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Article

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An empirical comparison of sustainable and responsible investment *sukūk*, social impact bonds and conventional bonds

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Abstract

Purpose – The objectives of this paper are two-fold: first, to empirically compare and contrast the salient features of three financial instruments (FIs), namely sustainable and responsible investment (SRI) *sukūk*, social impact bonds (SIBs) and conventional bonds (CBs) and second, to examine the differences between the perceptions of the investors and the developers on the features of the three FIs.

Design/methodology/approach – Using a questionnaire survey, 251 completed and useable responses were received, representing a 42.54% response rate. In examining the differences and similarities in the characteristics of the three FIs, the inferential statistical of frequency and percentage were used. Wilcoxon and Mann–Whitney tests were conducted to investigate the differences in the salient features of the three FIs and the differences between the investors and developers' perceptions on the salient features of SRI *sukūk*, SIBs and CBs, respectively.

Findings – The results reveal that stakeholders view SRI *sukūk*, SIBs and CBs to be statistically significantly different from each other. This shows that stakeholders do not view SRI *sukūk* as “old wine in a new Sharī'ah-compliant bottle” but instead considered different from SIBs and CBs. Furthermore, stakeholders also differentiate between SIBs and CBs.

Originality/value – The paper provides empirical evidence that Islamic finance (IF) instrument, represented by SRI *sukūk*, is viewed as different instruments to conventional tools, represented by SIBs and CBs. First, it debunks the notion that IF is viewed as similar to its conventional counterpart. Second, SIBs are seen as different from CBs, illustrating the distinct categorisation of impact investing instruments. As such, third, the



development of SRI *ṣukūk* and SIBs can provide diversification to portfolios as it is a unique instrument in the social finance and financial market.

Keywords Conventional bonds, Islamic finance, Social impact bonds, SRI *ṣukūk*

Paper type Research paper

Introduction

Islamic finance (IF) and sustainable and responsible investment (SRI) have shown significant growth over the past two decades. The total worth of the IF industry is estimated as US\$2.7tn at the end of 2020. This is a 10.7% year-on-year growth, despite the challenging environment in which the industry had to operate (IFSB, 2021). With regard to SRI, the most recent estimate of the global SRI industry is valued at approximately US\$35.3tn at the start of 2020, a 15% increase over the last two years (2018–2020) (GSIA, 2021).

A relatively recent trend within the SRI discipline is impact investing. Initially, the investment protocol of SRI focused on avoiding investments that produce social or environmental harm; i.e. negative screening. The impact investing strategy, on its part, focuses on investing in companies, organisations and funds that can create positive social or environmental impact, i.e. positive screening (Kimbrell, 2014).

These investment trends and strategies harmonise with the principles embedded within IF – notably, fairness, equity and ethics that lead to social well-being. The spirit of IF seeks to achieve social and economic justice and encourages sustainable economic activities. Under both IF and SRI strategies, investors seek a competitive return on their investments while, at the same time, taking into account the impact of their investments on society (MIFC, 2015). As such, IF and SRI instruments are viewed to be similar, not only from the perspective of economic outcomes but also their social outcomes. However, this has also led to criticisms and contentions that IF instruments simply mirror conventional finance (Balz, 2010).

This paper builds on the notion that IF instruments are viewed as similar to their SRI and conventional counterparts. This relates to the idiom of “old wine in a new bottle”, which implies that an existing concept is offered as though it were a new one, but on the inside it is just the same. For example, there is a general misconception that Islamic financing is just a “repackaging” of normal loans – the branding is different, but the content is the same. In order to analyse whether this notion is true, this paper undertakes a comparative analysis of three instruments, notably SRI *ṣukūk* (representing IF), social impact bonds (SIBs) (representing SRI segment) and conventional bonds (CBs) from the perspective of stakeholders. In particular, this paper empirically analyses the similarities and differences of SRI *ṣukūk*, SIBs and CBs based on a survey of stakeholders and investigates the differences in the perceptions of investors and developers regarding SRI *ṣukūk*, SIBs and CBs.

The paper is accordingly structured as follows: the subsequent section reviews the relevant literature, which includes the SRI Sukuk Framework in Malaysia, an explanation of the world’s first SRI *ṣukūk* issued (i.e. Ihsan SRI Sukuk), an overview of SIBs, a comparison of SRI *ṣukūk*, SIBs and CBs, as well as the hypothesis of the study. The next section discusses the research methodology used in carrying out the study. It is followed by the findings and discussion of them. The final section provides the conclusion for the paper, which also includes the implications, limitations and suggestions for future research.

Literature review and hypotheses of the study

SRI Sukuk Framework in Malaysia

Securities Commission (SC) Malaysia launched the SRI Sukuk Framework in 2014. This framework was the result of SC Malaysia’s Capital Market Masterplan 2, which aims to promote socially responsible financing and investment (SC, 2011). The masterplan sets the

agenda to develop a conducive environment for investors and issuers who are interested in SRI and to facilitate the growing trend of new innovative financial tools, such as green bonds and SIBs (SC, 2014b).

Ihsan SRI Sukuk: the world's first Ringgit SRI sukuk

The first SRI *sukuk* in Malaysia, Ihsan SRI Sukuk, was launched by Khazanah Malaysia Berhad (Khazanah) in 2015 (Khazanah Nasional, 2015). Overall, the *sukuk* has a RM1.0bn nominal value with a tenure of 25 years. The first issuance was fully subscribed with a value of RM100 m, providing 4.3% return per annum over a seven-year tenure (The Star, 2015). The *sukuk* was issued via a Malaysian-incorporated independent special purpose vehicle (SPV) called Ihsan Sukuk Bhd (Ihsan).

The funds raised were utilised for Khazanah's Trust School Programme, which focuses on improving the accessibility of quality education in selected Malaysian public schools (Ghani, 2015). The programme focuses on transforming schools from various aspects through its stakeholders including school leaders, teachers, students, parents and the community, which are translated into measurable key performance indicators (KPIs) (CIMB, 2015). The Ihsan SRI Sukuk followed a "pay for success" structure which measures the social impact of the programme through the KPIs to determine the rate of returns to investors (Ghani, 2015).

The *sukuk* was structured according to the Islamic principle of *wakālah bi al-istithmār* (agency with the purpose of investment). The structure allowed the issuer to utilise a combination of commodities and tangible assets, making it asset efficient and suitable for the use of the issuer, SPV and obligor. The transaction was structured in four parts as follows (CIMB, 2015):

- (1) The *sukuk* holders appoint Ihsan as *wakīl* (agent) to manage the *sukuk* proceeds. Subsequently, Ihsan assigns Khazanah as the investment agent to invest the funds received. At the same time, Ihsan (the issuer) issues the SRI *sukuk* to *sukuk* holders in exchange for the proceeds.
- (2) Khazanah as the investment agent will invest the funds into *sukuk* investments comprising tangible assets and commodity *murābahah* investment. These investments are fully managed by Khazanah.
- (3) Periodic distributions are transferred to the *sukuk* holders through Ihsan. The distributions (if any) depend on pre-agreed conditions.
- (4) Khazanah grants CIMB Islamic Trustee Berhad (Trustee) authority to undertake a purchase undertaking at an exercise price of the *sukuk*. Khazanah (the obligor) undertakes the purchase of the *sukuk* holders' undivided and proportionate beneficial interest in the tangible assets. The trust is dissolved upon the exercise of the purchase undertaking.

Social impact bonds

SIBs can be defined as a series of pay-for-performance contracts where private investors provide upfront capital and the government agrees to repay them for improved social outcomes. SIBs are used to raise investments for programmes that address social issues, usually interventions which address the unmet needs of vulnerable groups of the society.

Generally, if the SIB programme is successful in achieving predetermined KPIs, the investors will receive their capital, plus additional returns depending on the degree of success. However, if the SIB programme is not successful in achieving the KPIs, the investors may lose their entire investment (Social Finance, 2011; So and Jagelewski, 2013).

The SIB model is a multi-stakeholder partnership approach involving the public, private and social sectors. Generally, there are five principal stakeholders involved in an SIB (So and Jagelewski, 2013):

- (1) Governments or commissioners: They identify the social areas which need attention and commission the SIB contract. They also act as obligors and provide payments to investors if the SIB programme succeeds in achieving its target KPIs.
- (2) SIB delivery organisations or intermediaries: They play various roles including brokering relationships between stakeholders, sourcing capital, leading deal negotiations, managing the performance of programmes and identifying and selecting service providers.
- (3) Investors: They provide the upfront capital needed to fund the programme. This is done through the purchase of SIBs. They also bear a significant portion of the financial risk.
- (4) Service providers: They deliver the social intervention to the target population. A service provider with proven track record and capability is prioritised. Their aim is to provide social impact and achieve the KPIs.
- (5) Third-party evaluators: They conduct independent evaluations on the achievements and KPIs of SIB programmes. They also report their assessments to the stakeholders.

The general structure of the SIB model functions as follows:

- (1) An outcomes contract is negotiated whereby the government agrees to pay for social outcomes.
- (2) Based on the outcomes contract, the SIB delivery organisation raises funds from investors, who provide upfront capital for the social service intervention.
- (3) The social service providers agree to deliver services and receive funds to address the social issue for a target population.
- (4) Outcomes are evaluated and/or validated by an independent third-party evaluator.
- (5) Based on the reports, if the agreed outcomes are achieved, the government makes the necessary payments to the investors. These payments include the principal, plus a financial return, depending on the degree of success of the programme.

If outcomes are achieved, the government repays the investors for the achieved outcomes through the SIB delivery organisation. In most cases, the positive outcomes result in cost savings for the government, and a portion of these savings is passed onto the investors as outcome payments. These payments include the principal plus a financial return. The financial return depends on the degree to which the outcomes improve. As the SIB market matures, variations on this basic model are being developed.

The world's first SIB was launched in the UK in 2010 to address the issue of recidivism (re-offending). It raised £5 m from private investors and funded programmes to reduce re-conviction rates of short-term prisoners in Her Majesty's Prison (HMP) Peterborough (Disley *et al.*, 2011). The assessment report in 2014 showed that the programme succeeded in reducing re-offending by 8.4% from its first cohort of 1,000 prisoners (Ministry of Justice, 2014). The SIB programme was then discontinued as the government adopted it into a country-wide programme. Results from SIB pilots show extremely positive results and confirm the notion that SIB is an effective way to drive positive social outcomes. The interest in SIBs is also growing, which comes as no surprise since the social and economic benefits of SIBs are theoretically very promising (Burpee, n.d.).

Based on the latest database, 138 SIBs have been launched all over the world with a total of US\$441 m capital raised and 1,711,902 lives impacted by the SIB projects (Social Finance, 2022). The SIB projects are implemented to address various social issues including workforce development, housing and homelessness, health, child and family welfare, education and early years, criminal justice, poverty and the environment.

Comparison of SRI sukūk, SIBs and CBs

The paper by Afshar (2013) found that the fundamental difference between *sukūk* and bonds are in their structures which have religious differences but virtually no financial differences. This is similar to the study by Alam *et al.* (2013) which highlighted that although *sukūk* and CBs exist in the same market, both have different regulations, especially relating to Shari'ah (Islamic law) compliance. The paper posits one major difference between *sukūk* and CBs to be that *sukūk* involves asset ownership, which is borne out of the general structures of the IF products. Furthermore, *sukūk* structures are based on fundamental Shari'ah concepts that do not exist in CBs. However, Alam *et al.* (2013) argue that the execution of the *sukūk* contracts is generally patterned after CBs. For example, their returns mimic those of CBs. Therefore, there remains some debate on whether *sukūk* actually comply with the precepts of Shari'ah and whether they are really different from CBs or are just bonds disguised in Islamic terms. This is affirmed by Uluysol's (2021) study, which provides a comprehensive review of literature that compares the structural and fundamental differences between *sukūk* and CBs.

In comparing SRI *sukūk* and SIBs, Marwan and Ali (2016) find them congruent with the principles of IF, specifically in terms of risk-sharing and social responsibility. Similarly, the studies by Ali *et al.* (2018, 2019) compare SRI *sukūk* and SIBs and explore the potential application of their structures in developing alternative financing modes. Essentially, there are similarities and differences between SRI *sukūk* and SIBs, which merit further empirical investigation.

Salient features of SRI sukūk, SIBs and CBs

Guarantee of capital. SIBs are called bonds, which would normally imply a guarantee of capital and debt obligation, similar to CBs. However, this is not the case for SIBs; generally, the capital is not guaranteed, and investors risk losing their capital if the SIB programme is not successful. On the other hand, SC Malaysia's SRI Sukuk Framework (2014a) stipulates that the Shari'ah ruling of *kafālah* (guarantee) may be provided by a third party on the capital in the issuance of *sukūk mushārah* and *mudārah*. Under *sukūk wakālah bi al-istithmār*, a guarantee may be provided by a third party (the *wakīl*); a sub-*wakīl* appointed by the issuer or a related party or associated company of the issuer. These are the applicable Shari'ah rulings in the structure of Ihsan SRI Sukuk. This provides a structure that allows for a purchase undertaking as a form of capital protection mechanism, which provides an outcome that is similar to a guarantee. In this aspect, it can be said that SRI *sukūk* and CBs have a similar characteristic in that a guarantee may be provided. In contrast, SIBs generally do not have a guarantee of capital in their structure although there are cases where a guarantee is provided by a third party (Center for American Progress, 2012).

Financial risk. In an SRI *sukūk* mechanism, the financial risk is shared amongst the investors and obligor as there may be a guarantee mechanism in the form of *kafālah*. For example, under the Ihsan SRI Sukuk, in the event of default:

"the *Sukūk* Trustee is entitled to enforce its rights under the transaction documents, including requiring the Obligor to purchase the Tangible Assets and pay the Exercise Price under the Purchase Undertaking, and pay the outstanding amounts of the Deferred Sale Price [...] The *Sukūk* Trustee will use the proceeds thereof to redeem the *Sukūk* Ihsan at the Dissolution Distribution Amount" (CIMB, 2015, p. 29).

This is a similar characteristic usually seen in CBs where financial risks are mitigated with various mechanisms to prevent loss. On the other hand, in an SIB, the financial risk generally seems to be shifted towards investors; they risk losing not only their potential returns but also their total capital investment if the programme fails to achieve its KPIs. Therefore, the risk borne by investors in an SIB can be said to be higher than that of SRI *sukūk* and CBs.

Return mechanism. Based on the SRI Sukuk Framework (SC, 2014a), the issuance of SRI *sukūk* requires the disclosure of information regarding the coupon/profit rate of the issue. However, it is silent on the mechanism involved in deciding the rate of return. Under the Ihsan SRI Sukuk issued by Khazanah, the rate-of-return mechanism is similar to an SIB in the sense that the issuer's obligation to pay depends on the performance of the programme. In SIBs, if the programme is successful in meeting its KPIs, investors will get returns on top of the capital invested. The degree of return will depend on the degree of success of the programme. A higher success rate would usually entail higher returns, but with a capped upside (Barclay and Mak, 2011). Therefore, in terms of return mechanism, SRI *sukūk* and SIBs share some similarities. This is not the case for CBs, whereby the returns are fully based on interest rates and usually guaranteed over a period of time.

Sharī'ah compliance. The SRI Sukuk Framework stipulates the Sharī'ah rulings, principles and concepts applicable for the issuance of *sukūk* (SC, 2014a). This includes the documents and information to be submitted to SC Malaysia for Sharī'ah approval. In the case of SIBs, there are no guidelines on Sharī'ah compliance, and there has been no in-depth study of their Sharī'ah compliance. However, the general model of SIBs does not seem to show any features that violate Sharī'ah principles, especially with reference to avoiding *ribā* (interest), *maysir* (gambling) and *gharar* (uncertainty). The objectives of SIBs are also argued to be in line with the principles of Sharī'ah (Marwan, 2015; Marwan and Haneef, 2019). On the other hand, the fundamental structure of CBs, which usually involve *ribā* and have elements of *gharar* and *maysir* in them, clearly violates the principles of Sharī'ah.

Sharī'ah-based contract. The SRI Sukuk Framework specifies that SRI *sukūk* must be based on at least one of the primary Sharī'ah principles as approved by the Shariah Advisory Council (SAC) of SC Malaysia (SC, 2014a). On the other hand, although the objectives of SIBs arguably epitomise the Sharī'ah spirit, SIB contracts are not based on any Sharī'ah principle. Similarly, CB contracts are not based on Sharī'ah.

Rating requirements. Under the SRI Sukuk Framework, credit rating is a requirement for the issuance of SRI *sukūk*, and the rating must be done by a credit rating agency registered with SC Malaysia (SC, 2014a). This is also in line with international *sukūk* standards, as seen in the IFFIm vaccine *sukūk* ratings (IFFIm, 2006). For CBs, although it is not a compulsory requirement to have a rating of their issuance, undertaking rating is usually good practice to ensure good governance and instil consumer confidence. However, SIBs do not seem to require any rating requirements. This is due to the fact that SIB returns are based on the outcomes and not on the obligor's capacity to meet its financial commitments. Therefore, in terms of rating requirements, SRI *sukūk* are different from SIBs and CBs.

Transferability and tradability. The SRI Sukuk Framework allows for the transfer and trade of *sukūk* (SC, 2014a). This is similar to CBs, which may be freely traded in the secondary market. On the other hand, SIBs involve a payment-by-result contract between a commissioner, service provider and an investor, and the contracts are not transferable nor tradable (Nash, 2015). Therefore, in terms of transferability and tradability, SIBs are different from CBs and SRI *sukūk*.

Hypotheses of the study

To investigate the differences between SRI *sukūk*, SIBs and CBs in terms of their salient features, the following null hypotheses are developed:

- H1. There is no statistically significant difference between the composite scores of SRI *şukūk* and SIBs.
- H2. There is no statistically significant difference between the composite scores of SRI *sukūk* and CBs.
- H3. There is no statistically significant difference between the composite scores of SIBs and CBs.

In addition, in order to examine the differences of individual stakeholder groups (investors and developers) on SRI *şukūk*, SIBs and CBs, the following set of null hypotheses are developed:

- H4. The stakeholder groups hold similar views on the characteristics of SRI *şukūk*; i.e. the means of SRI *şukūk* characteristics are statistically significantly equal for all stakeholder groups.
- H5. The stakeholder groups hold similar views on the characteristics of SIBs; i.e. the means of SIBs' characteristics are statistically significantly equal for all stakeholder groups.
- H6. The stakeholder groups hold similar views on the characteristics of CBs; i.e. the means of CBs' characteristics are statistically significantly equal for all stakeholder groups.

Research methodology

Research design and research instrument

To achieve the objectives, a quantitative research methodology was adopted. In particular, a survey questionnaire was used. The questionnaire content was validated, and a pilot study was conducted prior to full questionnaire administration. The content validity was undertaken via expert judgement. This entailed consultation with two professors having expertise in IF, capital markets, law and economics; one associate professor with expertise in accounting and finance and one retired professor with more than 40 years of experience in academia. The pilot questionnaire was then administered to 30 respondents representative of the intended sample. The pilot respondents were asked to provide responses to the statements in the questionnaire, evaluate the questionnaire in terms of its face and item validity, comment on the structure and wordings in the questionnaire and provide any comments that could help improve the questionnaire. These comments were incorporated to improve the final questionnaire document.

The questionnaire consists of two sections. [Section 1](#) consists of questions regarding the respondents' demographic information, which include gender, age, race, religion/faith, level of education, vocation, years of working experience in the vocation, familiarity with financial instruments (FIs) and monthly income. [Section 2](#) elicits respondents' opinion regarding the salient features of the three FIs. [Table 1](#) provides the list of the 14 features covered in the questionnaire and the respective statements. All the statements were measured through a five-point Likert scale (1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly agree), and the respondents were asked to indicate their level of agreement with each of the statements.

Questionnaire respondents

The respondents of this study consist of investors and developers of SRI *şukūk*, SIBs and CBs in Malaysia. "Investors" are defined as investors who are directly involved in the Malaysian

Items/Salient features	Statements
(1) Familiarity with SRI <i>shukūk</i> , SIBs and CBs	I am familiar with the concept of this FI*
(2) Capital guarantee by the issuer	The capital in this FI is guaranteed by the issuer
(3) Capital guarantee by third party	The capital in this FI can be guaranteed by a third party
(4) Guarantee of returns	The returns of this FI are usually guaranteed
(5) Risk to investors	The risk to investors in this FI is very high
(6) Returns based on interest	The returns of this FI are based on interest
(7) Rate of return based on social impact	The rate of return of this FI is based on the social impact it produces
(8) The financial trade-off with social impact	There is a trade-off between financial returns and social impact in this FI
(9) Social impact	The social impact of this FI is significant
(10) Credit rating	This FI usually has credit ratings by a rating agency
(11) Tradability	This FI can be traded in the secondary market
(12) Shari'ah compliance	This FI is Shari'ah-compliant
(13) Shari'ah base	The contracts of this FI are based on Shari'ah principles
(14) <i>Maqāṣid al-Shari'ah</i> (objectives of Shari'ah)	This FI fulfils <i>maqāṣid al-Shari'ah</i>

Note(s): *FI represents SRI *shukūk*, SIBs and CBs

Table 1.
Items and salient
features

capital and financial markets as well as other individuals or organisations who/which will potentially invest in SRI *shukūk*, SIBs and CBs in Malaysia. “Developers” are defined as students, researchers and lecturers related to the field of economics and finance as well regulators and bankers who are involved in the capital and financial markets in Malaysia. The respondents are chosen with the assumption that they fit the following criteria:

- (1) Understand the basic concepts of investment and economics;
- (2) Are involved directly in the Malaysian capital and financial markets through their work or business dealings or are involved indirectly in the Malaysian capital and financial markets through their research and studies as well their potential involvement in the future;
- (3) Have a certain acceptable degree of familiarity with the concepts of SRI, CSR and social impact investing and
- (4) Can contribute towards the development and implementation of the financial market in Malaysia.

Questionnaire administration and demographic information of respondents

The questionnaire survey was conducted over the period July 2016 to January 2017. The questionnaires were administered in two ways, namely via (1) self-administration and (2) email and social media (i.e. Facebook Messenger and WhatsApp) that linked to the online survey. A total of 550 copies of the questionnaire were distributed to stakeholders in various places, while 40 questionnaires were distributed online. The researcher included a cover note with a brief explanation on the survey in the ensuing round of data collection. A reminder also ensued after completing the second round, resulting in an increase in the response rate. Of the 590 questionnaires distributed, 282 responses were received. However, 22 questionnaires were not adequately answered and therefore had to be discarded. Thus, the final number of questionnaires that could be used for analysis was 251 (42.54%).

The demographic analysis reveals a diverse sample of stakeholders having diversified vocations, working experience, involvement in FIs, income brackets and levels of education.

They also varied in terms of age, race and religion. It is worth noting that the respondents' income distribution is somewhat similar to that of Malaysia's population, while the race breakdown reflects the overall racial composition of participation in Malaysia's capital and financial markets. In terms of qualifications, it was found that a majority of the respondents were highly qualified. These facts imply that the sample was of high quality and should be able to provide valid and reliable information to address the study's objectives.

Data analysis

The data were analysed using the Statistical Package for Social Science (SPSS) software version 20. Descriptive inferential statistics, Wilcoxon signed rank test and Mann–Whitney test were employed to achieve the objectives of the study. In particular, to examine the differences and similarities in the characteristics of the three FIs, the inferential statistics of frequency and percentage were used. Wilcoxon and Mann–Whitney tests were conducted to investigate the differences in the salient features of the three FIs and the differences between the investors' and developers' perceptions on the salient features of these instruments.

Findings and discussion

First, based on the data gathered from the perceptions, comparative analysis is undertaken to see whether stakeholders' opinions on SRI *ṣukūk*, SIBs and CBs are significantly different statistically. Second, a comparative analysis is made to see whether the two stakeholder groups hold similar or differing views regarding the FIs studied.

Stakeholders' perceptions on SRI ṣukūk

Table 2 presents the distribution of the stakeholders' responses to the statements related to SRI *ṣukūk*.

As shown in Table 2, for Statement 1, the results show that one-third of the respondents (33.3%) agree with the statement, 43.3% are indifferent, while the remaining 23.4% of the respondents disagree. The percentage of the respondents who are familiar with SRI *ṣukūk* is higher than that of SIBs, but lower than CBs. This is understandable since SRI *ṣukūk* have been implemented in Malaysia recently, not nearly as long as CBs. Therefore, stakeholder awareness and familiarity with the instrument is still small but slightly higher than that of SIBs.

For Statement 2, slightly more than one-third of the respondents (36.1%) perceived that the capital in SRI *ṣukūk* is guaranteed by the issuer. Most of the respondents were noncommittal in their answers (40.9%) while 23% disagreed. For Statement 3, almost one-third of the respondents (31.3%) agreed with the statement, 21.7% disagreed and 47% chose to be neutral. Certainly, a third-party guarantee can be provided for SRI *ṣukūk*, especially for SRI *ṣukūk* that use *muḍārabah* and *mushārah* contracts (SC, 2014a).

Interestingly, the response to Statement 4 is split almost three ways. The SRI Sukuk Framework spells out that the returns for SRI *ṣukūk* must be provided with a guarantee (SC, 2014a). This indicates that more than two-thirds of the respondents (68.6%) may not have the correct understanding of guarantee.

When it comes to statement 5, 32.3% of the respondents disagreed, 18.7% agreed, while almost half (49%) were neutral. The notion of risk to investors is debatable and is a matter of perspective when analysing a similar statement for CBs. Hence, it is not surprising to see that a significant portion of the respondents is unsure regarding the statement for SRI *ṣukūk* as well. For Statement 6, the data show that the response is split almost in three ways. Indeed, SRI *ṣukūk* returns are not based on interest but are dependent on their underlying Shari'ah-based contracts. However, there are ongoing criticisms that the structure of returns of *ṣukūk*

No.	Statements	Disagree (%)	Neutral (%)	Agree (%)	Mean	Stand. Dev.
1	I am familiar with the concept of SRI <i>ṣukūk</i>	23.4	43.3	33.3	3.099	0.748
2	The capital in SRI <i>ṣukūk</i> is guaranteed by the issuer	23.0	40.9	36.1	3.131	0.759
3	The capital in SRI <i>ṣukūk</i> can be guaranteed by a third party	21.7	47.0	31.3	3.096	0.723
4	The returns of SRI <i>ṣukūk</i> are usually guaranteed	31.1	37.5	31.5	3.004	0.792
5	The risks to investors in SRI <i>ṣukūk</i> are very high	32.3	49.0	18.7	2.865	0.703
6	The returns of SRI <i>ṣukūk</i> are based on interest	34.5	35.3	30.2	2.956	0.805
7	The rate of return of SRI <i>ṣukūk</i> is based on the social impact they produce	22.4	45.6	32.0	3.096	0.733
8	There is a trade-off between financial returns and social impact in SRI <i>ṣukūk</i>	17.5	52.4	30.2	3.127	0.680
9	The social impact from SRI <i>ṣukūk</i> is significant	18.3	52.8	29.0	3.107	0.680
10	SRI <i>ṣukūk</i> usually have credit ratings by a rating agency	7.9	31.2	60.9	3.530	0.639
11	SRI <i>ṣukūk</i> can be traded in the secondary market	16.4	40.4	43.2	3.268	0.725
12	SRI <i>ṣukūk</i> are Shari'ah-compliant	5.2	28.6	66.3	3.611	0.585
13	The contract of SRI <i>ṣukūk</i> is based on Shari'ah principles	6.0	28.8	65.2	3.592	0.602
14	SRI <i>ṣukūk</i> fulfil <i>maqāṣid al-Shari'ah</i> ; e.g. social justice	5.5	38.3	56.1	3.506	0.602

Table 2.
Distribution of
responses to SRI *ṣukūk*
items ($N = 251$)

mimics that of interest-based conventional products (Balz, 2010). This may have contributed to respondents incorrectly assuming that returns of SRI *ṣukūk* are based on interest.

For Statement 7, the data show that 22.4% of the respondents disagreed, 32% agreed, while the highest percentage of respondents (45.6%) were neutral. Although the SRI Sukuk Framework does not include provisions for varying rates of returns based on social impact, the Ihsan SRI Sukuk shows that in practice it is possible (CIMB, 2015).

With regard to Statement 8, only 17.5% of the respondents agreed, 30.2% disagreed, while more than half of the respondents (52.4%) were neutral. As previously discussed, the debate of social and financial return trade-offs in financial investment is ongoing; some findings suggest that there is a trade-off while others find otherwise (Burke and Logsdon, 1996). The data collected for Statement 9 show that only 18.3% of the respondents disagreed that “the social impact from SRI *ṣukūk* is significant”, 29% agreed, while more than half of the respondents (52.8%) were neutral. The mean value of 3.107 and standard deviation of 0.680 show that respondents are generally on the fence on this matter. This is understandable as the implementation of SRI *ṣukūk* is very recent, and the results and impact cannot yet be seen.

Most stakeholders (60.9%) agreed that “SRI *ṣukūk* usually have credit ratings by a rating agency”, 7.9% disagreed while 31.2% were unsure. The mean value of 3.53 and standard deviation of 0.639 show that respondents are generally inclined to agree that SRI *ṣukūk* have credit ratings. This indicates that respondents were generally well versed on this issue. For Statement 11, 43.2% of the respondents correctly agreed while only 16.4% of the respondents disagreed, and the remaining 40.4% were unsure. The mean value of 3.268 and standard deviation of 0.725 provide an indication that stakeholders are generally indifferent but relatively inclined to agree with the statement.

Almost two-thirds of the respondents (66.3%) agreed with Statement 12 “SRI *sukūk* are Shari’ah-compliant;” only a small portion (5.2%) disagreed while 28.6% were unsure. The mean value of 3.611 and standard deviation of 0.585 show that respondents are generally inclined to believe that SRI *sukūk* are Shari’ah-compliant. Indeed, an SRI *sukūk*’s underlying contracts and usage of funds must be certified to be Shari’ah-compliant throughout its tenure (SC, 2014a). It shows that the respondents are quite aware when it comes to this matter. For Statement 13, “The contract of SRI *sukūk* is based on Shari’ah principles”, most respondents (65.2%) correctly agreed, 28.8% were neutral and only a small percentage (6%) disagreed. The mean value of 3.592 and standard deviation of 0.602 indicate that respondents are generally inclined to agree that SRI *sukūk* are based on Shari’ah principles. Indeed, this view aligns with the SRI Sukuk Framework, which spells out that Shari’ah principles must be applied to the contracts in SRI *sukūk* (SC, 2014a).

Finally, for Statement 14, “SRI *sukūk* fulfil *maqāsid al-Shari’ah*; e.g. social justice”, a majority of the respondents (56.1%) agreed, 38.3% were unsure, while a small portion (5.5%) disagreed. The issue of measuring FIs’ fulfilment of *maqāsid al-Shari’ah* is ongoing. Nonetheless, the mean value of 3.506 and standard deviation of 0.602 indicate that respondents are generally inclined to agree that SRI *sukūk* fulfil *maqāsid al-Shari’ah*.

To summarise, the data gathered indicate that in general stakeholders were mostly indifferent in their perception of the salient features of SRI *sukūk*. This is reflected by the neutral responses for a majority of the statements, which attained the highest percentage. This is further substantiated by the mean scores, which are usually close to 3 (neutral). Despite the fact that SRI *sukūk* have already been implemented in Malaysia, the data show that stakeholders are not quite familiar with the concept as corroborated by the data obtained from Statement 1 where less than half (43.3%) of the respondents stated that they were familiar with SRI *sukūk*. Although this is understandable since SRI *sukūk* practice and development are still in the infancy stage, it also highlights the need for further stakeholder engagement and education on SRI *sukūk*.

Stakeholders’ perceptions on social impact bonds

Table 3 presents the distribution of the stakeholders’ responses to the statements related to SIBs. The results indicate that only slightly more than one-fourth of the respondents (26.6%) were familiar with the concept of SIBs, while the rest were noncommittal (41.7% neither agreeing nor disagreeing) or not familiar with the instrument (31.7%). The high percentage of noncommittal responses is understandable since SIBs are relatively new in the global market and have not yet been firmly established in Malaysia although they have gained some traction, especially with the rise of SRI behaviour and trends. As a result, more than one-fourth of respondents reported being familiar with it.

In general, most responses reveal that the stakeholders were unsure (neutral) of the statements related to SIBs. “Neutral” was the predominant response to 8 out of 14 statements asked. Moreover, when comparing the percentages stating agreement and disagreement, it can be deduced that the respondents’ perceptions are not congruent with the characteristics of SIBs as currently practised. For example, in the responses to Statement 6, the percentage of respondents agreeing that the returns of SIBs are based on interest was higher than those choosing neutral and disagree; and in Statement 7, the respondents disagreed that the rate of return of SIBs is based on the social impact produced when in actual fact the “Payment by Results” (PbR) mechanism in SIBs ensures that returns are based on the outcome of the programme and are not based on interest. In other words, the returns on SIBs are contingent upon the social programme achieving the intended objectives, and investors bear the risk of not getting any returns including their capital investment if the programme fails (HM Government, 2011; Böhler, 2014).

No.	Statements	Disagree (%)	Neutral (%)	Agree (%)	Mean	SD
1	I am familiar with the concept of SIB	31.7	41.7	26.6	2.948	0.764
2	The capital in SIBs is guaranteed by the issuer	33.7	37.3	29.0	2.952	0.792
3	The capital in SIBs can be guaranteed by a third party	27.6	39.6	32.8	3.052	0.777
4	The returns of SIBs are usually guaranteed	37.2	34.4	28.5	2.913	0.807
5	The risks to investors in SIBs are very high	27.2	42.9	29.9	3.028	0.757
6	The returns of SIBs are based on interest	24.8	42.1	33.1	3.083	0.758
7	The rate of return of SIBs is based on the social impact they produce	41.3	36.1	22.6	2.813	0.779
8	There is a trade-off between financial returns and social impact in SIBs	21.3	48.6	30.0	3.087	0.713
9	The social impact from SIBs is significant	26.3	51.0	22.7	2.964	0.701
10	SIBs usually have credit ratings by a rating agency	3.6	23.3	73.1	3.696	0.533
11	SIBs can be traded in the secondary market	10.4	26.7	62.9	3.526	0.677
12	SIBs are Shari'ah-compliant	49.6	36.8	13.6	2.640	0.710
13	The contract of SIBs is based on Shari'ah principles	51.0	36.0	13.0	2.619	0.705
14	SIBs fulfil <i>maqāṣid al-Shari'ah</i> ; e.g. social justice	41.9	44.8	13.3	2.714	0.687

Table 3.
Distribution of
responses to SIB
items ($N = 251$)

Stakeholders' perceptions on conventional bonds

Table 4 presents the distribution of stakeholders' responses to the statements related to CBs.

The results show that majority of the respondents (56.3%) admitted being "familiar with the concept of CBs". Only a small percentage (11.1%) was not familiar (disagreeing) while the remaining 32.5% were noncommittal. This finding is not surprising as most of the respondents were either practitioners or in a position related to the capital and financial markets.

Generally, the respondents had an accurate perception of CBs in terms of what is being practised in the field. This indicates that, generally, the respondents were aware and knowledgeable of the salient features of CBs. The results from Statement 1, where a majority of the respondents said that they were familiar with the concept of CBs, are validated through the findings. This is not surprising since CBs are deeply embedded in the financial and capital markets in Malaysia; hence, stakeholders should be quite familiar with them.

Comparative analyses of the financial instruments

To compare the stakeholders' perception of SIBs, CBs and SRI *ṣukūk*, the sum scores of the responses for each item of each FI are calculated (Perception). The sum scores represent the composite of the perception of the FIs. A normality test is undertaken to see whether the data are normally distributed (parametric) or not normally distributed (non-parametric) for the selection of the appropriate test.

Test for normality. In order to test the normality of SIBs, CBs and SRI *ṣukūk*, the composite scores of each FI were inputted into SPSS analysis to obtain the Kolmogorov–Smirnov results. The null hypothesis tested is that the data are normally distributed. Therefore, if the significance level p is less than 0.05, the null hypothesis is rejected. Table 5 shows the test results.

From Table 5, the Kolmogorov–Smirnov test ($p < 0.05$) shows that the composite scores are not normally distributed for all three FIs. Therefore, the non-parametric test of Wilcoxon signed-rank test is applied for the comparison of the FIs.

Table 4.
Distribution of
responses to CB
items ($N = 251$)

No.	Statements	Disagree (%)	Neutral (%)	Agree (%)	Mean	SD
1	I am familiar with the concept of CBs	11.1	32.5	56.3	3.452	0.687
2	The capital in CBs is guaranteed by the issuer	16.2	32.8	51.0	3.348	0.744
3	The capital in CBs can be guaranteed by a third party	17.1	37.8	45.0	3.279	0.739
4	The returns of CBs are usually guaranteed	23.8	31.7	44.4	3.206	0.802
5	The risks to investors in CBs are very high	38.2	40.2	21.5	2.833	0.756
6	The returns of CBs are based on interest	11.1	26.2	62.7	3.516	0.688
7	The rate of return of CBs is based on the social impact they produce	41.3	36.1	22.6	2.813	0.779
8	There is a trade-off between financial returns and social impact in CBs	21.3	48.6	30.0	3.087	0.713
9	The social impact from CBs is significant	26.3	51.0	22.7	2.964	0.701
10	CBs usually have credit ratings by a ratings agency	3.6	23.3	73.1	3.696	0.533
11	CBs can be traded in the secondary market	10.4	26.7	62.9	3.526	0.677
12	CB are Shari'ah-compliant	49.6	36.8	13.6	2.640	0.710
13	The contract of CBs is based on Shari'ah principles	51.0	36.0	13.0	2.619	0.705
14	CB fulfils <i>maqāṣid al-Shari'ah</i> ; e.g. social justice	41.9	44.8	13.3	2.714	0.687

Table 5.
Test for normality of
composite score data

	Statistic	Kolmogorov–Smirnov df	Sig.
Perception SIB	0.117	258	0.000
Perception CB	0.128	255	0.000
Perception SRI	0.116	254	0.000

Comparison between financial instruments. To compare the FIs, the composite scores of the FIs were tested to see whether there are significant differences between them. The null and alternative hypotheses are as follows:

H_0 : There is no statistically significant difference between the composite scores of FI_1 and FI_2 ($\text{Perception}_{1,i} = \text{Perception}_{2,i}$);

H_1 : There is a statistically significant difference between the composite scores of FI_1 and FI_2 ($\text{Perception}_{1,i} \neq \text{Perception}_{2,i}$)

where $\text{Perception}_{1,i}$ and $\text{Perception}_{2,i}$ denote the composite score measurements of the variables tested. As a rule of thumb, the significance, alpha, is set at 0.05. Therefore, if $p < 0.01$, the null hypothesis is rejected. Table 6 illustrates the hypotheses tested, the scores and the results.

As shown in Table 6, all three hypotheses are rejected, and it can be concluded that the respondents have statistically significantly different views with regard to their perception of SIBs, CBs and SRI *ṣukūk*. Therefore, the analyses' results provide an indication that generally stakeholders view the salient features of SRI *ṣukūk*, SIBs and CBs to be different from one another. In other words, stakeholders do not view SRI *ṣukūk* as "old wine in new Shari'ah-compliant bottles".

Null hypotheses tested	Mean scores		Median scores		Test statistic (Z)	Probability (2-tailed)	Decision
H1: There is no statistically significant difference between the composite scores of SRI <i>sukūk</i> and SIBs	Perception	40.9806	Perception	41.5	−9.255	0.000	Reject null
	SIB		SIB				
	Perception	44.5236	Perception	45			
H2: There is no statistically significant difference between the composite scores of SRI <i>sukūk</i> and CBs	SRI		SRI		−5.869	0.000	Reject null
	Perception	43.0549	Perception	43			
	CB		CB				
H3: There is no statistically significant difference between the composite scores of SIBs and CBs	Perception	44.5236	Perception	45	−9.253	0.000	Reject null
	SRI		SRI				
	Perception	40.9806	Perception	41.5			
	SIB		SIB				
	Perception	43.0549	Perception	43			
	CB		CB				

Table 6.
Wilcoxon signed ranks
test statistics

Comparative analyses between stakeholder groups

The test scores for each individual FI were added together to form the composite scores: Perception SRI, Perception SIB and Perception CB. The sum scores represent the perception of stakeholders with regard to each FI. The Mann–Whitney *U* *t*-test was conducted for this purpose. As a rule of thumb, the significance, alpha, is set at 0.05. Therefore, if $p < 0.05$, the null hypothesis is rejected. Table 7 shows the results of the test.

As shown in Table 7, for the first null hypothesis testing (H4), the mean rank shows that investors have a lower score than developers. However, because the p -value is higher than 0.05, we fail to reject the null hypothesis ($U = 7,453.5$, $p = 0.682$), indicating that the Perception SRI score for investors and developers are not statistically significantly different. For the second test (H5), although the mean rank for investors is higher than developers, we fail to reject the null hypothesis as the p -value is higher than 0.05 ($U = 7,538.5$, $p = 0.491$). Hence, this indicates that the distribution of Perception SIB is the same between investors and

Hypotheses tested	N		Mean rank	Mann–Whitney U	Z	Asymp. sig.	Decision
H4: The stakeholder groups hold similar views on the characteristics of SRI <i>sukūk</i>	Investor	145	124.4	7,454	−0.409	0.682	Fail to reject null
	Developer	106	128.18				
H5: The stakeholder groups hold similar views on the characteristics of SIBs	Investor	147	130.72	7,539	−0.689	0.491	Fail to reject null
	Developer	108	124.3				
H6: The stakeholder groups hold similar views on the characteristics of CBs	Investor	145	124.88	<i>t</i> -Test w523	−0.413	0.68	Fail to reject null
	Developer	107	128.7				

Table 7.
Mann–Whitney *U* test

developers. Finally, for the third null hypothesis tested (H6), the mean rank of the investors is lower than the developers. However, the scores are not statistically significantly different as the p -value is higher than 0.05 ($U = 7,522.5, p = 0.680$). Therefore, we fail to reject the null hypothesis and conclude that the distribution of Perception CB is the same between investors and developers.

Overall, it can be concluded that both groups of stakeholders (i.e. investors and developers) hold the same general view of SRI *ṣukūk*, SIBs and CBs. Hence, results indicate that stakeholders generally have similar perceptions, level of knowledge and understanding of the salient features of these FIs.

Implications of the study

IF growth coincided with the growth of the SRI industry. This can be attributed to the increasing interest in more SRI strategies and resource allocation in the market. Furthermore, IF and SRI are said to share similarities, especially in terms of their objectives. However, there are ongoing criticisms that IF instruments simply replicate conventional finance, thus forgoing the original purpose of IF.

This study addresses this issue by undertaking an empirical analysis through a survey of stakeholders. The study empirically analysed the salient features of SRI *ṣukūk*, SIBs and CBs and found that they share some similarities with one another while certain differences exist between them. The results of the survey revealed that stakeholders have different perceptions of these FIs when compared to their actual features. When comparing the views of different stakeholders (investors and developers), the analyses reveal that both groups hold the same general view of SRI *ṣukūk*, SIBs and CBs.

The analyses also reveal that stakeholders' views of SRI *ṣukūk*, SIBs and CBs are statistically significantly different from one another. The statistical data show that SRI *ṣukūk* are viewed to be different from SIBs despite having similar social objectives. Thus, this negates the notion that the IF instrument, represented by SRI *ṣukūk*, is simply "old wine in a new Shari'ah-compliant bottle". In other words, IF instruments are not viewed as being similar to their conventional counterparts, represented by SIBs and CBs. Furthermore, the differentiation between SIBs and CBs illustrates that socially impactful investment instruments are viewed as a different category from normal conventional instruments. As a result, the development of SRI *ṣukūk* and SIBs can provide diversification to portfolios as they represent unique instruments in the social finance and financial markets.

In light of the findings, therefore, more educational programmes and engagement with stakeholders are needed to ensure that SIB models, such as SC Malaysia's SIB structure, can be successfully developed and implemented sustainably in Malaysia. The educational programmes must also inculcate a more comprehensive stakeholder understanding of Shari'ah, whereby Shari'ah should not be viewed in a narrow context of simply "legal adherence" but rather as an all-encompassing aspect of life, including values, principles and moral norms. It must be stressed that the discussion of Shari'ah must go beyond the legal dimension, especially when considering social impact, SRI and social development goals; the ethical and moral dimension must also come into play.

Another major practical implication from the finding is with regard to the framework in which SIBs can be developed and implemented in Malaysia. The comparative data analyses indicate that stakeholders view the salient features of SIBs to be different from CBs and SRI *ṣukūk*. However, a significant proportion of stakeholders also viewed SIBs to qualify as a form of SRI *ṣukūk*. This may imply that stakeholders are favourable to the notion that SIBs can be implemented in Malaysia under the SRI Sukuk Framework. Given the flexible nature of the SIB model, implementing SIBs as an extension under the SRI Sukuk Framework can be

done as long as fundamental aspects of SIBs, such as PbR, remain in the model. In doing so, the SIB contracts would be required to be based on Shari'ah principles and adhere to Shari'ah-compliant practices and standards, thus enhancing the potential development of SC Malaysia's SIB models in the country.

In terms of theoretical implications, the findings add to the body of knowledge of the stakeholder theory whereby the stakeholders' perceptions, shaped by their values and knowledge, may affect their behaviour and interaction with one another in order to achieve their respective underlying objectives. In this aspect, the study provides an insight on stakeholders' views on the salient features of SIBs relative to CBs and SRI *sukuk* and also the different perspectives of distinct stakeholder groups (i.e. investors and developers).

Conclusion

The present study is not without limitations. First, although the study explores the topic from the stakeholders' perspective, the scope of the study only covers two main stakeholder groups: investors and developers. For future research, it is recommended that other stakeholder groups also be covered, such as from the government, intermediaries, external evaluators and also from service providers and non-profit organisations. Second, the survey method used may have limited the richness of knowledge gained for the study. An additional interview method may provide further in-depth insight to stakeholders' perceptions as well as expert opinion on the matter. It is also recommended that for future research, focus group discussions and interviews with experts who have already been involved in the development of SRI *sukuk*, SIBs and CBs could be conducted to obtain first-hand insight on the subject matter. Despite the limitations, the present study provides insightful information on the similarities and differences of the salient features of three important financial investment instruments. In conclusion, the research discovered that stakeholder interest in developing and investing in SIBs in Malaysia is encouraging, but challenges must be overcome for its realisation.

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