

# INVESTMENT FUNDS FROM THE PERSPECTIVE OF ISLAMIC PHILOSOPHY: AN ANALYSIS OF NON-PROFIT INSTITUTIONS OF AL-KHARJ PROVINCE, SAUDI ARABIA

## FUNDOS DE INVESTIMENTO NA PERSPECTIVA DA FILOSOFIA ISLÂMICA: UMA ANÁLISE DAS INSTITUIÇÕES SEM FINS LUCRATIVOS DA PROVÍNCIA DE AL-KHARJ, ARÁBIA SAUDITA

AHMED BIN ABDULAZIZ  
AL-SHATHARI

Department of Islamic Studies,  
College of Education, Al-kharj,  
Prince Sattam bin Abdulaziz  
University, Saudi Arabia  
[a.alshthri@psau.edu.sa](mailto:a.alshthri@psau.edu.sa)

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**Corresponding author:**

[a.alshthri@psau.edu.sa](mailto:a.alshthri@psau.edu.sa)



exaggeration to say that it can be interpreted as the dawn of the only alternative to the current orthodoxy in banking and finance. The philosophy of non-profit credit financial institutions in Al-Kharj province, Saudi Arabia, aims to encourage Muslims to participate in crowdfunding, with the wisdom behind crowdfunding in Islam being to achieve cooperation among partners, as Muslim legislators have encouraged.

**Keywords:** Investment funds. Perspective of Islamic philosophy. Non-profit institutions. Al-Kharj province. Saudi Arabia.

**Resumo:** O objetivo deste estudo é examinar fundos de investimento do ponto de vista da filosofia islâmica, com foco em instituições sem fins lucrativos na província de Al-Kharj, Arábia Saudita. O método de pesquisa empregado é um levantamento bibliográfico, utilizando fontes confiáveis e bases de dados como Web of Science, Google Scholar, PubMed e Science Direct. Este estudo se concentra na província de Al-Kharj porque ela abrange muitas organizações não governamentais que necessitam de financiamento sistemático para cobrir suas diversas despesas. Com base nos resultados da pesquisa, concluímos que a filosofia por trás da criação de instituições financeiras sem

fins lucrativos reflete uma abordagem proativa para atender às necessidades financeiras dessas organizações e maximizar seu potencial para gerar impacto social positivo. O fundo de investimento deve ser abrangente e bem projetado, incorporando várias fontes de investimento para cobrir todas as despesas incorridas pelas organizações sem fins lucrativos. Em conclusão, a filosofia de criação de instituições financeiras islâmicas sem fins lucrativos evoluiu tanto teoricamente quanto empiricamente, emergindo como um ramo vibrante, provocativo e dinâmico da economia. Não é exagero dizer que pode ser interpretado como o surgimento da única alternativa à ortodoxia atual em bancos e finanças. A filosofia das instituições financeiras de crédito sem fins lucrativos na província de Al-Kharj, Arábia Saudita, visa encorajar os muçulmanos a participar do financiamento coletivo, com a sabedoria por trás do crowdfunding no Islã sendo alcançar a cooperação entre parceiros, conforme incentivado pelos legisladores muçulmanos.

**Palavras-chave:** Fundos de investimento. Perspectiva da filosofia islâmica. Instituições sem fins lucrativos. Província de Al-Kharj. Arábia Saudita.

## 1. Introduction

Islamic finance operates under a unique set of principles derived from Shariah (Islamic law), which emphasizes ethical, moral, social, and religious dimensions to enhance equity and fairness in the economy. Investment funds in the Islamic context must adhere to these principles, ensuring that all financial activities are Shariah-compliant. This compliance is not only a religious obligation but also enhances the ethical standards of financial operations.

Kelly (2017) argued that a fund is generally known as a place where money is saved. Investment funds for non-profit organizations are well-known investment profiles or investments in which savings are stored and are commonly known as investment funds. But portfolios are often private to a specific person, unlike funds that are for multiple clients (Albagieh, 2022; Fridman, 2017; Gao, O'Sullivan, & Sherman, 2020).

The current research aims to evaluate the rules and regulations recently prepared by the Saudi Arabian Investment Board to organize the affairs of non-profit and endowment institutions. Modern investment methods for the non-profit and endowment sector have been developed in compliance with the regulations and regulations governing the investment sector in Saudi Arabia. The purpose of this research was to examine investment funds also from the perspective of Islamic philosophy - analysis of non-profit institutions in Al-Kharj province, Saudi Arabia.

Muhammad (2018) stated that the number of non-profit sector organizations under the supervision of the National Center for Non-Profit Sector Development has recently increased and they differ in their competencies, objectives and projects. However, several

non-profit organizations need financial security for their future projects in the development of enterprises and projects that start in Al-Kharj province (Aseery & Hatam Aseri, 2024).

## 2. Theoretical Foundation: Islamic Philosophy and Investment Funds

Islamic teachings in the fields of mu'amalat, or transactions, prohibit selling a certain quantity of any present goods or services for a different (presumably larger) quantity of the same good and/or service delivered in the future. This is understood to apply to money and all other goods and services. As a result, any amount of present money cannot be exchanged for a larger amount in the future.

In addition, other rules of transactions must be applied to ensure fairness of dealing to both the contracting parties concerned. Mainly al-ghabn and al-gharar are strictly prohibited. As stated by Ghofur et al. (2017), "Maṣḥala is a cornerstone of Islamic rules on transactions (mu'āmala), which is the benefit framed with sharī'a and not solely based on profit motive and material rentability as in conventional economy." This highlights the ethical foundation of fairness and transparency in all dealings, ensuring that transactions do not involve excessive uncertainty or deception.

The fact that Islamic banking and finance avoids the use of interest-based lending has significant implications for monetary policy. In managing the money supply, the monetary authority would monitor the real rate of growth and set the rate of monetary expansion to a level consistent with price stability and expected real growth. Some Islamic economists propose a 100 percent required reserve ratio to give the authorities absolute control of the money supply and to appropriate all seigniorage resulting from monetary expansion to the government instead of banks' shareholders (Ghofur et al., 2017). This approach reflects a broader commitment to the principles of maṣḥala, ensuring that economic policies serve the public good and contribute to social welfare.

Other rules of transactions must be applied to ensure fairness of dealing to both the contracting parties concerned. Mainly al-ghabn and al-gharar are strictly prohibited (Ghofur, Susilo, Soedarto, Tembalang, & Tembalang, 2017). The fact that Islamic banking and finance avoids the use of interest-based lending has significant implications for monetary policy. In managing the money supply, the monetary authority would monitor the real rate of growth and set the rate of monetary expansion to a level consistent with price stability and expected real growth

Furthermore, as Ghofur et al. (2017) explain, “In general, Maşlahah is understood as goodness, benefit, human welfare and prosperity in the world and the hereafter, and the prevention of harm.” This principle underpins the ethical framework of Islamic finance, promoting an economic system that balances material benefits with the overall well-being of society.

The fact that the economy is as close as possible to price stability implies that the rate of monetary growth is optimal, and there is no need to divert real resources to monetary use. Therefore, Pareto optimality is assured without problematic deflationary policies (Fridman, 2017). This economic stability aligns with the overarching goals of Islamic finance to create a fair, transparent, and welfare-oriented financial system.

### **3. Results and Discussion**

#### **Non-profit organisations**

It's important to understand the diverse structures and sources of finance that nonprofit organizations rely on, such as donations, sales of goods or services, and control mechanisms (Mokhtar & Ahmad, 2021).

The categorization of nonprofit organizations based on their financial dependency and nature of control - donative, commercial, mutual, and entrepreneurial - provides valuable insight into their operational models. Additionally, the essential attributes outlined by Jeremy Kendall and Mastin Knapp further clarify the key characteristics of nonprofit organizations (Moovala, 2024).

The formal organization, independence from the state, and self-governing nature are crucial aspects that define and differentiate nonprofit organizations from other entities. The dynamic relationship between nonprofit organizations and the state, as well as the control over their constitution and resource allocations, highlight the challenges and considerations in maintaining independence while potentially receiving state funding.

Overall, this information provides a comprehensive understanding of the various dimensions and dynamics within nonprofit organizations, shedding light on their operational frameworks and guiding principles (Mohamed, 2018).

#### **Future Prospects of Nonprofit Organisations**

It's fascinating to consider the future perspective of non-profit organizations and their evolving role in modern society (Mersland, 2011). As highlighted in the analysis by Carlo Borgaza and Alesste Santovari, the strength and development of the non-profit sector are closely intertwined with the dynamics of pluralistic welfare systems and their contributions to the supply of goods and services.

This vision is particularly pertinent for democratic societies, welfare-committed states, and evolving economic structures (Mersland, 2011; Mohamed, 2018; Mokhtar & Ahmad, 2021). The emphasis on “trust” as a pivotal factor in the formation of non-profit organizations underscores the intricate nature of their organizational models, which may be characterized by ambiguous ownership structures or shared ownership among multiple stakeholders.

While democratic governance by various stakeholders can be advantageous, it may also present challenges in terms of achieving swift adaptability to changing socio-economic environments due to potential conflicts arising from divergent interests (Molpeceres, Martínez-Morales, Bernad, & Marhuenda-Fluixá, 2024). The limited knowledge and awareness of non-profit organizations regarding their precise role relative to public and for-profit institutions in modern economies point to the need for enhanced management capacities aligned with the multifaceted goals of integrating social and economic objectives (Gao et al., 2020).

Furthermore, the trend towards homogeneity among non-profit organizations may pose limitations by impeding the development of innovative traits necessary for future adaptation (Islam, 2024). This brings to light the importance of fostering a culture of innovation and adaptability within the non-profit sector to effectively navigate future challenges and opportunities. Overall, this analysis offers valuable insights into the complexities and potential areas for growth and development within non-profit organizations, paving the way for thoughtful consideration of their future trajectory (Kassem, Aljuaid, Alotaibi, & Ghozy, 2020).

Therefore, this study is about several important issues in the non-profit sector in Al-Kharj province (AbuShal, 2024; Aprianto & Qur'an, 2021). The problems identified, such as lack of funding, insufficient adoption of new financial instruments, and lack of strategic influence and collaboration, highlight key areas that need improvement.

In addition, the research objectives, including increasing growth and investment in non-profit institutions and creating a single investment fund, show a clear focus on

improving the financial capabilities and strategic direction of these organizations. The importance of this study is emphasized by its potential to improve financial stability, create innovative investment models, strengthen cooperation between different organizations, and facilitate communication between non-profit entities and investment companies.

The detailed sections of the study covering topics such as investment fund mechanisms, regulatory controls, and conditions of participation demonstrate a comprehensive approach to addressing the identified issues and achieving the study's objectives (Hibbitt, 2017). This study's definitions of investment funds and its focus on collective investment within the framework of Islamic principles provide a strong foundation for understanding existing financial mechanisms and ethical considerations.

In addition, the emphasis on profit distribution, regulatory controls, and investment fund participation conditions increases the comprehensiveness of the study (Allami, 2024). Overall, this study appears to be well-structured and thorough and aims to make a significant impact on the nonprofit sector in Al-Kharj province by addressing important financial and investment challenges while aligning with broader development goals. Islam encouraged Muslims to participate in the collective investment and the wisdom behind the collective investment in Islam is to achieve cooperation among partners, as the legislators urged Muslims to be cooperative and fair (Mentel, Brożyna, & Szetela, 2017).

The non-profit organizations are the most in need of establishing a collective investment fund, and the organizations located in Al-Kharj Governorate are:

1. Albir Charitable Society.
2. Social Development Association At Alsylumiah
3. Disability Charity Association of Al-Kharj (Jadha)
4. Community of Social Development
5. Family Development Association of Kharj (Qaraain)
6. Bashyar Alkhayr lee Hefiz Alnimah Charitable Association.
7. Solidarity Society for the preservation of Grace
8. The Outreach Heritage Society
9. The Society for the Honour of the Dead is out
10. Advocacy, guidance and community awareness
11. The charitable association
12. Charity Society for the preservation of the Holy Quran (Arteq)
13. Community Development Association of Seih

14. The Association for the Care of Orphans
15. Agricultural Cooperative Association out
16. Association of the Charitable Center for the Education of the Qur'an and its Sciences in Al-Kharj Governorate
17. The Association of the Unified Family in Al-Kharj Governorate
18. Raine Association for the Assistance of Hajj and Umarr Charity(Mohamed, 2018).

**Reasons for establishing the Investment Fund for the Organizations of the Non-Profit sector in Al-Kharj Governorate:**

1. Endowments and real estate investments for organizations have a depreciation rate and need to follow up, maintain and operate.
2. The profits incurred by these investments for organizations do not exceed 1% while portfolios and investment funds have a yield of more than 4% as the shares (share-to-share) double.
3. Investing in the investment fund does not need maintenance, operation and collection and there is no depreciation rate.

**Regulatory controls and conditions for the establishment of the Fund:**

1. Taking approval from the capital Market Authority in accordance with the regulations governing investment funds.
2. Fill out the application electronically from the website of the National Center for the Development of the Non-Profit sector.
3. Minutes of the approval of the General Assembly on the rules of investing surplus funds of the Assembly and attach a copy thereof.
4. Approving the investment plan of the funds of the Assembly and proposing its areas by the General Assembly.
5. Approval of the General Assembly to authorize the Board of Directors to invest in accordance with the rules of investing surplus funds of the Association.
6. The minutes of the Board of Directors' approval of the investment with an explanation of those authorized to sign the account.



7. Copy of the letter of accreditation of the Board of Directors of the Association

### **The advantages and conditions of participation in the investment fund**

The investment fund for non-profit sector organizations in Al-Kharj Governorate is distinguished from other investments for organizations by a number of advantages and characteristics that can be summarized as follows:

1. Enabling young and small organizations to enter into financial investments and enter the financial market.
2. Reduce and distribute risk by entering into the investment fund, instead of investing in one investment instrument or one activity, investments vary and the risk ratio decreases.
3. Diversification, this diversification gives the investor organizations the opportunity to choose the right field for their goals and aspirations.
4. Increase the capital of the organizations participating in the fund, over long periods of time during the achievement of diversified and considered profits.
5. Flexibility and convenience, which are not usually available in others, by exiting the fund and liquidating its investments in one go or in monthly installments

The controls that should be observed, which the fund manager is committed to provide a memorandum of terms and conditions for each fund containing detailed information that helps the investor to make the right decision in the selection and investment in the fund that achieves its investment objectives.

The memorandum of terms and conditions of the Fund includes:

1. Complete the application electronically
2. Minutes of the approval of the General Assembly on the rules of investing surplus funds of the Assembly and attach a copy thereof
3. Approving the investment plan of the funds of the Assembly and proposing its areas by the General Assembly
4. Approval of the General Assembly to authorize the Board of Directors to invest in accordance with the rules of investment of surplus funds of the Association
5. The minutes of the Board of Directors' approval of the investment with an explanation of those authorized to sign the account



6. A copy of the Board's letter of credit the objectives and policies planned to be followed by the Fund Manager in the investment of participants' funds.
7. Potential risks to the Fund's investments.
8. Approved fees and charges.
9. Board of Directors of the Fund.
10. The auditor approved by the Board of Directors of the Fund.
11. The names of the members of the Shari'a Committee and the financial compensation for their consultation in the event that the Fund operates in accordance with the principles of Islamic law.
12. Subscription and redemption terms that specify the subscription period, allowable refund and minimum subscription or redemption amounts.
13. Calendar days for the Fund's assets and days for the purchase or redemption of units.
14. Indicator: The Fund Manager compares the performance of the Fund with the performance of a specific indicator that is determined at the time the Fund is established, and the Fund Manager selects the indicator based on the quality of the Fund 's investments geographically or in terms of the type of financial instruments invested in.

#### **4. Conclusion**

The philosophy behind creating an investment fund for non-profit sector organizations that are excellent are: establishing an association support fund with legal personality and independent financial responsibility, showing commitment to support the development and financial sustainability of non-profit institutions and thereby maximizing social impact.

In addition, the collaboration in the Social Development Balanced Feasibility Fund, which includes Jadoo Financial Company, Future Endowment Investment Company, and several non-profit organizations, represents a collective effort to create a fund that benefits the entire sector.

These initiatives reflect a proactive approach to addressing the financial needs of nonprofit organizations and maximizing their potential to create positive social impact. In conclusion, it can be said that the philosophy of creating non-profit Islamic financial institutions as a discipline has evolved both theoretically and empirically.

It has emerged as a vibrant, provocative and dynamic branch of economics. It is not an exaggeration to say that it can be interpreted as the dawn of the only alternative to the current orthodoxy in banking and finance. In conclusion, it can be said that the philosophy of creating non-profit Islamic financial institutions as a discipline has evolved both theoretically and empirically. It has emerged as a vibrant, provocative and dynamic branch of economics. It is no exaggeration to say that it can be interpreted as the dawn of the only alternative to the current orthodoxy in banking and finance.

The philosophy of non-profit credit financial institutions of Al-Kharj province of Saudi Arabia is to encourage Muslims to participate in crowdfunding, and the wisdom behind crowdfunding in Islam is to achieve cooperation between partners, as Muslim legislators encouraged.

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