing, while the total share in this sector is around 10%. According to the aforementioned statistics, 86% of farmers are over 40 years old (Strategy for Agriculture and Rural Development FB&H 2021-2027, p. 7). In the same entity, 52.36% of the population lives in rural areas.

Based on the success rate of previously implemented projects by the Waqf Directorate and Majlis, their plans, and the existing challenges in their work, we can consider the future role through the following points:

1. Through better organization, cultivation, and infrastructure investments, waqf lands can become an important source of agricultural production. Seed sowing, fruit planting, and greenhouse production projects in these Majlises show a positive trend, which can serve as a model for others.

2. Without addressing the challenges of production, product placement, and the profitability of engaging in agriculture, it is not possible to create adequate long-term plans and solutions. Given that the Islamic Community has limited resources for economic development and that earning income is not its primary activity except to the extent that ensures its financial independence, it has not adequately addressed these challenges so far, which still represent important issues at the start of any agricultural startup. Although it is not an optimal solution, leasing waqf land is a profitable and currently the best possible option in most of Bosnia and Herzegovina (Monograph MIC Čelić, 2024). This method of use is sustainable and should be anticipated in the future.

3. The organization in the form of agricultural cooperatives operating at the Majlis level or in broader areas could help increase efficiency and reduce costs, enable mass production, and improve access to incentives, but it would also require more serious organization and strategic planning, which represents a significant step in the long-term development of waqf. Additionally, it is necessary to take advantage of the significant increase in agricultural investments at the cantonal and entity levels of government, where annual investments are measured in millions of KM, with further increases expected since agricultural competitiveness has not yet been achieved, nor has a satisfactory level of quality for machinery and grain drying and storage facilities (Strategy for Agriculture and Rural Development FB&H 2021-2027, p. 9). Such incentives can be utilized through agricultural cooperatives.

4. Economically speaking, greenhouse production is more suitable and profitable for smaller agricultural areas in populated places, and it has a clearer profit projection, which is particularly significant considering the structure of waqfs in Bosnia and Herzegovina. Greenhouse production also represents an opportunity for Majlises with smaller areas of waqf land to generate income and utilize it.

5. Projects from the Waqf Directorate demonstrate varying degrees of success due to the fact that many Majlises participating in the projects did not have adequate market analysis, needs assessment, soil quality evaluation, or the necessary human factors to ensure the survival of the crops planted. Since the Waqf Directorate does not have complete insight into the readiness to manage waqf in the field, future projects of the Waqf Directorate will need to consider the previous results of the Majlises.

6. Regarding the social role of waqf, its perspective lies in the development of sustainable agriculture and food security, as well as humanitarian projects such as food donations.

7. With planned development and an increase in food production volume, it is realistic to expect a more significant role for waqf in reducing the depopulation of rural areas by retaining the population through employment opportunities, as well as improving the infrastructure of rural communities, which would generally enhance living conditions and create new opportunities for local economic development.

CONCLUSION

Waqfs, as one of the fundamental pillars of Islamic tradition, play a significant role in the socio-economic development of Bosnia and Herzegovina. This paper analyses the role of agricultural waqf in the context of modern challenges and the potential for the development of local communities. Agricultural waqf land, although underutilized, has the potential to become a significant factor in the economic revitalization of rural and suburban areas.

The experiences of the Waqf Directorate and Majlis demonstrate that, with adequate planning and expert support, waqf properties can contribute to increasing local food production, empowering local communities through employment, and creating self-sustainable projects. Examples of successfully implemented projects, such as grain sowing, fruit planting, and greenhouse production, show that waqf can achieve significant economic potential while also fulfilling religious and humanitarian obligations towards the community.

However, challenges such as land fragmentation, low profitability, lack of agricultural machinery, and weak institutional support still pose obstacles to fully developing the potential of waqf agriculture. Therefore, it is essential for the Islamic Community and relevant authorities to intensify efforts to address these issues, improve planning, and increase investments in infrastructure and machinery. Projects aimed at revitalizing and strengthening waqfs certainly deserve the support of the Community.

In the future, agricultural waqfs have the potential not only to provide halal and healthy food for the domestic market but also to play an important role in reducing depopulation in rural areas, strengthening the local economy, and enhancing social cohesion. Utilizing waqf land through sustainable agricultural practices can significantly contribute to the development of the community and local areas, ensuring long-term benefits for society as a whole.

In this way, agricultural waqfs can become not only a means of preserving Islamic tradition but also a catalyst for sustainable development and social justice in a contemporary context.

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ISLAMIC BANKING AS AN INSTRUMENT FOR REDUCING SOCIAL INEQUALITY: THE CASE OF BOSNIA AND HERZEGOVINA

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Abstract

This study explores the potential of Islamic banking as a tool for reducing social inequality, using Bosnia and Herzegovina as a case study. The Balkan region has increasingly been targeted by investments from the GCC region, including Bosnia Bank International (BBI) as one of those investments, recognized as the only Islamic bank in the region. Islamic banking is a form of moral banking, aimed at profit maximization without compromising ethical standards. These ethical norms are critical in shaping business operations, wherein Islamic banks are expected not only to be profitable but to positively contribute to societal welfare, particularly in addressing disparities between the rich and the poor. By adhering to the principles of socially responsible banking, grounded in justice, solidarity, and the prohibition of harmful economic activities, Islamic banking offers an alternative financial model with considerable potential for reducing social inequalities. This paper analyzes the role of BBI, its implementation of Islamic financial instruments, and the impact of various projects that have contributed to reducing social disparities in Bosnia and Herzegovina. Islamic financial instruments, being partnership-based, are hypothesized to foster greater equity in relationships between banks and clients. Projects such as the Sarajevo Business Forum, Sarajevo Halal Fair, credit lines with Cantonal and Municipal authorities, zero-margin financial lines for clients, and student scholarship programs organized by the Bank demonstrate BBI's substantial engagement in social responsibility, surpassing the efforts of conventional banks. This suggests that BBI's operations reflect a deeper commitment to addressing social vulnerability and promoting social justice compared to traditional banks. The study also explores the challenges BBI faces and considers the potential for further development of Islamic financial institutions within the region. The findings suggest that Islamic banking, through institutions such as BBI, can offer sustainable solutions to both economic and social challenges, fostering a more equitable distribution of resources and promoting social inclusion. Islamic banking not

only operates through financial instruments but also contributes to community welfare through non-banking activities that have a measurable impact on reducing social inequalities. Furthermore, the study examines how Islamic banks like BBI can serve as catalysts for broader economic change, including promoting entrepreneurship and job creation. Ultimately, this research emphasizes the potential of these models to inspire the development of other socially responsible financial institutions across the wider Balkan region.
Keywords: Islamic banking, social inequality, Bosnia Bank International (BBI), Socially responsible banking, financial instruments, social welfare.

INTRODUCTION

Corporate Social Responsibility (CSR) has seen significant growth over the past few decades, largely driven by societal demands for corporations to address social inequality. Factors such as global market dynamics, decentralized management structures, ethical crises, scandals, and growing social inequality have all fueled this expansion. Society increasingly expects companies, particularly financial institutions, to be more socially responsible and contribute to societal welfare (Mohammed, 2007).
As Corporate Social Responsibility (CSR) continues to gain traction, Islamic banking and finance are also witnessing significant growth. The Islamic financial sector, according to a 2022 report from ICD and Refinitiv, has reached a substantial 4 trillion USD in total assets and is growing at an annual rate of approximately 7-8%. Since Islamic financial institutions are guided by Shari'ah law, which seeks to benefit all aspects of human life and minimize harm, these institutions are expected to prioritize CSR more than their conventional counterparts. Dusuki and Abdullah (2007) argue that Islamic financial institutions should lead in CSR initiatives and work towards reducing social inequality.
Islamic banks, bound by Shari'ah, incorporate ethical principles into their operations, making them distinct from conventional banks (Kahf, 1999). Some critics argue that there are no significant differences between IFI and commercial institutions when it comes to CSR implementation which is proved in the example of Malaysia (Chong and Liu, 2010). Following the theory, Islamic banks should follow ethical and moral principles before profitability, differentiating them from conventional approaches. Islamic banks, rooted in Islamic values, should focus on reducing the wealth gap through numerous projects (Basah and Yusuf, 2013).
In practice, however, the distinction between Islamic and conventional banks is often blurred. Both types of banks implement CSR projects and use them as a tool to attract customers. The issue arises when CSR becomes merely a marketing strategy aimed at profit maximization (Tran, 2014). This profit-driven behavior is evident in the financing models used by Islamic banks, where most profits are generated from loan-based financing rather than equity-based models. While it is generally acknowledged that Islamic banking has a stronger focus on socially vulnerable groups compared to conventional banking, this has not been consistently reflected in implementation strategies. The study referenced by Basah and Yusuf (2013) represents a critical step in assessing the actual contribution of Islamic banks to reducing social inequality.
According to estimates from the Central Bank of Bosnia and Herzegovina (B&H) in its 2023 Annual Report, modest economic growth is anticipated in 2024 due to

ongoing inflationary pressures and limited trade opportunities for domestic industrial production and exports. These challenges characterized 2023, particularly the decline in external demand. This downturn was attributed to deteriorating monetary conditions and high inflation. Key factors for Bosnia's GDP growth in 2023 included increased investment spending, both public and private, as well as rising wages and employment levels (Barašin, 2024).
There is only one Islamic bank operating in the South-East Europe region – Bosnia Bank International, and it was established and founded by the strongest Islamic banks in UAE and KSA. BBI has played a significant role in CSR initiatives in Bosnia, aiming to support disadvantaged communities (BBI, 2024). These CSR efforts can be categorized into two types: business-oriented projects such as credit lines and investment conferences, and charitable activities like scholarships, humanitarian aid, and other community-focused projects. Both categories will be explored and analyzed in this study.

RESEARCH METHODOLOGY

The main goals of the research paper are CSR-based initiatives that IFI implemented in Bosnia and Herzegovina in order to reduce the gap between rich and poor. This means that the study will be focused on Bosnia Bank International (BBI) as the only Islamic bank in B&H. As mentioned above, BBI has been undertaking two categories of these projects: projects which are the part of business portfolio such as Sarajevo Business Forum, credit lines with official authorities in Bosnia and Herzegovina, Turkish credit line, Al-Maktoum fund, and IDB trust fund. The second category of projects is those based on charity activities such as student scholarships and humanitarian work.

The research involves a qualitative analysis of available data on CSR initiatives within Bosnia and Herzegovina’s banking sector, focusing on the role of Islamic banks in reducing social inequality. The analysis explains the main CSR projects initiated by BBI with a significant impact on reducing social inequality. Data sources consist of official reports from BBI.

SOCIAL INEQUALITY IN BOSNIA AND HERZEGOVINA

In Bosnia and Herzegovina, the Central Bank's 2023 Annual Report projects modest economic growth for 2024. This restrained outlook is attributed mainly to persistent high inflation and limited trade prospects for both domestic industrial production and exports. These issues marked the entire year of 2023, particularly the decline in external demand. The decrease in external demand followed the deterioration of monetary conditions and high inflationary pressures. The key assumptions for domestic GDP growth in 2023 are the growth of investment spending (personal and government), accompanied by an increase in nominal wages and employment. The growth of private sector investments is influenced by still lower domestic interest rates compared to those in the eurozone and retained financial profit from the previous year, in which many companies recorded record net profits. An increase in government investment spending is expected, driven by work on large infrastructure projects, which can be especially anticipated in 2024 due to local elections. For 2024, a GDP growth rate of 2.1% is projected, assuming a weakening of inflationary trends, and it is expected that inflation will be significantly lower during this year hitting 3% (Barašin, 2024). According to Tutnjić (2022), around 70% of citizens in Bosnia and Herzegovina today are in the poverty zone, with 30% of them lacking even the basics for a "bare existence," surviving due to help from public kitchens. The main reasons for the situations are various, starting from the consequences of the war and the transition process, exposing the population to new types of risks such as recession, rising unemployment, and inflation.

One of the main issues that society faces today is the problem of social inequality, with wealth disparity being a dominant factor. In modern societies, the number of people living in poverty is steadily growing, while wealth and power stay in the hands of 1 percent of the world population.

According to some authors, less than 10% of the population controls more than 90% of the total wealth. This situation leaves a large portion of society feeling dissatisfied and frustrated with the current state of affairs. For these discontented members, democratic processes provide a way to push for changes in how society operates, seeking to create a system that better serves their needs (Plojović, Bećirović, Plojović, and Ujkanović, 2018).

The significant difference between rich and poor is an issue affecting people's lives around the world and especially in Bosnia and Herzegovina which is still recovering from war consequences from 90's. Different regions get access to resources in different ways, and there's a clear gap in things like education, jobs, and healthcare. The unemployment rate hovers around 15.7%, but for young people, it's much worse, sitting at about 40%. Ethnic divisions between Bosniaks, Croats, and Serbs also play a role in how unequal things are. In rural areas, poverty rates are significantly higher, with nearly 50% of people struggling to make ends meet, compared to around 20% in urban areas. Many young people are leaving the country, with more than 50,000 emigrating each year in search of better opportunities. The country should deal with the issue of inequality in order to transform into a well-developed country (Barašin, 2024).

Islamic Banking in Bosnia and Herzegovina

There were initiatives to develop Islamic finance in Yugoslavia starting in the early 1990s, intending to strengthen ties between the former Yugoslav region and Iran. However, these initiatives were quickly halted with the onset of war in the 1990s (Hadžić, 2014).

The first chance to establish IFI in Bosnia and Herzegovina involved Vakuf Bank and it was not successful. The only IFI operating in the SEE region is Bosnia Bank International.

BBI has been the fastest-growing bank in B&H generating 7-8% annual growth, but still having modest market share at 5%. Since it was established, it has focused on Islamic finance development and CSR projects, especially under the management of Amer Bukvic, the creator of Sarajevo Business Forum. Nowadays, BBI faces administrative changes and it is going to be interesting to analyze their impact on

Islamic finance development in the future. Additionally, BBI has implemented other corporate social responsibility (CSR) initiatives, including student scholarships, BBI Academy, and the BBI VIP Business Club, with the goal of educating the public about Islamic banking principles and connecting clients (Bosnia Bank International, 2024). BBI's total assets grew from 144 million BAM in 2006 to 1.49 billion BAM by the end of 2021. In 2023, BBI Bank achieved outstanding results with above-average market share growth in terms of profitability and strategic client segments, recording a net profit of 23.3 million BAM, a 59% increase compared to the same period the previous year (Bosnia Bank International, 2024).

BBI PROJECTS FOR REDUCING SOCIAL INEQUALITY IN BOSNIA AND HERZEGOVINA

The earliest attempts to establish a domestic bank under Islamic law in the former Yugoslavia began in the early 1990s, with plans to create the region's first Islamic bank to foster economic growth and strengthen ties. As discussed previously, BBI has been implementing many CSR projects in order to bring benefits to society. These initiatives fall into two main categories: projects within BBI's business portfolio and those focused on charitable and humanitarian efforts.
The first category includes credit-financing partnerships with local municipalities and authorities in Bosnia and Herzegovina, the Turkish credit line, the Al-Maktoum fund, and the IDB trust fund. The second category includes projects as follows: Sarajevo Business Forum, student scholarships, and other projects that are not part of core banking activities. The mentioned projects will be analyzed in the following chapters.

BBI's Banking Projects Implemented with the Goal of Reducing Social Inequality

The financing lines set up with municipalities and cantonal governments in Bosnia and Herzegovina, totaling around 400 million BAM with very low profit margins of 0% to 2%, have really helped in reducing social inequality. By offering affordable funding, they've given small and medium-sized businesses a chance to grow, create jobs, and improve living standards, especially in areas that are often overlooked. This has helped level the playing field between rural and urban regions, giving more people access to opportunities they might not have had otherwise. These funds have also supported key sectors like agriculture and manufacturing, helping more people from different backgrounds get involved in the economy, which has made a real difference in narrowing the gap between the rich and the poor. The lines were implemented with Sarajevo and Tuzla Cantons in the Federation of Bosnia and Herzegovina, and municipalities of Sarajevo city such as Stari grad, Ilidža, Novo Sarajevo, and Novi Grad. These governmental authorities have subsidized the profit margin for small and medium-sized enterprises, reducing it sometimes to 0%, and at most to 2% (Bosnia Bank International, 2024).
The next project implemented by BBI Bank was the Turkish financing line. According to Zogić, Nicević, and Meta (2024) the Turkish credit line, handled by BBI Bank, has made a real difference in the lives of many people in Bosnia and Herzegovina. With

a total of 249 million BAM provided, this line of credit has been a lifeline for small and medium-sized businesses, especially in sectors like agriculture. According to BBI Bank, this initiative has led to the creation of 2,830 new jobs and helped engage 1,481 contractors, which means thousands of families now have a more stable income. What's even more important is how this credit line has helped reduce social inequality. Lowering interest rates in agriculture, an industry that employs a lot of people in rural and poorer areas, has made it easier for farmers and small businesses to access the funds they need. With lower borrowing costs, they've been able to buy new equipment, grow their operations, and become more productive. This kind of support helps rural communities, where opportunities are often limited, and brings them closer to the level of urban areas.

The IDB Trust Fund and the Al-Maktoum Fund have channeled over 4 million KM to support the returnee population in Bosnia and Herzegovina. These contributions have had a profound effect on improving the economic landscape, particularly in regions still recovering from the war. Through financial aid, returnees have been able to rebuild their homes, start small businesses, and access vital resources they otherwise wouldn't have had. This support has led to the creation of jobs and breathed life back into local economies, giving many families a renewed sense of hope and stability.

Beyond just financial support, these funds have played a significant role in fostering social stability. By empowering returnees to become self-sufficient, they have reduced the need for ongoing humanitarian aid, allowing people to stand on their own feet. This economic boost has helped integrate marginalized communities back into the mainstream economy, promoting unity and social cohesion. The assistance from the IDB Trust Fund and the Al-Maktoum Fund has not only transformed the lives of countless returnees but also contributed to the long-term recovery and development of Bosnia and Herzegovina as a whole (Bosnia Bank International, 2024).

BBI's Non-Banking Projects Implemented with the Goal of Reducing Social Inequality

As it is mentioned on the official website of BBI: ''Bosnia Bank International, alongside its shareholders and many local and international partners, organizes the annual Sarajevo Business Forum, an international conference focused on business and investment. Since its first event in 2010, the forum has established itself as one of the leading business and investment gatherings in Southeast Europe. The Sarajevo Business Forum serves as an event where project authors and potential investors meet in order to seek business opportunities.

The conference facilitates networking and helps explore new business and investment opportunities in the region, with the core mission of promoting economic development throughout Southeast Europe. Over the years, the forum has attracted many important and influential political and economic leaders from many countries and companies.

The Sarajevo Business Forum has been instrumental in positioning Bosnia and Herzegovina as a rising destination for international investment. Through the forum, numerous opportunities in key sectors such as energy, tourism, agriculture, and infrastructure are brought to the attention of foreign investors, revealing the country's vast economic potential. The discussions and connections forged during the event have led to significant investments, driving job creation, technology advancement, and overall economic progress in the region. By fostering partnerships between local businesses and international investors, the forum has helped integrate Bosnia and Herzegovina more deeply into global markets. The exposure to foreign capital and expertise has been invaluable for the country's growth, allowing it to better tap into international resources. Over time, Sarajevo Business Forum has become not just a hub for foreign direct investment but also a key driver of Bosnia and Herzegovina's evolving role in the economic landscape of Southeast Europe (Bosnia Bank International, 2024).

The second very significant project to mention is the Salih Kamil Fund, which has provided scholarships to more than 500 students. These scholarships are specially designed to help children who have lost one or both parents, focusing on those who are in the greatest need. By offering financial support, the fund gives these young people the chance to pursue their education, something that might not have been possible given their difficult circumstances. This initiative is more than just financial aid—it's a lifeline that brings hope, stability, and the opportunity for a brighter future for some of the most vulnerable members of society (Bosnia Bank International, 2024).

CONCLUSION

In conclusion, this research highlights the significant potential of Islamic banking as an effective tool for reducing social inequality, with a focus on Bosnia and Herzegovina. The case of Bosnia Bank International (BBI) showcases how Islamic banking, rooted in ethical principles and social responsibility, goes beyond traditional financial services to make a tangible impact on marginalized communities. BBI's various initiatives, such as affordable credit lines, strategic investment projects, and scholarship programs, demonstrate how these efforts contribute to improving the economic conditions for vulnerable populations, particularly in regions still recovering from the aftermath of conflict.

While these initiatives show promise, there are still challenges to be addressed in further maximizing the impact of Islamic banking on reducing social disparities. Additionally, to obtain more comprehensive and concrete results, future research should involve a comparative analysis with conventional banks. This comparison would provide valuable insights into whether Islamic banking truly delivers greater social benefits compared to conventional banking, or if similar outcomes can be achieved through both systems. Such analysis would help refine our understanding of the role Islamic banking plays in fostering social equity and economic inclusion.

Moreover, it is important to note that no conventional bank in Bosnia and Herzegovina has organized an event as impactful and far-reaching as the Sarajevo Business Forum. This annual conference, spearheaded by BBI, has positioned the bank as a leader not only in the financial sector but also in promoting international investment and economic development in the country. BBI's pioneering role in creating a platform for global investors and local businesses further underscores its unique contribution to the region, setting it apart from conventional financial institutions.

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ICT APPLICATION FOR BORROWING AND DEBT MANAGEMENT IN THE CONTEXT OF ISLAMIC FINANCE

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Abstract
This paper presents the concept and development of a mobile application designed to revolutionize the process of loan monitoring, especially within Islamic finance. The app allows users to track their debts against stable value assets such as gold, silver or major world currencies, mitigating the impact of inflation on financial obligations. By allowing users to select the type and quantity of goods or currency borrowed and converting each repayment into the selected reference currency, the application ensures consistent preservation of value. A key feature of this application is the inclusion of witnesses for each transaction, ensuring transparency and preserving the integrity of transaction records. Witnesses receive notifications via email, SMS, Viber or WhatsApp, with links to individual transactions, which plays a key role in preventing unauthorized changes or deletion of data. Real-time exchange rate integration further improves the app's accuracy in value conversion and debt management. This innovative solution is in line with the ethical principles of Islamic finance, emphasizing fairness, risk sharing and accurate record keeping. By providing a robust debt tracking platform and ensuring the immutability of financial data, the application supports stronger interpersonal trust and clearer financial obligations for all parties involved. This paper describes in detail the technological architecture, user roles and practical applications of the system, demonstrating its potential to set a new standard for ethical and efficient financial management.
Keywords: Islamic finance, debt tracking, value preservation, financial management, digital application.

INTRODUCTION

In the era of rapid economic change and fluctuating inflation rates, the need for innovative financial tools that ensure stability and transparency in the borrowing process has become more pronounced. In the context of Islamic finance, where the principles of fairness, risk sharing, and ethical transactions are paramount, tracking loans with accuracy and consistency becomes even more important. This paper presents the concept and development of a mobile application designed to facilitate loan tracking by allowing users to track their debts in a stable value benchmark, such as gold, silver, or major global currencies such as the euro and the US dollar.

The proposed application aims to provide users with a robust, user-friendly platform where they can enter the amount and type of commodity or currency they intend to borrow. The application will then convert each repayment into the selected reference currency, ensuring that the debt remains consistently aligned with the value of the selected asset over time. This approach not only helps mitigate the effects of inflation, but is also aligned with the principles of value preservation and equity emphasized in Islamic finance.

Furthermore, the application offers users the flexibility to choose the currency in which they wish to borrow and ensures that all debt repayments are made in the same currency. This feature reduces the risk of value distortion due to inflationary pressures and provides a transparent and stable method for debt management. By integrating modern ICT solutions with the ethical framework of Islamic finance, this application aims to set a new standard in digital loan tracking.

This paper will explore the design, development and potential impact of this mobile application, highlighting its technological architecture, functionality and alignment with the principles of Islamic finance. Through this innovative approach, we aim to offer a solution that addresses both contemporary economic challenges and the need for ethical financial practices.

ISLAMIC ASPECTS OF BORROWING AND DEBT MANAGEMENT

Islamic finance is rooted in the principles of Sharia law, which emphasizes justice, fairness and ethical behavior in financial transactions. Lending and lending in Islamic finance is governed by strict guidelines designed to ensure transparency, fairness and protection for all parties involved. The development of a loan tracking mobile application is closely aligned with these principles, offering a technological solution that supports the ethical and legal requirements of Islamic finance.

The principle of Qard al-Hasan (charitable loan): One of the basic concepts in Islamic finance is the Qard al-Hasan, or charitable loan. This type of loan is given without any expectation of profit or interest (interest), strictly prohibiting any form of unjust enrichment of the lender. The Qur'an expressly forbids fish in several verses: "Those who spend interest cannot stand [on the Day of Resurrection] except as one who is beaten by Satan to madness stands. This is because they say, 'Trade is [just] like interest.' But Allah permitted trade and prohibited usury." (Qur'an, 2:275)

The proposed application supports this principle by allowing users to manage loans based on the value of stable assets such as gold, silver or major global currencies, ensuring fairness in the face of inflationary pressures without interest according to Ebrahim et. al. (2013)

Transparency and record keeping in Islamic finance: Islamic law emphasizes the importance of clear documentation and transparency in financial contracts. The Qur'an advises believers to record debts in writing with witnesses to prevent disputes: "O you who have believed, when you contract a debt for a fixed term, write it down... And bring two witnesses from among your people." (Quran, 2:282)

The mobile application directly incorporates these principles by allowing the involvement of two independent witnesses in each transaction. Through digital notifications via email, SMS, Viber or WhatsApp, these witnesses are notified of any changes and updates related to the debt agreement, ensuring that the transaction remains transparent and protected from potential manipulation.

Fairness and value preservation: In Islamic finance, preserving the value of money and ensuring that neither the lender nor the borrower is unfairly disadvantaged. By

enabling repayment in a stable reference currency and using real-time exchange rates, the application upholds the Islamic principle of equity (adl) and avoids unfair gains or losses due to currency fluctuations or inflation.
Trust and responsibility: The involvement of witnesses and a strong notification system increase the reliability of transactions, addressing the Islamic emphasis on responsibility (amana). The application's ability to permanently record and maintain transaction data ensures that both parties have accurate and immutable records of their financial affairs.
When speaking about debt management Hossain (2024) is pointing out taht debt management is one of the major aspects of Islam.
By integrating these Islamic principles into its design, the proposed mobile application not only offers an effective financial management tool, but also supports the ethical and legal standards of Shariah-compliant finance.

The need for IT Solution and its importance

The development of this mobile application addresses several critical needs in personal and business financial management, especially in the context of Islamic finance. The importance of maintaining accurate and transparent financial records, preserving the value of borrowed assets, and ensuring ethical practices in debt management underscore the necessity of such a solution as mentioned in paper written by Kuleto et.al. (2023).

Maintaining good interpersonal relationships: One of the key benefits of this application is its role in fostering and maintaining trust between parties involved in financial transactions. By providing a transparent and accurate system for tracking loans and repayments, the application helps prevent misunderstandings and disputes. Clear records reduce the likelihood of conflict, ensuring that both lenders and borrowers have a mutual understanding of their financial obligations.
Accurate debt and receivables record keeping: The application offers a precise and organized method for documenting all borrowing and repayment activities. Each transaction is meticulously recorded, including the type and quantity of goods or currency borrowed, the reference currency for value reconciliation, and the repayment history. This detailed record keeping ensures that users have a clear overview of their financial obligations and receivables at all times, reducing the risk of errors and discrepancies.
Data permanence and security: A critical feature of the application is the permanence and security of transaction data. By including two independent witnesses in each transaction, the application creates an additional level of oversight and data preservation. Witnesses receive notifications and have access to transaction records, ensuring that even if a user attempts to delete or change their account, the transaction history remains intact. This approach protects the integrity and longevity of financial data.
Preserving value amid inflation: Given the impact of inflation on currency values, the app’s ability to convert repayments into a stable reference currency (such as gold, silver, or major global currencies) is particularly significant and that is pointed in work

of Saleem et.al. (2012). This feature helps preserve the real value of debts and repayments, ensuring fairness and consistency over time.

Technical description of the proposed solution

The proposed mobile application is designed to offer comprehensive loan tracking and management, including multiple layers of security, transparency, and real-time value conversion. This chapter provides a detailed technical description of the application functionality, user roles, and system architecture.
User roles and interaction: The application will support three different user accounts:
Lender: A user who provides a loan, specifying the type and quantity of goods or currency being borrowed.
Borrower: A user who accepts the loan and agrees to repay the specified amount in the selected currency.
Witnesses: Two independent users who are known to view each individual transaction. Witnesses receive a notification via email, SMS, Viber, or WhatsApp with links to the specific transaction, allowing them to track the loan process. Their role is crucial to maintaining transparency and ensuring that transaction records cannot be deleted or tampered with without supervision.
Transaction management: Each transaction within the application will be visibly recorded and linked to the following data:
Type and quantity of the commodity or currency borrowed.
Selected reference currency for value matching (e.g. gold, silver, euro, USD).
Real-time exchange rate data for accurate conversion between currencies.
Payment history and conversion of each rate to the reference currency.
To ensure data integrity and prevent loss of transaction records, witnesses will be notified of any changes or attempts to delete transaction data or user accounts. This feature adds an additional level of security and trust between the parties involved.
Currency conversion and exchange rate integration: The application will automatically download exchange rate data from trusted financial sources, enabling real-time conversion of payments into the agreed reference currency. This ensures that debt values remain consistent despite fluctuations in exchange rates and inflation.
Notification system: All participants in the transaction – lender, borrower and witnesses – will receive timely notifications about:
Payment completion and currency conversion.
Any changes to transaction data.
Attempt to delete or modify transaction records.
Comprehensive transaction overview: Each user will have access to a personalized dashboard that displays a complete overview of their activities:
Outstanding loans and repayment schedules.
Loans received and repayment progress.
Transaction witnesses and their current status.
This holistic approach ensures that users can efficiently and transparently manage their financial obligations and monitor transactions.
In short, the proposed mobile application combines modern ICT capabilities with ethical financial principles to offer a robust loan tracking solution. Featuring multiple

user accounts, real-time currency conversion, and a secure notification system, it provides a transparent and efficient platform for debt management within Islamic finance.

Functional diagram of the debit tracking application

1. User roles and permissions
Lender:
It initiates a loan by specifying the type and quantity of goods or currency.
Selects a reference currency (eg gold, silver, euro, USD) for matching values.
It tracks repayments in real time, converted to the reference currency.
He calls two witnesses to monitor each transaction.
Receive notifications about repayments, changes or attempts to delete records.
Borrower:
Accepts the loan and agrees to the repayment in the specified reference currency.
Makes payments that are converted into the selected reference currency.
Tracks outstanding debt and repayment progress.
Receive notifications about transaction updates and payment confirmations.
Witness:
Receive invitations via email, SMS, Viber or WhatsApp to monitor transactions.
Monitor transaction details and payment history through a single transaction link.
Receive notifications of all changes, repayments or deletion attempts.
It acts as protection against data loss or manipulation.

2. Basic functions
Credit creation:
Input: Type and quantity of goods or currency.
Selection: Reference currency for value settlement.
Call for Witnesses: Contact information for two witnesses.
Confirmation: The terms of the loan have been confirmed and saved.
Transaction Management:
Payment tracking: Each payment is converted into the reference currency.
Exchange rate integration: real-time conversion based on current exchange rates.
Payment history: A detailed record of each payment and its equivalent value.
Notification system:
Payment notices: sent to lender, borrower and witnesses after payment.
Change Notifications: Sent when any change to a transaction is made.
Deletion Alerts: Sent when there is an attempt to delete a record or account.
Currency conversion:
Automatic download of courses from reliable financial sources.
Consistent value matching despite currency fluctuations.

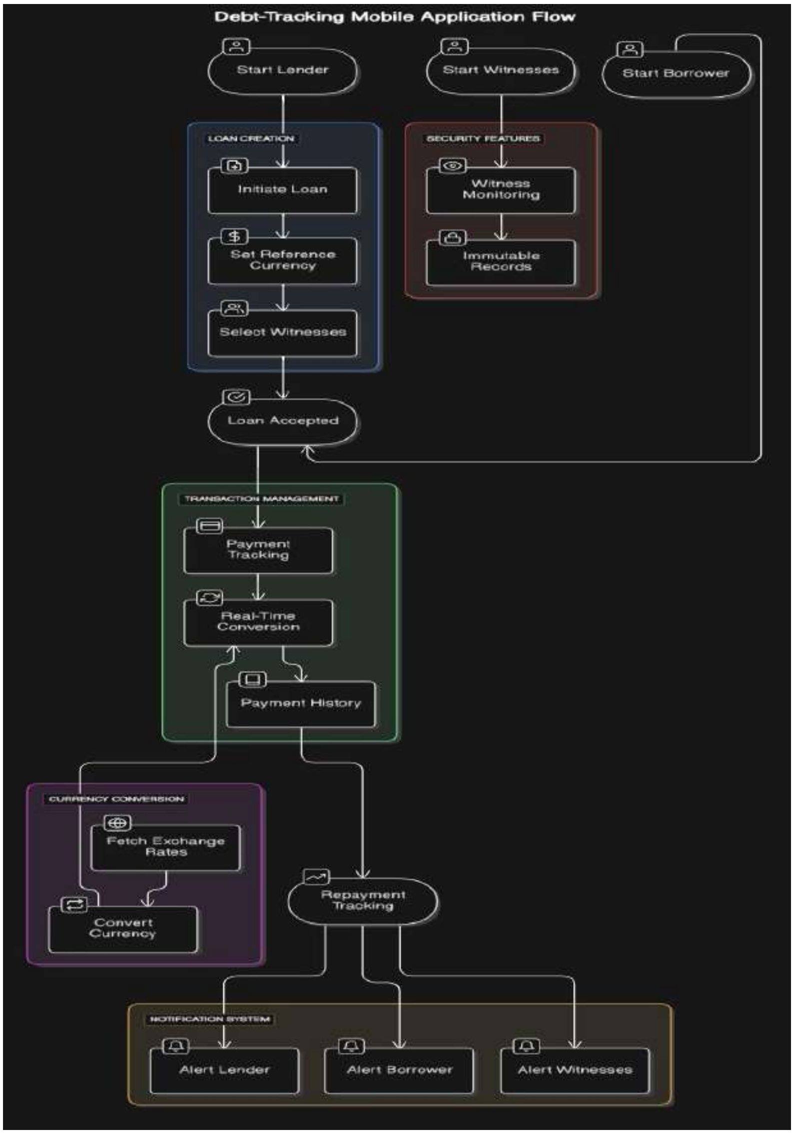
3. User control panel
Lender dashboard:
Active loans: Overview of current loans and their statuses.
Repayment Tracking: Real-time updates on repayments and remaining balances.

Witness management: Status of subpoenaed witnesses.
Borrower dashboard:
Outstanding debt: Overview of current liabilities and amounts due.
Payment schedule: Upcoming payments and deadlines.
Transaction history: Complete records of all loans and repayments.
Witness dashboard:
Monitored Transactions: List of monitored transactions.
Notification Log: A record of alerts and updates.

4. Security measures
Data integrity:
Immutable records of transactions visible to all parties.
Witness control to prevent unauthorized data deletion.
Account management:
Secure authentication and account recovery.
User role flexibility: Each user can act as a lender, borrower or witness in different transactions.

5. System architecture
Front-End:
Mobile application interface (iOS and Android).
User-friendly design for seamless navigation and data entry.
Back-End:
Database management for transaction records and user data.
Real-time course API integration.
Notification service for multi-channel communication.
Security:
Encryption for sensitive data.
Two-factor authentication for account access.
This schema ensures that the application provides a transparent, secure and efficient debt management system adapted to the principles of Islamic finance and the needs of users who monitor their financial obligations.

Image 1 *Debt – tracking mobile application flow*



Challenges in implementing proposed solution

While the proposed mobile application offers a powerful and innovative approach to debt monitoring and value preservation in Islamic finance, several potential challenges and risks must be considered to ensure its effective and ethical use.

Technical challenges

Real-time currency exchange integration: The application's reliance on real-time exchange rates requires stable and accurate data sources. Any disturbance or inaccuracy in these rates can lead to incorrect calculations in debt conversion.

System performance and scalability: As the user base grows, the application must handle increased data traffic and transactions without compromising performance or reliability.
Data security and privacy: Given the sensitive nature of financial data, robust encryption and data protection measures are essential to prevent unauthorized access and ensure the confidentiality of user information.

Compliance with laws and regulations

Shariah Compliance: Ensuring that all features of the application remain compliant with Islamic financial principles requires continuous monitoring and consultation with Islamic finance experts.
Differences in jurisdictions: Different countries may have different legal requirements for digital financial services, which the app must address to avoid regulatory conflicts.

Challenges related to users

User awareness and education: Effective use of the application requires users to understand currency valuation, exchange rate fluctuations and principles of Islamic finance.
Reliability of witnesses: The application depends on the inclusion of witnesses to monitor transactions. If witnesses do not respond or monitor transactions, the transparency and accountability of the system can be compromised.

Potential abuses

Data falsification: Despite security measures, users may attempt to enter incorrect data to manipulate debt records.
Intentional deletion or termination of accounts: Borrowers or lenders may attempt to delete their accounts or transaction history to avoid financial obligations. The role of a witness mitigates this risk, but additional safeguards may be required.
Impersonation and fraud: Unauthorized access through stolen credentials can lead to fraudulent activity, highlighting the need for strong authentication processes.

Mitigation strategies

Enhanced security protocols: Implementation of multi-factor authentication, end-to-end encryption and regular security checks.
Educational support: Providing tutorials and resources on using the application and understanding the principles of Islamic finance.
Automated Alerts and Monitoring: Development of automated systems to detect unusual activity and timely notify relevant parties.
Data backup and recovery: Ensuring regular backup of transaction data to prevent data loss and support recovery in the event of a technical failure.
Proactively addressing these challenges will strengthen the app's reliability, security and adherence to Islamic financial principles, ensuring it remains a reliable and effective debt management tool.

CONCLUSION

The development of a mobile application for monitoring borrowing in the context of Islamic finance represents an innovative and practical solution for preserving value and ensuring transparency in financial transactions. By integrating real-time currency exchange rates and offering the ability to track debts in stable value assets such as gold, silver and major global currencies, the application mitigates the negative effects of inflation on financial liabilities.

The inclusion of witnesses as a key feature strengthens the accountability and transparency of the system. Through notification and access to transaction details, witnesses play a key role in protecting the integrity of financial records and preventing unauthorized changes or deletions. This approach is well aligned with the ethical principles of Islamic finance, promoting fairness, trust and responsible financial behavior. Despite its many advantages, the app also faces several challenges, including technical requirements, data security concerns, regulatory compliance, and risk of misuse. Addressing these issues through robust security measures, user education, and sound data management practices is essential to the long-term success of the system.

In conclusion, the proposed application has the potential to revolutionize debt management within Islamic finance, offering a scalable, transparent and ethical tool for individuals and businesses. Balancing technological innovation with adherence to Shariah principles, the app sets a new standard for digital financial solutions in the Islamic finance sector.

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