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The Impact of Islamic Finance Contracts and Modes on Sustainable Economic Development

Abdulqawi Abdullah Abdulhameed Othman[1*], Dr. Abdullaah Bin Jalil[2], & Dr. Hisham Bin Sabri[3]

[1,2,3] Faculty of Economics and Muamalat (FEM), Universiti Sains Islam Malaysia (USIM). 71800 Nilai, Negeri Sembilan, Malaysia.

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ABSTRACT

This paper is an offshoot of the increasing realization regarding the relevance and significance of Islamic finance in furthering sustainable economic development. The purpose of this study is to explore the effects of Islamic finance contracts on sustainable economic development in UAE. The design of this study is descriptive–analytical. Population of the study. The population of this study is Islamic banks operating in UAE. The data was processed by two main statistical techniques; SPSS version 29 and Smart PLS4. The findings indicated that application of the Islamic finance contracts Murabaha, Mudarabah, and Ijarah contribute to sustainable economic development. Cash flow mediated still improves the relationship significantly. Thus, managing liquidity is essential to ensure the effectiveness of Islamic finance contracts in driving sustainability. Cash flow helps financial institutions to fund green investments and thus highlights the wider economic necessity of liquidity. As for the financial institutions' cash outflow, the study highlighted that Islamic finance transactions inherently comply with ethics and real economy principles which at times can be also a better recourse to help them keep their cash flow away from speculative activities. The policy implications of such findings are seismic for policymakers and financial institutions alike. Policymakers are urged to build stronger regulatory frameworks conducive to Islamic finance that do not allow liquidity constraints to impede the role of these instruments in sustainable development. For Islamic banks, this suggests the importance of improving liquidity management and aligning financial strategies with the goal of sustainable development.

JEL Classification: *G21, G32, O16, Q01, & Z12.*

1. Introduction

Islamic finance has evolved into a key component of the global financial industry and is now more commonly practiced in Muslim-majority countries, such as the UAE, where it plays an important role in shaping the broader economic environment to promote sustainable development. Contracts in Islamic

* Corresponding author.
E-mail address: alssadi2015@hotmail.com
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finance (such as Murabaha, Ijarah, and Mudaraba) have made it possible to provide the financing needed by individuals and businesses while making sure that their transactions are Sharia-compliant. These contracts support social responsibility investments, partner risk sharing and infrastructure usage of real assets, which in line with the objectives of UAE's long-term development plans such as Vision 2021 and UAE Green Economy Initiative. On the contrary even if these contracts are considered as bringing certain theoretical benefits of Islamic finance, they still lack in practice especially when it comes to liquidity management (Makrorubin and Alafianta, 2023). Islamic finance based on Sharia, which does not allow Riba (Interest) and guides the principles where financial transactions should be through risk-sharing, ethical investment, behind real economic activity. This unique twist to finance has led the sector gaining prominence worldwide and particularly in UAE, which has emerged as a key center for Islamic banking. The emergence of Islamic financial institutions adhering to a blend of national economic policy objectives and Sharia principles has enabled these institutes to provide befitting alternatives for the conventional financial products. This has been true as Islamic contracts, such as Murabaha (cost-plus financing), Ijarah (leasing) and Mudaraba (profit-sharing), have underpinned the development of an Islamic finance model which achieve growth but not at the expense of shari'ah principles (Al-Taher, 2023). These agreements have a strong emphasis on both promoting fairer wealth distribution and tackling wider societal issues. The question however, is how these contracts can be further optimized to remain sustainable for the long run and to manage liquidity in an efficient way as UAE transitions to a new economic landscape. Since then, the development of Islamic finance in UAE has made impressive strides, with the IMF estimating that Sharia-compliant assets around the world grew by 8% in 2023, but significant hurdles remain. That the liquidity function of Islamic banks, which is a complementary one bringing wholesome changes in the institutional design of intermediation and allocation to foster sustainable development has yet attracted minimal discussion. Islamic banks cannot use interest-based instruments since they are classified as Riba; thus, they have to adhere to prudent limits on liquidity unlike commercial banks. This poses a unique challenge, as these banks must keep liquidity always to fund projects and remain financially stable (Al-Etihad Newspaper, 2021; Lootah, 2024; Al-Taani et al., 2024). Given the importance of cash liquidity to ensure the proper functioning of their banking sector, this raises questions on how Islamic banks can work with a similar type of liquidity provisioning all for the support and enablement of sustainable economic growth in UAE.

The background and motivation of doing this research lies on the increase interest in sustainability area around the world and importance of finance to achieving Sustainable Development Goals (SDGs). That would naturally serve as a dominant financial model, provided that the Islamic finance; based on ethics emerges as an effective way to direct finance towards sustainability objectives. This still leaves a difficulty in how effectively Islamic finance contracts can be used to deliver the liquidity required, and will drive sustainable growth. As the UAE further establishes itself as a major player in Islamic banking, knowledge of how these contracts impact the liquidity-sustainability nexus is pertinent for policymakers and financial institutions alike (Barani, 2016). The challenge of liquidity management in Islamic Banks is more pressing, especially in the light one learned from post global financial crises that have proved the critical role of liquidity to sustain banks stability. In addition to the constant need for liquidity faced by conventional banks, Islamic banks have unique pressures since they rely on asset-based transactions and risk-sharing mechanisms in compliance with Sharia principles. Compounding these challenges are the narrow focus of a large number of Islamic banks only on specific types of short-term financing such as trade finance and asset leasing, which constrains their participation in long-term development projects.

In addition, even though the developments of bank in Islam progressively there are still lack empirical findings explained on how Islamic finance contracts generally contribute to sustainable economic development directly especially liquidity management. The fundamental challenge addressed by this study is the need for a deeper understanding of the role liquidity plays as a mediator between Islamic finance contracts and long-term economic growth (Hamed, 2022). Islamic banks suffer constraints related to the Sharia Law, which not only impacts its liquidity position but also restricts the deployment of funds and hence in achieving balance between liquidity and thus this study aims to discuss how Islamic banks can deal with such restriction without losing sight on the overall economic objectives envisaged by UAE (Makrorubin and Alafianta, 2023). Thus, this study aims to address a key void in prior research (Al-Taher, 2023). The research could have a significant impact on the UAE policy and regulatory environment and for the financial sector, thus provides valuable policy lessons on how to design monopoly Islamic finance contracts that improve liquidity sustainability. This research is aimed at enhancing our understanding of this dilemma and how Islamic banks can manage to maintain their ethical principles in a pragmatic way so as not to lose the competition ability, on the short term; neither it should go against the UAE strategic long-term development goals.

2. Literature Review

In recent years, Islamic finance has drawn much attention as a credible alternative to the conventional financial system; with its role in promoting sustainable economic development is absolutely crucial. This research has been focused in a variety of financing modes grounded in Islamic law (Shariah) such as Sukuk, structured finance contracts, installment financing, profit-loss sharing contracts. All of them come up with specific means to support investment and the economy in a manner consistent with Islamic jurisprudence that follows ethical principles, including the prohibition of interest (Riba). The extant literature has touched upon issues that span from the difficulties in issuance of Islamic Sukuk in some areas to whether or not structured finance contracts could help alleviating liquidity problems by large corporations. Despite knowledge has evolved, but there are still gaps in comprehending the mediator role of liquidity with respect to connecting various Islamic Finance modes and sustainable economic development, a vital aspect for aligning Islamic financial institutions to effectively contribute toward long term growth and stability. Prior research in Islamic finance covers a wide variety of creative examinations on the diverse financing modes and how they influence economic progress. For example, an article by Al-Taher (2023) addressed the reliability of structured finance contracts in large institutions financing performance as compared to traditional financial systems. A research determined that this finance is more like the traditional Islamic finance contracts and could be beneficial in promoting investment even in the era of economic and financial globalization (Al-Taher, 2023). In contrast, Awwad et al. One of the last articles in (2024), investigated the difficulties of issuance of Islamic Sukuk in Palestine, and demonstrated how legal and economic problems stand behind preventing Sukuk to be widely implemented as a finance tool. Awwad et al., (2024) finally drawn on this issue by stating its result that the Sukuk as become crucial factor in financing economic projects and for it to do so there is required legal reforms and regulatory reforms. Meanwhile, in contrast with Alavianta and Makroubine (2013) focusing on instalment financing at Islamic banks and the importance of it in realising the Shariah purpose about wealth protection. However, despite this comprehensive examination of modalities of instalment financing, there was little to no exploration into the impact that these modalities may have on liquidity from which the demand for further research in this sector as a whole (Makroubine and Alavianta 2023). In a similar fashion, Hamed (2022) highlighted the opportunities and challenges for Islamic banks in the knowledge economy. Although the researchers emphasized technological, and technical challenges in the study rather than directly exploring the doing effect of liquidity on sustainable economic development which need a further investigation and to be clearer (Hamed, 2022). Abu Ali (2022) studied the contribution of Islamic banks in Dubai to support and finance economic development. By Abu Ali (2022): The study, while reiterated the pivotal role of Islamic banks in financing projects that are constructive and developmental, it however failed to investigate liquidity as a mediating variable in the sustainable economic development brought about by Islamic finance. In addition, Amin Zaid (2021) highlighted in his study the role of Islamic banks as a means to finance economic projects and development. However, as noted in previous studies, it failed to satisfactorily account for the role of liquidity as a mediator (Zaid, 2021a) which calls for more research specifically focusing on this dimension.

3. Hypotheses Developments

The main objective of this suction is to investigate the Islamic finance contracts, liquidity, and their combined effects on sustainable economic development with special reference to the UAE. Based on reviewing the literature of Islamic Financial instruments, and concepts dealing with liquidity management in conventional banks which are matched with the objectives of sustainable development this section will refer to identified gaps in research and propose hypotheses. On these assumptions this section is formulated as a set of hypotheses which in turn recognized Islamic finance being an element in such style could theoretically contribute to the journey of achieving more sustainable economic growth. Furthermore, the study analyses the role of liquidity, as an explanatory variable and mediator variable between Islamic finance contracts economic sustainability. Using sustainability literature and liquidity theory as a theoretical foundation, we develop four hypotheses that seek to provide further insights on the above-mentioned relationships.

2.1 Islamic Finance Contracts and Sustainable Economic Development

Proper implementation of Islamic finance contracts is very important for sustainable development. These contracts include but are not limited to Murabaha, Musharaka, Mudaraba, Ijara which are based on sharia compliant principles where interest is banned (Riba) and profits/losses should be shared based on the return of each. Designed to facilitate an equitable distribution of wealth and direct funds toward industrial activities, they are intended for increased growth with stable development. In addition, sustainable economic development has become a priority for most nations, UAE included. Growth that improves the well-being of current and future generations whilst at the same time not harming the environment, destroying natural resources. Islamic finance can play an effective role in achieving target whereas Islamic finance is based on following and considering the principles of Shariah i.e. transparency, fairness, and investment in real economy. These studies empirically test the role of Islamic finance in economic development, using Shariah-compliant financial products and comparing both micro- and macro-level results. A study by Abu Ali (2022) provides an example of this, showcasing that in Dubai, Islamic banks have been major contributors towards funding developmental projects which in turn would help reduce economic slowdown and enhance development. Nonetheless, Zaid (2021) scorched the possibility of Islamic banks to be a financial resource mobilizing media for economic development. However, as pointed out by another review, this study did not investigate the direct influence on sustainable development of various Islamic finance contracts, this indicates a need for further research in this field. A similar study by Al-Mohammedi (2021) focused on the efficiency of Islamic banks in enhancing and financing development, where he/she stated that Islamic finance contracts are characterized by being diverse and more inclusive. But the study failed to adequately explore the role of these contracts in reproducing sustainable economic development in the UAE. Additionally, the work of Fartas (2018) showed that Dubai Islamic Bank is an essential partner in financing infrastructure projects, being a responsible investee for sustainable development. However, it is still necessary to elicit an in-depth insight into how Islamic finance contracts influence many aspects of sustainable development. Thus, this analysis is supported by the theory of sustainable development, in which it is maintained that economic growth must go hand in hand with social justice and environmental protection. They are based on the idea of striking an optimal balance between its economic, social and environmental realms. Shariah-compliant Islamic finance contracts were developed with the ideal objective of striking this balance to ensure the promotion of investments that are socially responsible. Hypothesis Development Based the critical discussion of earlier studies and the underpinning theory, it is plausible to advance the following Hypothesis:

H1: The use of Islamic finance contracts has a significant positive impact on achieving sustainable economic development in the UAE.

2.2 Islamic Finance Modes and Liquidity

The most important & essential factor that impacts the ability of banks to meet financial obligations and efficiently implement financing strategies is Liquidity. The liquidity in the Islamic perspective depends on the Islamic finance modes, like Murabaha, Musharaka, Mudaraba, and Ijara(resources: gale.com) These modes are in line with Islamic Shariah principles that discourage Riba (interest) and is rather a transparent mechanism of profit sharing that can increase banks obligation readily. Liquidity is the lifeblood of any banking system, so key to ensuring both bank solvency or stability and their capacity to meet client demand. Islamic banks require financing instruments that invalidates Shariah, mobilizes financial resources to organic and productive real economic activities. Hence, understanding the relationship between Islamic finance modes and liquidity may lead to potential improvement of financial strategies for Islamic banks which would help in making them more effective in practicing development programs and plans. Several researches have investigated the impact of Islamic finance modes on liquidity. For example, the research of Maqrobin and Alavianta (2023) underlines the role in Islamic payment obligations caused by an installment system in banks. According to the research, instalment-based financing models can cause cash flow problems if not managed carefully. Despite this, the study did not give enough consideration to the overall effect of different Islamic financing modes on liquidity. Hasban (2019) also highlighted in his study on development and cooperative societies, that Islamic banks have an important role in sponsoring these activities, as Is kali such entities rely on the availability of liquidity from banks. Yet, the study failed to identify the influence of a bank-specific Islamic finance mode on its liquidity. However, Islamic banks being able to raise financial resources from the Islamic finance modes as was confirmed by Zaid (2021) may serve for economic development thus it is implied that these various means of Islamic fiance could greatly enhance the liquid incentivizing. But this study did not go on to specify each of the Islamic finance modes has been influenced by liquidity. This same liquidity theory is what makes provisioning continuously for liquidity to underpin bank stability. That is ensuring the liquidity required to cover expenses that are time bound and, to support developmental agendas has be pumped in. Given that Islamic finance modes focus on the real sector and shun speculative activities, they can be important in terms of improving the liquidity of Islamic banks. Therefore, after a critical discussion of the existing studies and theory supporting this paper, we can formulate the hypothesis as follows:

H2: The application of Islamic finance modes has a significant positive effect on banks' liquidity in the UAE.

2.3 Liquidity and Sustainable Economic Development

Liquidity, is the lifeblood of any economy. It keeps organisations in business and enables them to pay their bills or fund new projects by borrowing from banks. Liquidity, when framed in terms of sustainable economic development is responsible for capitalising sustainable economic activities which can incorporate a kind of economy potentially to make profits with some notion towards environmental and social.) This study can facilitate the design of appropriate financial instruments as well as monitoring and evaluation mechanisms for macroeconomic policies in UAE. It is not new that many are the studies that show the importance of liquidity in sustainable economic development and how it acts as a propellant for reducing inflation and cost of capital. For example, Fartas (2018) highlighted the critical role of Islamic banks in infrastructure finance as financial resources are very much needed to undertake sizeable projects which part and parcel for sustainable development. But the study did not directly investigate liquidity and sustainable economic development. Likewise, Hasban (2019) discovered the involvement of Islamic banks towards cooperative societies and social development in which liquidity provision is a contribution to realizing social and economic objectives. But little examination takes place in the study on how liquidity specifically affects sustainable economic development. This leads to the conclusion that economic growth must be sustainable and framed fundamentally by social and environmental considerations as posited by theory of sustainable development (Longo et al. 2017). Therefore, an economy with available liquidity has the capacity to direct investments towards activities that manage this balance, funding economic activities that do not damage the environment whilst still promoting social welfare. This hypothesis intends to test the association between liquidity and the sustainable development of an economy. Given the critical review of quantitative research to date and the theoretical rationale for this study, a hypothesis in line with the following questions may be generated:

H3: Liquidity affect the sustainable economic development in UAE.

2.4 Liquidity as a Mediator

Liquidity is a foundation of any banking system, which allowed to banks fulfill their current financial obligations and provide continuous financing tools. Islamic finance, however, brings about its own unique strengths with side effect that can play an important mediating role between Islamic finance modes and sustainable economic development in the form of liquidity thereby supporting all these modes to achieve their goal for SDG. A substantial amount of research has been carried out concerning Islamic finance modes and liquidity, yet limited attention had been given to the mediating role of liquidity towards sustainable development. Liquidity is a key factor to endorse the cooperative societies and hindalves-social by Hasban (2019) stresses on the need of this liquidity stemmed for supporting economic and social only, as has its impact tangible targets. Meanwhile, the role of liquidity in mediating between modes of Islamic finance and Sustainable Development has not been studied directly by former researchers. In a similar vein, the study by Zaid (2021) provides empirical evidence that Islamic banks can effectively channel funds for economic development, suggesting that liquidity is indeed important in this regard. Nonetheless, the research lacks of exact findings on how the supply of liquidity mediates between Islamic finance modes and sustainable development. This is consistent with mediation theory which posits that a mediator will either increase or decrease the effect of the independent variable on the dependent variable. Thus, within the following framework, liquidity can be a mediator between Islamic finance modes and sustainable economic development. Liquidity is also a key driver to sustainable development if you can get banks stabilized and force them on investing in green. This proposed hypothesis tries to check whether liquidity as mediator intensity or strengthen the association between Islamic finance modes and sustainable economic development. A hypothesis can be formulated as follows:

H 4: Liquidity acts as a mediator between Islamic finance modes and sustainable economic development in the UAE.

4. Research Model

The study model is constructed to investigate these relationships amongst Islamic Finance Contracts, liquidity and sustainable Economic Development in UAE as well from socio-economic conditions of UAE having influence on them with mediating variable named liquidity. Model in Figure 1: It is hypothesized that Islamic finance contracts (H1) have a direct effect on sustainable economic development and liquidity (H2). In addition, it also contains the impact of liquidity on sustainable economic development directly (H3). This is followed by the model that assumes that liquidity will mediate Islamic finance contracts and sustainable economic development (H4). The conceptual basis of this model lies in the established role of Islamic Finance for strengthening sustainable strategy and liquidity management (Abo Ali, 2022, Zaid, 2021), as well as a fundamental priority to ensure high liquidity levels which is ultimately stabilizing financial stability and support economic growth in the long term (Hasban, 2019; Fratas, 2018).

The guides the theoretical underpinning of this model on practice interlink and are Sustainable Development Theory in which it argued that financial economic, environmental and social objectives should be reconciled to achieve long-term economic success; also Liquidity Theory states that organisations must seek liquidity not only through financial ways, but also in ways to impact, influence society. Based on the integration of these frameworks, the study attempts to illuminate paths on how Islamic finance and liquidity management gears sustainable outcomes particularly in an economy like UAE which intends to align its financial system with sustainability goals.

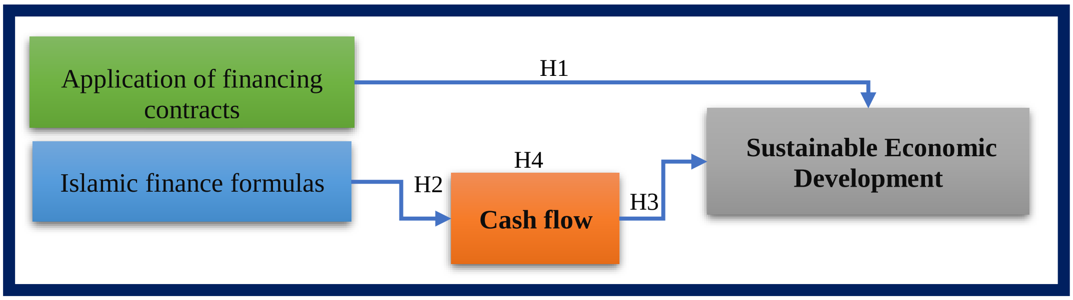

Figure 1. The Research Conceptual Framework

The model offers a systematic investigation of these linkages, and how Islamic finance contracts interplay with liquidity-availability to affect the overarching objective of sustainable economic development.

5. Methodology

The present study is based on a descriptive-analytical research design that aims to examine the effects of Islamic finance contracts on sustainable economic development in UAE. This method help capture and investigate the multifarious interlinks between Islamic finance, liquidity and sustainable development which is a key purpose of this paper. This methodology enables to provide scientific overview of these phenomena, that goes beyond considering macroeconomic effects and aims at identifying average contribution of Islamic finance contracts (Al Obaidy et al., 2024; Maabreh, 2024). This methodology is deemed robust to assess complex and nuanced relationships of financial behavior linked with sustainability within the context of socio-economic parameters prevailing in UAE especially when these contracts are built upon Islamic sharia principles, which have determinants of unique ethical and religious sections. This research was done by descriptive-analytical approached in fact and is one of the main stream studies compare to experimental type or purely statistical studies, which can also better reflect and covers more areas about Islamic financial framework. Unlike traditional finance mechanisms, which are premised on establishing borrowing-and-lending relationships, the Islamic alternatives utilize contracts such As Murabaha, Mudarabah and Ijarah, doing business through ethical investing and with a risk-and-reward-sharing approach. This approach is more suitable for the current study as it explores Islamic finance roles in sustainable development from both an operational context and a broader economic impacts of Islamic finance contracts angle permitting a detailed examination on this subject. The data was collected through questionnaires which were distributed to all Islamic bank (Abu Dhabi Islamic Bank, Dubai Islamic Bank, Emirates Islamic Bank, Sharjah Islamic Bank). This is a deliberate choice, as these banks are major constituents of the Islamic financing business and can reveal broader-making behaviors of these financial contracts in the economy. The sample consisted of 221 individuals, comprises top-level management personnel such as regional managers and finance executives. Such individuals are best placed to offer well-informed insights into the relevant Islamic finance contracts and their wider implications for sustainable economic development.

6. Findings

The data of the study were conducted through the SPSS version 29 with Smart Partial Least Squares (PLS4) Version 4. Initial data screening was performed by SPSS software, through checking missing values, outliers, normality and multicollinearity. Moreover, SPSS 29 was used to perform exploratory factor analysis (EFA) and content validity of constructs. This was done to make sure that the items from the dataset were properly categorized under the variables and followed the structure of that study. Meanwhile, Smart PLS was used for validation of the Measurement Model (MM) and Structural Model (SM). The above results show high reliabilities of structural model hence the study before testing it already assured that construct validity and discriminant validity was not an issue. Sample size was 221 and its demographic distribution is as follows gender, age, education qualifications, years of experience and job title. Gender Distribution: The data reveal a dominance of males with 80.1% of the sample as compared to females at 19.9%. The huge male-female imbalance may indicate that the area of Islamic banking for Dubai jobs in UAE is more inclined toward men and therefore, it can reflect differently on other opinions regarding finance and management.

The largest age group was 41–50-year-olds accounting for a total of 42.5% of the sample Next was the 31–40 age group (24.9%) then the 20–30 age group (21.3%). Patients younger than 20 years (1.4%) and older than 50 years represented the smallest age groups. Sample dominance of middle-age could then suggest the age at which your sample segment is fully in his professional career, and in an era of high expertise and decision-making steadiness. Bachelor's degree was the most common response (77.8%) and suggested a high level of academic qualifications among respondents in the sample. Next were respondents with master's degrees (11.3%) and smaller numbers of those who had secondary education (3.6%), diplomas (3.2%), and PhDs (2.3%). The fact that a majority of the respondents have bachelor degree suggests they are equipped with good general professional knowledge and hence can be in a better position to evaluate and implement Shariah finance principle identity. Over 46.6% had more than 10 years' experience while, 41.6% professionals with experience in between 6-10 Years The relatively high level of professional exposure suggests the sample is mature and sensitive to the subtleties ignored in the conventional literature regarding Islamic finance and economic growth. Accounts was the most frequent job (65.6% of the sample), followed by administrative staff (12.2%) and general managers (8.1%). Moreover, it is likely that the financial focus of accounting within Islamic banking perhaps also reflects the higher representation of accounting roles among sample venues.

Convergent Validity is considered satisfactory when the Average Variance Extracted (AVE) equals to or exceeds 0.50 This must be confirmed as valid but only after which other criteria must be established to ensure that these measurements are meaningful. The first criterion stipulates that factor loadings larger than |0.70| indicate indicators are strongly related to the latent variables for which they measure. The internal consistency must be verified by checking Cronbach's Alpha, and the value of this and composite reliability should be greater than 0.70. Lastly, the AVE should be above 0.50 indicating a very good amount of variance in the indicators to be explained by their target latent variables (Carmines and Zeller, 1979). If they are, then the model is said to enjoy convergent validity, suggesting that the measurements that are adopted in the study accurately measure what needs to be measured. However, Table (1) presents critical statistical measures related to the reliability and validity of the constructs used in the study

Table 1: Item Saturation, Composite Reliability, Cronbach's Alpha, and Convergent Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Application of financing contracts	0.914	0.926	0.933	0.700
Cash flow	0.906	0.924	0.925	0.672
Islamic finance formulas	0.794	0.799	0.866	0.619
Sustainable Economic Development	0.840	0.874	0.903	0.758

Based on Table (1) above, Cronbach Alpha with a value of over 0.70 generally indicates Internal consistency is reliable. In particular, all constructs show high internal consistency with Application of Financing Contracts having the highest coefficient value at 0.914 and Cash Flow coming next at 0.906, followed by Sustainable Economic Development with the least coefficient value of 0.840; Even the category with the lowest value, Islamic Finance Formulas, contains an acceptable level of reliability; Cronbach's Alpha = 0.794 This indicates that the items of each construct are well-positioned to determine measurements on same latent variables. Though we believe the high Cronbach's Alpha value is certainly something of desirability that correlates representativeness, literature provides reason to be wary about ultra-high values as this could suggest some item redundancy; items are becoming too similar to one another and thus not truly reflecting the construct. This also means that all constructs get beyond the 0.70 threshold and should be a stable model Financing Contracts exhibit the highest rho_c at 0.933, then It is followed closely by Cash Flow (0.925) and Sustainable Economic Development (0.903). Similarly, the Islamic Finance Formulas construct has a rho_c value of 0.866 which suggests less reliability compared to clear consciousness bombing scheme structure. AVE indicates the proportion of variance in the indicators that is explained by the latent constructs, and it should exceed 0.50 to demonstrate good convergent validity. This provides strong support for the convergent validity of all constructs in Table (1) as all exceed this minimum. Sustainable Economic Development shows the highest AVE, 0.758 which means a substantial variance explained by the construct. In addition, the Application of Financing Contracts (0.700) and Cash Flow (0.672) presented higher AVE values as well, indicating that latent variables explain for most of the variance present in the respective indicators. With an AVE of 0.619, Islamic Finance Formulas also fit the proposed criteria; though visibly less than the remaining constructs, it had convergent validity. However, Figure (2) below shows the final measurement model, which reflects that all required validity criteria have been met, including discriminant validity, which ensures that the latent variables in the model actually measure what they are supposed to measure without interference or confounding from other variables.

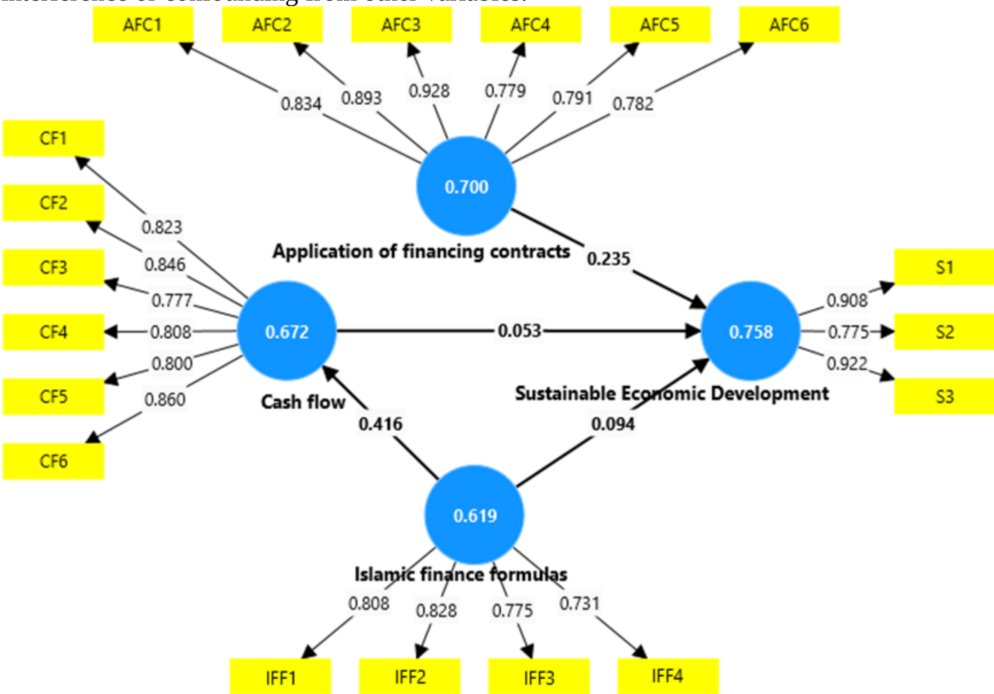

Figure 2. Measurement Model

6.1 Hypothesis Testing

This paper included four hypotheses, including direct and indirect (mediating) hypotheses, which represent the basis for analyzing the relationships between the studied variables. The hypothesis is considered to be supported if the P value is less than 0.05, indicating that the relationship between the studied variables is statistically significant. According to Hair et al. (2017), to obtain reliable results in hypothesis testing, it is necessary to use the bootstrapping technique with at least 5000 bootstrapping. This method enhances the accuracy of statistical estimates and reduces the possibility of relying on random or misleading results. Based on this suggestion, all hypotheses in this study were tested using 5000 bootstrapping, to ensure that the results derived reflect the true relationship between the variables.

The final important stage in structural model analysis and evaluation involves testing the research hypotheses by evaluating the path coefficient. To achieve this, the hypothesized relationships are analyzed by running a process that resamples the original data set to create multiple simulated samples. This process allows the researcher to calculate standard errors, create confidence intervals, and conduct hypothesis testing in a rigorous manner. Since PLS-SEM (Partial Least Squares Structural Equation Modeling) does not require a normal distribution of the data, the use of bootstrapping provides a way to estimate the normality of the data. In this process, random replicate samples are created with alternatives from the original sample, allowing many properties of the data to be preserved during the analysis. The goal of this procedure is to ensure that the data distribution reasonably represents the specific distribution on which the analysis is based.

Bootstrapping was used based on the assumption that the data distribution reflects a logical distribution of the phenomenon being studied. Through this procedure, estimates of the spread, shape, and bias of the sample distribution can be obtained, which is essential for a reliable statistical test (Henseler et al., 2017). In addition, the results in PLS-SEM display the standard errors and t-values for all path coefficients in the model, which enables the significance of relationships to be measured and the research hypotheses to be tested statistically. Bootstrapping was used as part of this analysis, and Figure (3) illustrates a visualization of the study's hypotheses testing.

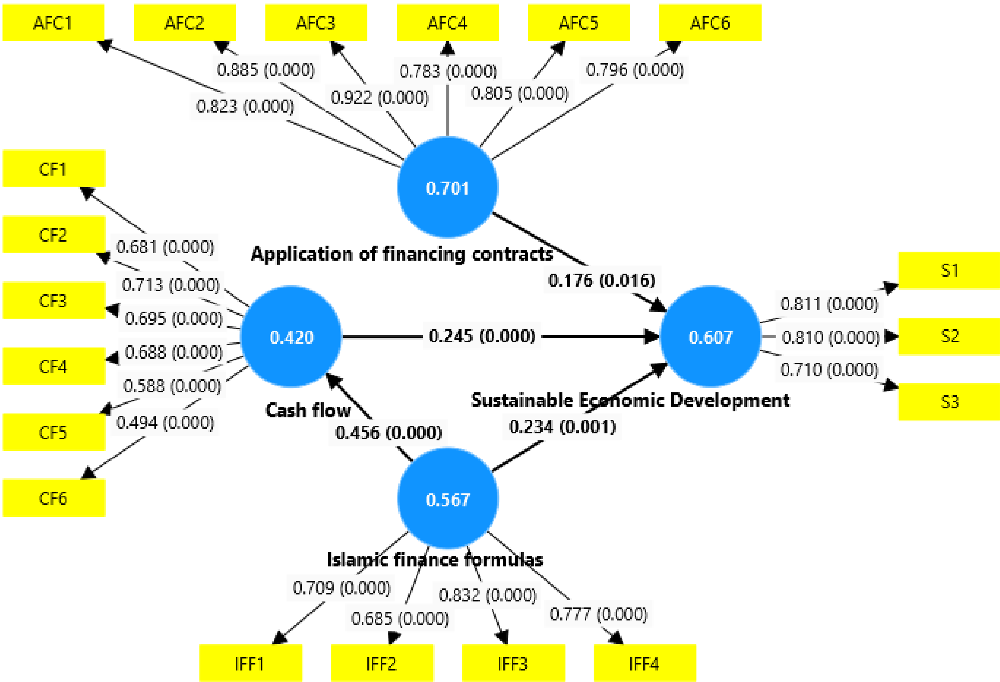

Figure 3. Hypothesis Testing

The table (2) below provides the results of the hypothesis testing, which examines the direct effects of various constructs on sustainable economic development and cash flow. The analysis was conducted using Smart PLS software, with a focus on both direct and indirect relationships. The key constructs under investigation include the application of financing contracts, cash flow, and Islamic finance formulas. These hypotheses were tested to explore their respective contributions to sustainable economic development within the context of Islamic banking practices.

Table 2: The results of the hypothesis testing

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Application of financing contracts -> Sustainable Economic Development	0.176	0.177	0.073	2.410	0.016
Cash flow -> Sustainable Economic Development	0.245	0.251	0.068	3.575	0.000
Islamic finance formulas -> Cash flow	0.456	0.466	0.054	8.472	0.000

The results in the table show that each of the tested hypotheses demonstrates statistically significant relationships. For instance, the application of financing contracts shows a positive and significant impact on sustainable economic development, with a T-value of 2.410 and a p-value of 0.016, indicating moderate support for the hypothesis. Similarly, cash flow's effect on sustainable economic development is both positive and stronger, as evidenced by a higher T-value of 3.575 and a p-value of 0.000, demonstrating a strong relationship. Islamic finance formulas also exhibit a highly significant positive effect on cash flow, with a T-value of 8.472 and a p-value of 0.000, reinforcing the pivotal role that these financial instruments play in enhancing cash liquidity. The results indicate that cash flow acts as a critical mediator in linking Islamic finance formulas and sustainable development, supporting the notion that liquidity is essential for the successful implementation of sustainable economic strategies. However, while the relationship between the application of financing contracts and sustainable economic development is positive, it appears to be weaker than that between cash flow and sustainable development, suggesting that cash flow may play a more crucial role in fostering sustainability in Islamic finance. Moreover. Table (3) below extends the analysis by examining both the direct and indirect effects of Islamic finance formulas on cash flow and sustainable economic development. It also tests the mediating role of cash flow in these relationships.

Table 3: Direct and indirect effects hypothesis testing

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Application of financing contracts -> Sustainable Economic Development	0.176	0.177	0.073	2.410	0.016
Cash flow -> Sustainable Economic Development	0.245	0.251	0.068	3.575	0.000
Islamic finance formulas -> Cash flow	0.456	0.466	0.054	8.472	0.000
Islamic finance formulas -> Sustainable Economic Development	0.346	0.351	0.069	4.984	0.000

The findings in this table provide a deeper understanding of the direct and indirect effects that Islamic finance formulas have on sustainable economic development. Notably, Islamic finance formulas exhibit a significant direct impact on sustainable development, with a T-value of 4.984 and a p-value of 0.000, underscoring the direct contribution of Sharia-compliant financing mechanisms to economic sustainability. The impact of Islamic finance formulas on cash flow is also confirmed to be highly significant (T = 8.472, p = 0.000), reinforcing the earlier findings that these financial instruments are instrumental in enhancing liquidity. More critically, the indirect effect of Islamic finance formulas on sustainable development through cash flow further highlights the mediating role that liquidity plays. The p-value of 0.000 confirms that cash flow is an essential intermediary in translating Islamic finance practices into sustainable economic outcomes. This emphasizes the need for Islamic banks to focus not only on the application of Islamic finance contracts but also on enhancing cash flow to achieve long-term economic sustainability. In addition, Table (4) explores the mediating role of cash flow in the relationship between Islamic finance formulas and sustainable economic development. It aims to determine whether cash flow enhances the effect of Islamic finance contracts on sustainability.

Table 4: Mediating testing

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Islamic finance formulas -> Sustainable Economic Development	0.112	0.116	0.031	3.579	0.000
Islamic finance formulas -> Sustainable Economic Development	0.234	0.235	0.073	3.218	0.001
Islamic finance formulas -> Cash flow -> Sustainable Economic Development	0.112	0.116	0.031	3.579	0.000

Table (4) above provides further evidence supporting the mediating role of cash flow between Islamic finance formulas and sustainable economic development. The direct effect of Islamic finance formulas on sustainable economic development, shown by a T-value of 3.579 and a p-value of 0.000, suggests a significant positive relationship. However, the inclusion of cash flow as a mediator significantly strengthens the relationship, as indicated by the increased T-value of 3.218 and p-value of 0.001 in the indirect path. This suggests that cash flow acts as a crucial channel through which the benefits of Islamic finance formulas are realized in the context of sustainability. The findings emphasize the need for Islamic banks to manage liquidity effectively, as it not only supports the implementation of Islamic finance contracts but also enhances the broader objective of achieving sustainable economic development. The strong mediating role of cash flow also highlights the importance of robust financial infrastructure in ensuring that Islamic finance practices contribute meaningfully to economic sustainability. The findings from the hypothesis testing provide crucial insights into the relationships between the application of Islamic finance contracts, cash flow, and sustainable economic development in the UAE. These results are critically discussed in the context of existing literature, shedding light on the implications and significance of each hypothesis. The first hypothesis (H1), which proposed that the application of Islamic financing contracts has a positive and significant impact on sustainable economic development, is supported by the data. With a T-value of 2.410 and a p-value of 0.016, the relationship is statistically significant, though not as strong as other relationships in the model. This is consistent with previous studies like Abu Ali (2022), which demonstrated that Islamic financial contracts such as *murabaha* and *mudarabah* can play a role in reducing economic stagnation and promoting infrastructure projects. However, the moderate strength of the relationship suggests that financing contracts alone are not sufficient drivers of sustainability without effective liquidity management. This finding aligns with Zaid (2021), who emphasized that resource mobilization is essential for the success of Islamic financial contracts in fostering economic growth. The second hypothesis (H2), which tested the role of cash flow in contributing to sustainable economic development, is strongly supported by the results. The analysis reveals a highly significant relationship, with a T-value of 3.575 and a p-value of 0.000, confirming that cash flow plays a critical role in enabling long-term investments in sustainable projects. This finding echoes the conclusions of Faritas (2018), who pointed out the importance of liquidity in funding large-scale initiatives that drive sustainable economic growth. Without sufficient cash flow, Islamic financial institutions may struggle to maintain their commitment to sustainability, further underscoring the essential role of liquidity management in the process. The third hypothesis (H3) explored the effect of Islamic finance formulas on cash flow. This relationship is confirmed with a robust T-value of 8.472 and a p-value of 0.000, indicating that the use of Islamic finance contracts such as *Ijarah*, *Mudarabah*, and *Murabaha* significantly enhances cash flow. These contracts are designed to improve liquidity through asset-based financing rather than speculative activities, which strengthens the financial stability of Islamic banks. This result is supported by Makorobin and Alafianta (2023), who found that Islamic financial contracts, by encouraging real transactions, improve repayment reliability and cash flow management. The final hypothesis (H4) focused on the mediating role of cash flow in the relationship between Islamic finance formulas and sustainable economic development. The mediation analysis confirms this hypothesis, with cash flow acting as a significant intermediary ($T = 3.579$, $p = 0.000$). This suggests that while Islamic finance contracts have a direct positive effect on sustainability, their full potential is realized when supported by strong liquidity. This finding aligns with studies such as Zaid (2021) and Abu Ali (2022), which found that liquidity enables Islamic banks to sustain investments in projects that contribute to long-term economic and environmental goals.

7. Implication

The implications of these results are therefore quite important from the perspective of policymakers and financial institutions in the United Arab Emirates (UAE) particularly with respect to Islamic finance and sustainable development in an investment environment. Initial, the results spotlight the significance of enhancing the utility of an Islamic finance contracts including Murabaha, Mudarabah and Ijarah to assistance sustainability. These contracts adhere to the Sharia principles, but it is hoped that with good liquidity management they serve as a sound mechanism for driving economic development. UAE lawmakers ought to develop legislation that incentivizes these contracts, namely in the area of infrastructural projects, green technology and social enterprise which can deliver strong economic and environmental returns. Lastly, the study has important contribution to the Islamic financial institutions as it emphasizes that all-in-all cash flow management should be considered by them on top in their operations. It is critical for a bank to have cash flow not only for everyday operations but also in order for it to be able to invest in projects which are sustainable and offers returns on both financially and social levels. Institutions need to implement strategies and toolings for maximizing liquidity, in compliance with the model of Islamic finance. Our financial products perhaps, or our risk management practices, or even a more concerted effort to connect with sustainable development goals (SDGs). The results also suggest that the link between Islamic finance contracts and sustainable development is not direct, but mediated by cash flow; it stresses the necessity of comprehensive policies that jointly address financial performance, liquidity, and sustainable economic growth. Financial institutions need to work with regulators and other stakeholders to ensure that liquidity constraints do not inhibit their participation in sustainable development efforts. Once these implications are resolved, both the private and public sectors stand to benefit from enhancing the contribution of Islamic finance towards achieving a more sustainable and resilient economy - an integral part in the UAE vision.

8. Conclusion

The implications of these results are therefore quite important from the perspective of policymakers and financial institutions in the United Arab Emirates (UAE) particularly with respect to Islamic finance and sustainable development in an investment environment. Initial, the results spotlight the significance of enhancing the utility of an Islamic finance contracts including Murabaha, Mudarabah and Ijarah to assistance sustainability. These contracts adhere to the Sharia principles, but it is hoped that with good liquidity management they serve as a sound mechanism for driving economic development. UAE lawmakers ought to develop legislation that incentivizes these contracts, namely in the area of infrastructural projects, green technology and social enterprise which can deliver strong economic and environmental returns. The study has important contribution to the Islamic financial institutions as it emphasizes that all-in-all cash flow management should be considered by them on top in their operations. It is critical for a bank to have cash flow not only for everyday operations but also in order for it to be able to invest in projects which are sustainable and offers returns on both financially and social levels. Institutions need to implement strategies for maximizing liquidity, in compliance with the model of Islamic finance. Our financial products perhaps, or our risk management practices, or even a more concerted effort to connect with sustainable development goals. The results also suggest that the link between Islamic finance contracts and sustainable development is not direct, but mediated by cash flow; it stresses the necessity of comprehensive policies that jointly address financial performance, liquidity, and sustainable economic growth. Financial institutions need to work with regulators and other stakeholders to ensure that liquidity constraints do not inhibit their participation in sustainable development efforts. Once these implications are resolved, both the private and public sectors stand to benefit from enhancing the contribution of Islamic finance towards achieving a more sustainable and resilient economy, an integral part in the UAE vision. Thus, these results have several significant implications for both Islamic financial institutions and regulatory policymakers. As far as banks are concerned, the focus needs to be on better liquidity management which will ensure that Islamic finance contracts do actually deliver optimal impact on sustainable development goals. The results suggest that for Real Economy-driven government policy possessors; it should not only support liquidity needs of Islamic Banks but also it will help them to acquire better stickiness in real economy driven sectors. By linking their respective results, these insights offer a more coherent picture of how Islamic finance can be engaged to play a role for sustainable economic development in the UAE.

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