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Shariah-Compliant Financing for Higher Education: Assessing the Potential of Hybrid Sukuk in Public Universities of Pakistan

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ABSTRACT

This study investigates the potential of hybrid Sukuk model particularly Musharakah and Ijarah as innovative, Shariah-compliant solution for addressing infrastructure financing gaps in public sector universities of Khyber Pakhtunkhwa, Pakistan. Conventional funding channels, such as government grants and bank loans, have proven inadequate in meeting the growing infrastructural demands of higher education institutions. Against this backdrop, hybrid Sukuk present a viable alternative that combines financial innovation with ethical and religious legitimacy. The objectives of the study are twofold: first, to examine the prospects of hybrid Sukuk in bridging infrastructure funding gaps in public universities; and second, to analyze the challenges that hinder their adoption and implementation. To achieve these objectives, the study employs a qualitative methodology based on semi-structured interviews. Using purposive sampling, fifteen participants were selected, including Islamic banking experts, university professors specializing in Islamic finance, and administrators such as deputy auditors and assistant treasurers. These participants provided in-depth insights into the opportunities and risks of Sukuk adoption. Special attention was given to the hybrid Sukuk, reflecting its potential for financing projects like hostels, academic blocks, and research facilities. The findings reveal cautious receptiveness among universities, with recognition of Sukuk's Shariah compliance and community legitimacy. However, challenges include limited institutional expertise, weak legal frameworks, misconceptions regarding Islamic finance practices, and concerns over repayment obligations. Government support, credible Shariah governance, pilot projects, and stakeholder training emerge as critical enablers of successful implementation. The study concludes that while challenges remain significant, hybrid Sukuk models represent a transformative opportunity for universities to diversify their funding sources. If supported by regulatory frameworks, institutional capacity-building, and community engagement, Sukuk financing

can strengthen the financial sustainability of public universities while promoting ethical and socially responsible development.

Keywords: *Sukuk, Hybrid Sukuk, Musharakah, Ijarah, Public sector universities, KP, Islamic Banks*

Introduction

Islamic finance, in AAOIFI (2008), is represented by sukuk which "are certificates representing undivided ownership shares in tangible assets or projects." Sukuk are not only more attractive to Muslim consumers, they are also entirely consistent with Islamic financial practices. There are many different kinds, such as murabahah, mudarabah and musharakah. According to Obaidullah (2007) and McMillen (2007), these "Islamic bonds" and various investment certificates operate as securitized leases that use the conventional financial terms of Shariah law; that is, they work under contracts drawn up by law. There is evidence that sukuk accounted for more than a quarter of all global sukuk (Zulkhibri 2015).

Crimes involving high risk, such as bad faith, or speculation in commodity prices, including gambling are not permitted by Islamic finance Principles. Amongst Islamic banking and Islamic equity, sukuk assume special significance within this system. Their spread has been spectacular: in 2005, Pakistan was able to pull off a coup by selling \$600 million-worth of sukuk with the full backing from its government later 3 years later. By June 2022, there were ijarah sukuk worth approximately Rs. 3.25 trillion in outstanding According to the State Bank. Many banks are primary dealers in this market, such as Al Baraka Bank, Meezan Bank, Bank Islami Pakistan. A few are Askari Bank and Bank Al Habib. The dynamics of the Islamic financial sector have been altered by recent advances, particularly in sukuk or Islamic securities (Aysan & Unal, 2024). In recent years, sukuk has gained popularity as a vehicle for governments to raise money via sovereign issues and for businesses to raise funds by issuing corporate sukuk.

The contemporary Western term "cheque" seems to have been derived from the Arabic word Sakk, while the word "check" in the United States is linked to the British spelling of the word "cheque," according to Abidin (2022). Any document that serves as a contract for transferring rights and duties or income received in conformity with Shari'ah, or Islamic law, is referred to as Sukuk. According to empirical data, the plural form of Sakk, Sukuk (Islamic bonds), was widely employed in mediaeval Islam to transmit financial commitments and duties resulting from commerce and other commercial endeavours. The idea of securitising "asset monetisation," accomplished via the issuance of Sukuk "taskeek," is the foundation of Sukuk from a contemporary Islamic standpoint. Its enormous potential resides in transforming asset future cash flow inside current cash flows. In addition to particular assets that may become accessible, Sukuk may be issued on current assets (Radzi, 2018).

Sukuk are described as "certificates of equal worth and corresponding to complete advantageous ownership interests in that underlie physical assets, or in apparent assets, benefits or solutions, or particular tasks or business businesses" by the Auditing and Accountancy Organisation for Islamic Financial Institutions (AAOIFI). In contrast to

traditional bonds, which are debt instruments, this definition describes the structure and essential feature of sukuk as being asset-based. As mentioned before, the Arabic term Sukuk, which means "certificate" or "order of payment," is the plural of the word Sakk (Ahmed et al., 2019). According to documentary evidence, the term Sakk was used by the early Islamic caliphates. Sukuk represented financial commitments from trade and other commercial operations in Muslim communities throughout the premodern era. Written instruments of credit were included in the earliest theoretical legal writings. Genizah records often include these types of writing instruments. Because the word "God" was written in either Arabic or Hebrew, the merchants hesitated to burn the papers, known as genizah documents, which were kept in the mosques and mosques of the Middle East.

The existence of Sakk in the 12th century CE is shown by pieces found in the Cairo Genizah records, and the money orders' forms are strikingly similar to those of checks today (Khoshroo, 2018). They included the issuer's name, the order number, the date, and the amount to be paid. A Sakk was a written promise to pay for goods when they were delivered during the Middle Ages. This was done to prevent having to carry money across hazardous terrain. Consequently, these Sukuk were sent to other nations and dispersed globally. The idea and name Sakk were brought to Europe by Jewish traders from the Muslim world (Khoshroo, 2018). The fact that the exchange and transportation of these Sukuk served as a basis for the contemporary cheque is an intriguing byproduct. Sukuk may be issued in a Shariah-compliant way and come in various maturities, including Ijara, Mudarabah, Musbarakah, and Sukuk-al-Salam. These days, issuing sukuk is a common way to raise money and secure long-term financing. The idea of Ijara serves as the foundation for the majority of Sukuk. However, there is still a lot of unrealised potential in using various Islamic methods to issue sukuk. It will make it possible to assess whether ijarah sukuk is compatible with leasing agreements, in which investors acquire an asset and then pay rent to use it (Sa'ad, 2019). This financing is often employed for infrastructure because the money from leased property is used to pay investors. In contrast, Murabaha sukuk are cost-plus-profit agreements in which the issuer buys an asset and then sells it to investors at a fixed profit margin that may be recouped in instalments.

In contrast, musharakah sukuk are equity-based financial instruments where investors contribute money to finance a joint venture or partnership to carry out an underlying activity and divide the rewards and risk according to ownership rights. Because of this structure, direct involvement in the funded project or company is possible, and as a result, it is effective for large capital investments. Like musharakah, murabah sukuk vary in that only one partner provides financial contributions, while the other provides management or expertise. It is the least dangerous investment since the capital owner bears all losses and the profits are divided according to the ratio described.

Under certain financial conditions, a different kind of Sukuk is a mixture of the abovementioned forms. These hybrid sukuk, which combine the goals of debt and equity

instruments, are meant to provide more varied and customised solutions than traditional sukuk. To provide a rental income stream and a profit share, mixture finance often combines elements of Ijarah and Musharakah or Murabaha structures. The best way to characterise Sukuk is as an adaptable, Shariah-compliant financing tool for ethical, asset-based investing (Ahmed et al., 2022). Infrastructure & trade, energy & power, corporate, aviation, education, and renewable energy are just a few of the several kinds of sukuk available to meet different financing needs. As a result, sukuk plays a crucial role in bridging the gap between Islamic law and the establishment of sustainable ventures as Islamic finance grows. Other concerns, including market awareness and regulatory standardisation may also be addressed to expand their usage and advantages globally.

Public sector universities in developing countries, especially Pakistan, have long been worried about financing infrastructure projects, as demonstrated by Hussain et al. (2018). These consist of financial constraints, dependence on conventional revenue sources, and the growing requirement to put up with increasingly advanced institutional amenities. As a result, traditional funding sources like government grants and subsidies frequently fall short of meeting the evolving needs of these organisations. If a university is unable to maintain, let alone grow, this kind of infrastructure, the quality of research and instruction will suffer. PPP is one of the many financing options that have been put forth, per a recent study. However, a lot of them are challenging to implement because of regulatory and technical issues (Sinha & Jha, 2021).

Several Islamic financing structures, such as Musharakah, Mudarabah, Musawamah, Salam, Istisna, Ijarah, Muzaraah, Musaqah, and Mugharasa, are recognised by AAOIFI. These structures correspond to different types of sukuk, each of which fulfils specific functions while abiding by Shariah laws. A musharakah is a partnership in which two or more people invest money, share profits in a predetermined ratio, and bear losses in proportion to their initial investment. It encourages collaborative business endeavours and risk-sharing. In contrast, Ijarah, also referred to as leasing, is when a lessor grants a lessee the use of an asset for a predetermined amount of time in exchange for rental payments. During the lease, the lessee has usage rights, but the lessor retains ownership of the asset. Ijarah contracts provide interest-free financing for a range of assets, including real estate, automobiles, and equipment.

Multiple Shariah contracts or a combination of tangible and intangible assets is combined in hybrid sukuk (Rahim, 2018). These kinds of arrangements increase adaptability, especially in situations where appropriate resources are scarce or nonexistent (Itam et al., 2022). Murabahah–Ijarah and Musharakah–Ijarah combinations are common hybrid structures, according to the International Islamic Financial Market (2021). According to ISRA (2017), this flexibility enables issuers to use blended structures to satisfy financing needs. Decrease in musharakah with ijarah (IDM), a related model, combines aspects of leasing and partnership. It is defined by Bendjilali and Khan (1995) as a situation in which a client and an Islamic bank jointly own an asset and receive rental income, with the client progressively purchasing

the bank's share to eventually acquire complete ownership. Given the significance of Sukuk issuing and selling as vehicles for investment and the diverse needs of shareholders (Ahmed et al., 2018), a more varied Sukuk also known as hybridisation or mixed property Sukuk emerged in the marketplace. The fundamental resources in a hybrid Sukuk may include Ijara, Istisna, and Murabaha liabilities. More money may be mobilised when a stock portfolio comprises assets from multiple categories. Nevertheless, a hybrid Sukuk must have at least 51% of its pool made up of Sukuk that can be sold on the exchange, such as an Ijara Sukuk, since Murabaha and Istisna obligations are not convertible on secondary exchanges as securitised securities. The earnings on such certificates are restricted to a pre-established fixed return percentage since the Murabaha and Istisna debtors are included in the pool. Although the hybrid Sukuk has not yet gained traction in the stock market, its structure offers investors the possibility of novel arrangements and advantages (Labadi, 2024).

Islamic Infrastructure Bank issued the first hybrid Sukuk of resources, consisting of 3.4% Sukuk al-Istisna, 30.73% Murabaha owing, and 65.8% Sukuk al-Ijara. For this issue to get a grade and worldwide accessibility, the IDB's assurance was necessary. Support Trust Services Limited (STSL), a dedicated meaning business established in the Jersey Channel Island, released the \$400 million Islamic Sukuk. By buying the real estate from IDB and then transferring it to The Solidarity Trust Services Limited (STSL) at the aggregated net worth, the Islamic Organisation for the Promotion of the Private Market (ICD) acted as a middleman (ABDULLAEVA, 2022). Istisna, murabaha, and Ijarah may all be included in a hybrid Sukuk's underpinning pool of resources. Increased fund mobilisation and broader diversity of risk are made possible by having an assortment of commodities that span many classes (Al-Ali, 2019). Although Istisna and Murabaha agreements are not securitised securities that can be exchanged on secondary marketplaces, a minimum of 51% of the total value in a hybrid Sukuk is made up of Sukuk that are operable on the market, such as Ijarah Sukuk.

In the hybrid sukuk that will be addressed later, Murabaha sukuk may be marketable if they are the most significant component of a portfolio of securities comprising Ijarah, Musharakah, and Mudarabah. Their usage is discouraged in South Asia, particularly in Pakistan, to protect against Bai-al-Dayn (the sale of borrowing for interest). A brief look at Islamic finance identifies Musharakah and Ijarah as two essential models combined in the hybrid sukuk structures (Lahsasna et al., 2018). Musharakah sukuk is developed in partnership with investors, where they contribute their money towards a specific project in proportionate shares to make a business venture and take equal risk of profit & loss. This model is especially appropriate for using equity investments for financing needs for flexibility and shared risk, which are financially sued by Shariah law. Then there is the Ijarah sukuk, which functions on a based mechanism in which the issuer hires an asset to investors in exchange for rentals. These two types are sometimes used in parallel in the hybrid structure of the Sukuk to take advantage of the two structures for issues of large structures such as infrastructure (Lahsasna et al., 2018).

The Musharakah model has better characteristics, especially in hybrid sukuk, where investors are allowed to be involved in the project's running. Such structure of the financial instrument is equity-based, preventing the implementation of predetermined interest-based returns and making it Sharia-compliant. In his effort, Kibria (2024) identified that the Musharakah component of the hybrid sukuk provides proportional risk and reward sharing suitable for income-fluctuating projects. For instance, for public sector Universities, the Musharakah sukuk may result from a collaboration between the University, financial organizations or banks and private funds to undertake infrastructural projects where the share of profits will be earned from operational revenues, including tuition fees or rental income from University's properties. However, the Ijarah model presents a fixed income component in hybrid sukuk, making the Ijarah model especially appealing to less greedy risk-takers. As a mode of Islamic sukuk that pledges the lease of tangible assets, including buildings and equipment, to the Sukuk holders, Ijarah provides the investors with a consistent cash flow. This form of leasing for a fixed term is more suitable for funding infrastructural projects since it brings in a steady income to the holders. At the same time, the issuer keeps full ownership of the asset Freire & Kopanyi (2018). According to Uddin (2023), the Ijarah segment in a hybrid sukuk is typically applied to manage the first venture stage in which consistent cash inflows are essential to maintaining investor confidence.

In general, applying Musharakah and Ijarah in hybrid sukuk prepares the best risk and, at the same time, return profile for consumers. The Musharakah aspect provides for debits in which the income can be shared because some projects give variable incomes, while the Ijarah part keeps the risks minimal since it is based on lease income. Large-scale gestation sukuk structures are most suited to hybrid structures since various sources of revenue are expected from them. In the case of public sector universities, similar structures could pay for both physical capital and those that can produce recurrent income such as research centres and hostels (Uddin, 2023).

The use of Musharakah and Ijarah in hybrid sukuk also has an opportunity to solve some of the problems of Islamic finance. Thus, while purely Musharakah-based sukuk might not attract risk-averse investors because the returns are not assured, purely Ijarah-based sukuk may not fully realise the potential of projects with uncertain income. According to the author, 'sukuk' helps fill this gap with 'Hybrid Sukuk', which provides a diversified investment pattern, as shown by a higher number of investors. Labadi (2024) mentioned that hybrid sukuk has been effectively applied in different fields, such as infrastructure, energy transport, etc. Despite the benefits that accrue through implementing the above models of hybrid sukuk with Musharakah and Ijarah components, its effectiveness in developing countries like Pakistan is a challenge. One issue related to such instruments is that there are limited rules that can effectively prescribe the conditions of such financial derivative products. In addition, the lack of specialization among the financial institutions and project managers in structuring hybrid sukuk results in organization costs and inefficiencies. To address these obstacles

accompanied by the present and future conditions, Uddin & Mohiuddin (2020) argue that Islamic finance professionals, regulators, and institutional players should cooperate.

It has been acknowledged that sukuk can fill large funding gaps in the educational sector. While Khalaf (2017) emphasises that educational institutions can diversify their financing sources by gaining access to investors ranging from Islamic financial institutions to individuals, El-Hawary et al. (2007) contend that sukuk can mobilise funds for educational infrastructure. This lessens dependency on conventional funding sources while permitting the construction and expansion of facilities. However, the lack of internal funding still causes problems for universities (Aiyamenkhue, 2011; Orji Job, 2013; Adewale & Zubaedy, 2019; Shah et al., 2022). Tuition fees, grants, and internal recoveries are still insufficient sources of income (Adewale & Zubaedy, 2019). Financial strain is made worse by rising operating costs and unstable global economies. The situation is made worse in Pakistan by the Higher Education Commission's (HEC) budgetary restrictions on universities (The Express Tribune, 2023). Due to financial crises, HEC has reduced project funding even though the demand for academic services is rising (Academia Magazine, 2023). Therefore, to maintain long-term viability, higher learning institutions (HLIs) need to pursue sustainable financing strategies (Ali et al., 2019). The literature on the use of sukuk, especially Ijarah-based diminishing musharakah, to finance higher education infrastructure in Pakistan is severely lacking. Research on the use of sukuk issuance in education is still scarce, despite the fact that it has drawn a lot of attention in other fields.

Furthermore, not enough research has been done on the risks and difficulties of using sukuk for university infrastructure projects. It is also necessary to investigate the possible drop in the use of Musharakah sukuk in public universities. By reviewing theoretical and empirical literature pertinent to public universities in Khyber Pakhtunkhwa, this study aims to fill these gaps. Sukuk draw a variety of investors, which helps mobilize resources (El-Hawary et al., 2007). Education financing needs can be met by a variety of sukuk structures, such as Istisna, Ijarah, Musharakah, and Mudarabah. For example, Dukuk Muhammad (2023) observed that Ijarah sukuk mitigated infrastructure deficiencies in Osun state, while Dukuk (2023) discovered that Murabahah sukuk enhanced liquidity for Nigerian universities. Similarly, Malaysian institutions benefited from Cash-Waqf sukuk for social projects and Wakalah-based sukuk for income generation, according to Ali et al. (2019).

According to Syamsuri et al. (2023), Sukuk Waqf is becoming more and more popular in nations like Egypt, Malaysia, Turkey, and Pakistan, highlighting its applicability for funding education. But dangers still exist. While Alswaidan, Daynes, and Pasgas (2017) contrasted the risks of sukuk with those of conventional bonds, Harahap (2015) emphasised the difficulties in gaining acceptance in Indonesia. Aslam, Azam, and Iqbal (2020) investigated the volatility risks in Pakistani sukuk markets. Further development requires a vibrant secondary market (Ghafore, Saba, & Kauser, 2018). welfare goals. Furthermore, Dewi et al. (2018) contend that in order for sukuk to be sustainable, it must be in line with

Ali et al. (2019) investigated how Malaysian HLIs adopted socially responsible investment (SRI) sukuk, such as Wakalah and Waqf, in response to declining funds and growing expenses. Through consortium-based sukuk issuance with government guarantees, they advise cost optimisation. Due to a lack of internal resources and decreased public funding, HLIs are increasingly looking to the capital markets, where Islamic finance provides more flexible loan structures, longer tenures, and lower costs than traditional loans. Their appeal to investors is further increased by their solid reputations and transparent governance.

In conclusion, the literature review indicates that although sukuk have been used in education, there is still little evidence of their application in funding public university infrastructure. The potential of Ijarah-based diminishing musharakah sukuk as a substitute funding source for development initiatives in Pakistani government universities is thus investigated in this study.

Objectives of the Study

- To examine the prospects of hybrid sukuk for addressing infrastructure funding gaps in KP public sector universities.
- To analyze the challenges affecting the adoption of hybrid sukuk for infrastructure development in KP public sector universities

Research Methodology

Semi-structured interviews are used in this study's qualitative methodology to gather detailed information that supports the goals of the investigation. Participants were chosen through purposive sampling from among Islamic banking experts, Islamic finance-focused university professors, and administrators like deputy auditors and assistant treasurers. Fifteen interviews were done throughout Khyber Pakhtunkhwa. Participants with backgrounds in Islamic finance and sukuk discussed the prospects and challenges of using Ijarah-based diminishing musharakah sukuk to fund educational projects.

Findings and Discussion

Theme 1: Institutional Readiness and Capacity Building for Sukuk Adoption at Abdul Wali Khan University (AWKU)

This is a significant shift from evidence of institutional financing behaviour towards Shariah compliant and public sector institutions which include Abdul Wali Khan University (AWKU). The most promising yet the most complex one to take up is the use of hybrid models of Sukuk like Musharakah and Ijarah (Ahmed et al., 2022). The focus of this theme includes the multidimensional readiness needed by government universities to go through this transformation, the challenges they face with it, and the required structural and regulatory scaffolding to make it happen. Financial mechanisms are, by and large, a relatively

unexplored enterprise of venturing, and institutional hesitation is to be expected when exploring the frontier of any given institutional culture, especially as public universities tend to be anything but liberal. The initial reluctance at AWKU is a face of a general uncertainty throughout the academic field that accompanies any financial innovation (Alam et al., 2022).

"Government universities like Abdul Wali Khan University (AWKU) might be initially hesitant to explore hybrid Sukuk models such as Musharakah and Ijarah due to their inexperience with Sukuk issuance."

First, it reflects a lack of familiarity but also an absence of a precedent in the context of analogical institutional frameworks. As has been the case for commercial sectors or sovereign entities, universities have generally relied on grants, endowments or bank loans. On the other hand, Sukuk brings its own operational and legal complications that it could be heavy (Ali et al., 2024).

"The lack of prior experience could lead to concerns about the complexity and risk associated with these models."

Being a risk averse and rigid academic sector, any new models for evaluation is done so cautiously. The fear of being the "first mover" within the public education sector also further compounds that hesitation.

"The absence of prior successful case studies within the academic sector adds to the hesitation."

This gap highlights where DSI has a lot of work to do in gaining demonstrative resolution procedures and success stories to prove out the model and convince it to be replicated by other government funded universities.

It has been suggested to overcome such reluctance that the introduction of pilot projects is a strategic approach for building institutional confidence (Ali et al., 2022). Pilot projects are equally useful for the first function of being a testing ground to understand internal capacity, and second for producing empirical data that will underpin future policy decisions.

"To address this, universities could start with pilot projects to gain familiarity and build confidence."

Well, designed and transparently executed pilots for these pilots can turn it into templates for scalable model. Needs not to be done in isolation. A reduction in errors and clear procedures requires the presence of seasoned Islamic finance professionals in the collaborative process (Alias et al., 2024).

"Collaborating with experienced Islamic financial institutions and consulting with Sukuk experts can also help mitigate risks and ease the transition."

Such collaborations not only ensure the financial viability, but also ensure that the university's objectives are in accordance with Shariah requirements and thereby reduce the learning curve. Sukuk adoption in educational institutions can not be successful on internal motivation or academic will. Government involvement, in terms of both regulatory facilitation and financial incentivization, plays a critical enabling role (Al-Jayyousi et al., 2022). External support becomes not only helpful but essential to universities like AWKU, which derive their funding from the State.

"Additionally, government incentives or guarantees might be required to make the initial adoption more attractive."

Such support mechanisms, even in the form of performance, tax exemption or sheelertenance can greatly influence perceived risk and greatly enhance project feasibility.

"Government incentives can significantly ease the adoption process by providing financial support, such as subsidies or tax benefits."

By providing these incentives, universities receive a more robust, diversified financing toolbox options between how to finance a university and the conventional options. Although incentives, and first, collaboration with experts are important, the arrangement of the internal capacity of the institution is decisive for successful implementation (Al-Shaghdari et al., 2024). The identified one major barrier was the absence of technical knowledge of Islamic finance at the university staff and expert's level.

"Addressing these concerns involves providing detailed training on Sukuk structures and compliance requirements."

The process of such training must be systemic and continuous and not only the finance department but also academic leadership and operational stakeholders. Unnecessary reliance on external consultants can be a dependency and without internal understanding, the long-term sustainability of any Sukuk programs (Aman et al., 2022). At the same time, Shariah governance structures have to be institutionalized in parallel. It thus implies the formation of dedicated Shariah advisory committees within the university to perform checks and sieve financial contracts.

"Establishing a dedicated advisory committee comprising Islamic finance experts can also ensure that all academic and financial concerns are thoroughly addressed before implementation."

This rise of an independent Shariah advisory board today is not just a compliance formality but, in fact, a confidence building measure to build legitimacy and trust (Aslam, 2024).

"To ensure compliance, it is crucial for AWKU to engage a reputable Shariah advisory board to oversee the issuance process and confirm adherence to Islamic principles."

The internal and external systems establish an arena of governance inside which Sukuk can be safely and ethically executed. This cannot be effective if there is no the buy-in from stakeholders internal and external. The initiative requires to be understood and supported from community members, university staff, donors and, even, if possible, students. To build this support requires a transparent communication coupled with an active outreach (Billah et al., 2024).

"To build support and understanding within the local community, AWKU could organize informational sessions highlighting the benefits and Shariah compliance of Musharakah and Ijarah Sukuk."

In the case of Islamic finance, this educative effort is very necessary as Islamic finance which is based on religious principles tend to be unknown by many people. It can be a powerful catalyst come from supporter of community leaders. Their approval can be helpful and advertise credibility, to better deal with the cultural controversies.

"Collaborating with community leaders and involving them in the consultation process can help address concerns and build trust."

It can be powerful motivator in changing if you are able to illustrate successful implementation in other institutions, particularly those with similar challenges (Dawood, 2024).

"Publicizing successful Sukuk projects from other universities or institutions can also demonstrate the effectiveness and legitimacy of these models."

What is being validated, quite aside, is this: these stories are not just validation, they are also informal benchmarks demonstrating what could or cannot be achieved within this local context.

Theme 2 Evaluating Institutional Familiarity and Initial Receptiveness

A gap in experience and knowledge exists regarding the initiation of hybrid Sukuk model at Bannu University. Foundationally, it is a strategic move to build internal capacity by having a finance team that can perform tasks using Islamic finance principles. As explained above, this approach intends to address some of the difficulties in the complexity of the Sukuk structures at the start. ***"Building internal capacity at Bannu University involves establishing a dedicated finance team with expertise in Sukuk structures. This team should receive training in Islamic finance principles and Sukuk management."*** This strategy, is both necessary and prudent, as the institution does not just passively play in the financial markets but actively intervenes to undertake its financial instruments in such a way as to promote the optimum use of the institution's financial instruments (El Maghrebi et al., 2023).

The external knowledge gap that the university attempts to bridge through its strategy to work with Islamic financial institutions is illustrated by the fact that they bridge the knowledge gap. ***"Partnerships with Islamic financial institutions can be crucial for Bannu University in facilitating Sukuk issuance."*** It plays an important role for the sukuk structuring and its issuance by technical expertise and operational support. But reliance on external partners in these initiatives is still questionable since they may not be sustainable in the longer term (Gidiş, 2023). The university also needs to develop its in house robustness and independence capabilities and should not only seek the knowledge from outside but should be able to draw on it too. In the case of the financial and reputational stakes involved, it is crucial to do risk assessment and mitigation. ***"To assess and mitigate risks, Bannu University should conduct thorough risk assessments including financial, operational, and Shariah compliance risks."*** The universities forward thinking strategy of establishing robust risk management frameworks is a manifestation of the assurance that due diligence and sound financial management are taking up. But how well they will work will have everything to do with the execution as well as the constantly evolving adaptation to financial insights and market conditions.

A general issue of transparency and education was a point emphasized by scepticism from the scholarly community at Bannu University regarding the financial stability of Sukuk models. ***"Addressing skepticism involves providing clear, detailed information on how Sukuk models work and their financial benefits."*** The importance of this approach is for it to develop an environment of trust and the making of informed decisions. But beyond quelling skepticism, there is a range of constructive interaction that is required to integrate scholarly currency into the university's financial strategy being to maintain that such strategy aligns with the academic and ethical standards of the university. The inclusion of scholars in advisory committees is a strategic use of their diverse expertise and, it democratizes the actual process through scholars. ***"Involving scholars in the Sukuk implementation process can be achieved by forming advisory committees that include academic and financial experts."*** This way of thinking is commendable, but at the same time it forces the university to keep a certain balance between opinions that are different and the necessary decisive action to take in financial management (Gomez & Ramcharan, 2022).

Shariah compliance framework should be established in contexts where Islamic financial instruments approach conventional financial system. ***"To address conflicts, Bannu University should establish a clear Shariah compliance framework that outlines the principles and procedures for Sukuk issuance."*** The problem remains to incorporate these frameworks into the mainstream financial operations that are largely secular. Finally, this integration will be successful or not depending on how much the university's financial policies will adjust with Shariah principles and other conventional financial matters in transforming the survival strategies for its survival (Haque et al., 2024).

This is a testimony to the fact that the university is committed to ethical financing through establishment of a Shariah advisory board to monitor Sukuk transactions proactively. *"Bannu University can ensure ongoing Shariah compliance by establishing a Shariah advisory board responsible for reviewing and approving all Sukuk transactions."* While this is a strong regulatory mechanism designed to ensure compliance, it also places the university on a hook, where by it must live up to the highest standards and transparency, if it is to deal with the advisory board.

This strategy is effective in building the common understanding of importance of Shariah compliance by using workshop and seminars to communicate the same. *"Effective communication can be achieved by organizing workshops and seminars on Shariah compliance for stakeholders."* This also provides the opportunity to involve the university community in a discussion of the ethical ramifications of financial decisions to create a culture of ethical finance (Harahap et al., 2023). Therefore, an essential control mechanism is to establish a system of monitoring and reporting of compliance with the Shariah guidelines. *"To address non-compliance issues, Bannu University should implement a robust monitoring and reporting system that tracks compliance with Shariah guidelines."* To make this a real tool for accountability and improvement, this system must be rigidly followed.

There are challenges as well as opportunities in adoption of hybrid Sukuk models by Bannu University in its journey towards financial innovation of institutions and growth. This endeavor will be successful only if the university is willing and equipped to learn, adapt and integrate these financial models within a broader financial and ethical frameworks. As it can be seen from the themes above, much careful planning and strategic implementation are in place that can (Billah et al., 2024). This Sukuk at Bannu University is susceptible to vulnerable conditions if it continues to neglect emerging financial and ethical considerations due not only to constant evaluation and adaptation.

Theme 3: Institutional Preparedness and Scholarly Engagement in Implementing Hybrid Sukuk for University Infrastructure Development

The study brings in a new approach by exploring hybrid Sukuk models (Musharakah and Ijarah) for financing infrastructure in government universities in light of the rising interest in Shariah compliant financial solutions. This critical assessment, takes into account institutional readiness, scholarly issues and Shariah compliance on going in the light of insights from Fahad, Branch Manager, Meezan Bank Kohat.

The use of Sukuk models highly depends on the perception and understanding by government universities; which will lead them to be receptive to Sukuk models. Fahad says that detailed consultations would be carried out to choose the most suitable Sukuk models of the range of Mudarabah, Ijarah, Musharakah, Istisna, to fit into institutional needs. He states, *"It depends on the university, how they look at the product. What we can do is highlight the options available*

for infrastructure through Sukuk, like Musharakah, Ijarah, Mudarabah, Istisna, and even hybrid models like Musharakah with Ijarah or Musharakah with Istisna. But which one actually suits a university that can only be figured out once we sit with them and understand their situation"

This emphasizes the need for universities to constructively grasp Sukuk before they embark on these securities, for them to be able to take informed decisions aimed at meeting the universities' financing need and particular mission objective. Issues as to whether Sukuk will be adopted in university financial landscape include questions related to Islamic financial terminology, liquidity, repayment capabilities and the legal authority to issue the same (Kaya, 2023). Fahad contends that Islamic financial vocabulary needs to be rigorously trained as well as planning in Islamic financial issues to be able to serve obligations towards Sukuk holders and documented universities. He notes, *"In Islamic financing, there's a whole vocabulary or glossary with its own terminologies. Then you have things like the liquidity market, the willingness of the university, and the repayment issue whether they will actually be able to pay back the Sukuk holders, both the profit and the principal amount. Also, what happens in case of default? And then there's the authority of a government university whether they are even in a position to issue Sukuk or not."*

This implies the urgent necessity of resolving these issues in effective manner to achieve a successful Sukuk. Legitimacy and allure of Sukuk require it to be Shariah compliance. Musharakah and Ijarah models are fully in conformance with the Shariah principles but because Islamic banking practices are not properly understood, there are misconceptions, reassures Fahad. He clarifies, *"This model is totally shariah-compliant and the rumours regarding islamic banking practice with regards to the KIBOR benchmark and other objections like contrasting aspect between the theory and practice are just because of lack of enough information. This could be addressed once they get the right understanding of such field."* Naturally, stakeholders must continue their education to prevent misinformation and to ensure transparency in terms of the Sukuk's operations (Kunhibava et al., 2024).

Therefore, government universities' adoption of Sukuk models for funding for infrastructure projects requires supervising the adoption by involving comprehensive planning, education, and adoption of the Shariah principles. The discussion of a banking expert reflects on the importance of having a strong framework in Islamic finance to overcome its complexities. First, this is a strategic approach that supports financial capabilities of universities and is in sync with economic and ethical goals that help nurture a sustainable and principled financial environment.

Theme 4: Readiness, Compliance, and Strategic Implementation of Hybrid Sukuk in Government University Financing

It is found that in contrast to existing methodologies, hybrid Sukuk models of Musharakah and Ijarah can serve as a superior alternative to traditional financing schemes within government universities for infrastructure projects. The financial innovations that are in accordance with Shariah principles, address the exclusive needs of educational institutions (Lum, 2021). Nevertheless, they are subject to the readiness of each institution, their understanding of Islamic finance and capability to tackle a number of scholarly and compliance related issues.

Government universities' receptiveness to hybrid Sukuk models like the Musharakah and Ijarah rest heavily on their initial knowledge of these financial tools. Dr. An Islamic banker, Ameer points to this stating *"It really depends on how the university perceives these products. We can suggest which Sukuk-related products are available for infrastructure funding. These include Musharakah, Ijarah, Mudarabah, Istisna, Musharakah and Ijarah, and Musharakah and Istisna. As for which one would be suitable for the university, that would be determined through discussions with them to find the most appropriate option."* This insight emphasises that universities and financial experts need to work very closely together to ascertain and adopt the most fitting model of Sukuk depending on their specific infrastructural and financial requirements (Maulina et al., 2023). Due to the magnitude of different options and the risk involved, universities having no prior experience in Sukuk issuance require a well-structured approach to capacity building. It should include the deep theoretical knowledge of the financial products and practical know-hows about their application and maintenance.

From within a university's broader financial landscape, Sukuk can be adopted but among many concerns, there are concerns that need to be managed such as understanding Islamic finance terminology, liquidity management and robust repayment capabilities. These challenges are elaborated by Ameer, who suggests the need for the universities to deal with legal authority questions of Sukuk issuance and the predilection of Sukuk default. He suggests, *"The Islamic finance terminology, liquidity issues, the university's willingness to adopt, repayment capabilities (whether the university can pay Sukuk holders the profit and principal amounts), default scenarios, and whether the university has the authority and capacity to issue Sukuk are all potential concerns."* Through this discussion, I am highlighting the significant importance of complying to these financial laws and Shariah principles in the successful implementation of financial instruments like Sukuk which are complex.

The chief factors that contribute to the appeal and validity of Sukuk are in conformity with Shariah law. There is a need for continued education and transparency in regard to misconceptions that encompass aspects like the use of conventional benchmarks in Islamic banking (Mi'raj & Ulev, 2024). Dr. According to Ameer, many of these issues arise from misinformation and that they involve *"This model is entirely Shariah-compliant. The misconceptions about Islamic banking, such as the use of KIBOR as a benchmark or inconsistencies*

between theory and practice, are largely due to a lack of information. These issues can be resolved with proper understanding and education."

Continuous education programs need to be established for all stakeholders involved in the Sukuk issuance, that is from the university financial officers to the potential investors. These Sukuk related programs should cover the technical, ethical and social impact of Sukuk. The utilization of hybrid Sukuk model implementation in government universities is not only about de facto finance transactions but rather an actual implementation of the financing according to Islamic principles involving sustainability and ethics. This process depends on the second point, i.e., institutional readiness, Shariah compliance and strategic capacity building. If the above pillars figure in their line of thought, universities utilizing Sukuk can help not just satisfy their infrastructure needs, but make education an ethical undertaking (Mohamad Shafi & Tan, 2023). Dr. Ameer's insights of Islamic banking experts are treasure troves of guidance for universities that have shown the intention of entering into these intricate financial situations.

Theme 5: Critical Analysis: Institutional Readiness and Capacity Building for Sukuk Adoption at Karak University

Alternative financing tools based on Musharakah and Ijarah hybrid Sukuk models create transformative opportunities to finance Pakistan's public university system through innovative methods. The insight gathered by Karak University through interviews delivers powerful evidence to assess institutional readiness in addition to capacity evaluation (Rassool, 2021). The university does not show a past history of Sukuk issuance but its leadership maintains progressive understanding about Islamic financial products as well as positive prospects for future implementation. Several important factors which influence the potential adoption of Sukuk for Karak University have emerged from thematic evaluation of their responses including their receptiveness and structural readiness to implement Sukuk alongside their commitment to Shariah compliance and education development and community awareness and legal support and long-term strategic preparation.

The institution shows interest about hybrid Sukuk models yet maintains prudential views because it genuinely wishes to learn more. The university delivers its standpoint regarding receptiveness through these statements:

"Government universities in Khyber Pakhtunkhwa, including Karak University, may exhibit cautious receptiveness towards hybrid Sukuk models like Musharakah and Ijarah due to their lack of prior experience with Sukuk issuance. The novelty of Sukuk structures and the perceived complexity could pose initial challenges."

The institution reveals its position through this statement because it shows reluctance to adopt Sukuk because of unfamiliarity with this financing approach. Karak University brings a sensible strategy to address the initial hurdles *"To facilitate this, pilot projects and case studies*

demonstrating successful Sukuk issuance in similar institutions could serve as valuable precedents, gradually building confidence and interest in these models.” Research shows that students need both practical experience and direct contact with successful cases in order to break institutional resistance for evidence-based financial reforms to take effect. The emergence of internal skepticism about financial reforms is a concerning issue which mainly stems from both scholarly and administrative perspectives. The transcript notes:

“Scholars at Karak University might have concerns regarding the adoption of Musharakah and Ijarah Sukuk related to their understanding of the models, potential Shariah compliance issues, and the integration of these models into the existing financial framework.” The official declaration reveals both the institution's missing understanding of the situation and their active approach to minimize its effects (Hasbullah & Ab Rahman, 2023): *“Addressing these concerns involves providing comprehensive training and workshops on Sukuk structures, engaging Shariah advisors early in the process, and establishing clear guidelines for implementation.”*

Such forward looking steps realize that technology integration has to be accompanied by intellectual buy in. Furthermore, *“Ensuring transparent communication and detailed documentation of the Sukuk’s compliance with Shariah principles”* it reinforces the need for transparency as vital first step in adoption success. In any Islamic financing arrangement, such as Islamic banking and takaful, the issue of nonnegotiability of Shariah compliance is nonnegotiable and Karak University has both understanding and preparedness on this regard. Their articulation is well-informed: *“Musharakah and Ijarah Sukuk generally align well with Shariah principles, as they involve profit-sharing and lease-based arrangements, respectively, which are compliant with Islamic finance guidelines.”*

But they recognize this as insufficient work without strong governance structures. *“Ensuring compliance involves rigorous scrutiny by a qualified Shariah advisory board, drafting clear contracts that detail the terms of profit-sharing or leasing, and maintaining transparency throughout the process.”*

The recommendation to perform **“regular audits and reviews by independent Shariah experts”** It points to a robust mechanism for ongoing compliance, a critical factor for you to assure investors and for legitimizing the industry in Islamic finance circles (Iqbal & Kassim, 2024). The university also gives high priority emphasising capacity building in with a view to institutional readiness. Sukuk implementation strategy is based on the corner stone of education and training. As outlined by Karak University, it is multi pronged: *“I recommend establishing educational resources such as workshops, seminars, and training programs focused on Sukuk structures and their implementation. Collaborating with financial institutions and experts in Islamic finance to develop tailored training materials and hosting guest lectures by Sukuk specialists can enhance understanding.”*

This strategic level of stakeholder knowledge is borne from a maturity that understands that structural changes must occur with human capital development (Kaya, 2023). *“Practical case studies and simulations of Sukuk issuance will also aid in bridging the knowledge gap,”* which speaks to the use of applied learning techniques in financial training.

Interestingly, the university also recognizes the value of broader community engagement and awareness-building as part of the institutional readiness framework. Karak University emphasizes the role of advocacy and communication in shaping local acceptance: *“Building support among Karak University’s local community for Musharakah and Ijarah Sukuk involves educating stakeholders through community engagement programs and informational sessions.”*

This inclusive approach is bolstered by practical suggestions:

“Highlighting successful case studies and the benefits of Sukuk in financing university infrastructure can help. Additionally, creating awareness about the Shariah-compliance aspect and its advantages over conventional financing can foster a positive perception.”

Engaging “community leaders and local influencers” is not only strategic but necessary in a setting where social endorsement carries significant weight (Lum, 2021). While the university appears progressive in intent, certain latent challenges surface when analyzing their legal and technical infrastructure. These are not overtly discussed but are implied across several responses. For instance: *“Ensuring compliance involves rigorous scrutiny by a qualified Shariah advisory board... engaging Shariah advisors early in the process, and establishing clear guidelines for implementation.”*

This points to the current absence of formal protocols and the need for new procedural frameworks. The call for “clear guidelines” and regular “audits” implies that while the vision exists, the operational structure is still under development. Lastly, the university’s perspective on strategic planning shows a comprehensive and long-term orientation (Sarea et al., 2021). Sukuk does not constitute a patch that will endure only for a short while, but a sustainable and possibly revolutionary model. Drawing from multiple transcript segments: *“Pilot projects and case studies demonstrating successful Sukuk issuance in similar institutions could serve as valuable precedents... engaging Shariah advisors early in the process... collaborating with financial institutions... highlighting successful case studies... developing tailored training materials...”*

These excerpts show how to layer and repeatedly iterate this process of building readiness. Institutional seriousness and maturity are clearly reflected with the emphasis placed on partnerships, pilot testing as well as documentation.

Finally, Sukuk financing seems to be a progressive yet cautious manner adopted by Karak University. According to their analysis of Musharakah and Ijarah models, structural gaps in these products exist (primarily with regards to technical readiness, legal frameworks and

institutional experience), but the commitment to bridges those with education, outreach, and pilot project is present. Taking into account this, it appears possible for Karak University to become a pioneer of Sukuk based university finance in Pakistan, provided adequate regulatory and advisory support. The Sukuk adoption in their case is illustrative of a financial transition rather than a financial shift, as they require vision, trust, and sustained effort for an institutional transition.

Theme 6: Receptiveness and Familiarity with Hybrid Sukuk Models

The first sign of institutional readiness for financial innovation is institutional openness. The transcript says that KUST attitude was positive and forward looking. As the scholar mentions, *“Government universities like KUST could be receptive to exploring hybrid Sukuk models such as Musharakah and Ijarah for funding infrastructure projects, despite their lack of prior Sukuk issuance experience.”* This means that the adoption of Sukuk while new to the university, the university is ready to learn and adopt.

The potential benefit of Sukuk makes it attractive. As stated, *“Introducing these Sukuk models can provide universities with an innovative way to secure funding while adhering to Islamic finance principles.”* This is especially important in a region like Khyber Pakhtunkhwa, where religious values matter and aligning with Islamic principles can increase trust and legitimacy. While this receptiveness is encouraging, it must be followed by real steps such as training, expert collaboration, and policy development to ensure successful adoption.

KUST shows an awareness of the opportunity Sukuk offers but needs structured support to turn interest into actual implementation (Turan, 2024). Receptiveness without readiness can delay progress, but with guidance, the university is well-positioned to move forward. Internal concerns, especially from academic staff, can slow down the process of financial reform. The scholar notes, *“Scholars might have concerns about the complexity and unfamiliarity of Musharakah and Ijarah Sukuk within KUST’s financial landscape.”* This clearly points out two issues: lack of knowledge and the fear of making mistakes with something new and complex.

These concerns are natural when dealing with financial instruments that involve both religious and technical elements. Sukuk structures require a combination of legal, financial, and Shariah knowledge (Uddin, 2023). If scholars are uncomfortable or uninformed, they may resist the change or hesitate to participate in the process.

To address this, the scholar suggests a proper strategy: *“Addressing these concerns requires comprehensive training programs, detailed guidelines on Sukuk management, and the involvement of experienced Shariah advisors.”* This means education and expert involvement are essential. By educating staff and providing clear guidelines, KUST can reduce doubts and build internal support. This will also improve decision-making and reduce risks. Structural concerns are not roadblocks they are signals that more groundwork is needed. KUST must create a supportive environment where learning and collaboration replace fear and confusion.

In Islamic finance, Shariah compliance is the foundation. Without it, even the most innovative model loses value and trust. The scholar confirms that hybrid Sukuk structures meet Islamic guidelines in principle: *“Musharakah and Ijarah Sukuk are generally aligned with Shariah principles as they involve profit-sharing and asset-backed financing.”*

Compliance cannot be assumed it must be continuously verified. That is why the scholar emphasizes the need for expert involvement: *“To ensure compliance, it's essential for KUST to engage qualified Shariah advisors who can provide ongoing guidance and review the Sukuk structures.”*

This shows a good understanding of the dynamic nature of compliance. It's not a one-time check. Ongoing audits and review systems must be in place. These advisors will help prevent errors, ensure transparency, and maintain religious credibility throughout the Sukuk lifecycle. For KUST, this means forming a permanent Shariah advisory team and setting up a formal review process (Uddin, 2024). This approach builds trust among all stakeholders especially those who value Islamic principles in financial dealings. It also strengthens the university's image as a responsible and compliant institution.

Knowledge and training are key to making any financial system work, especially one as technical as Sukuk. The scholar wisely states: *“KUST should invest in educational resources and training programs for stakeholders. This includes workshops on Islamic finance principles, detailed training on Sukuk structuring, and sessions with experts in Sukuk issuance.”*

This indicates that KUST understands the need to develop in-house expertise. When people understand what they are doing, they are more confident, make fewer mistakes, and help the system grow. The training should not be a one-time event. As the scholar adds, *“Developing a comprehensive training curriculum and providing continuous learning opportunities will help stakeholders understand the intricacies of Sukuk models.”*

This is important because financial systems evolve. Continuous learning ensures that staff stay updated. Moreover, inviting external experts adds value by bringing in real-world insights and best practices. Capacity building is not just a support activity it is the backbone of a successful Sukuk adoption strategy. With well-trained staff, KUST can manage its Sukuk projects professionally, reducing dependence on outsiders in the long run. Public institutions like KUST operate in a community setting, where public opinion matters. People must understand and support any new financing approach (Usman, 2019). The scholar notes this clearly: *“Building support among KUST's local community for Musharakah and Ijarah Sukuk involves educating them about the legitimacy and benefits of these models.”*

This is important in a region where religion plays a central role. If people don't understand Sukuk, they might mistrust it even if it follows Islamic rules. That's why the scholar suggests involving trusted figures: *“Involving local leaders and stakeholders in informational events can also enhance understanding and acceptance of Sukuk.”*

This is a smart approach. Community leaders can explain Sukuk in ways that local people understand and respect. Public meetings, workshops, and printed materials can help spread awareness. When the community is involved, resistance drops, and support grows. This is especially important for large infrastructure projects that directly affect the region. If people feel informed and included, they are more likely to trust and support KUST's Sukuk-based development efforts. While enthusiasm and education are important, without proper systems and legal frameworks, implementation can fail. The transcript highlights a major requirement: *“Implementing rigorous Shariah audit processes and incorporating feedback from these advisors can help align Sukuk practices with Islamic finance principles.”*

This means that beyond hiring advisors, KUST must develop written policies and procedures. It must formalize how it plans, approves, and monitors Sukuk transactions. The scholar also refers to the lack of internal systems: *“Detailed guidelines on Sukuk management... and the involvement of experienced Shariah advisors.”* This shows that KUST still needs to build its legal and operational capacity. It will require coordination with finance departments, legal teams, and external consultants. Without these structures, Sukuk issuance might become legally risky or operationally inefficient.

By building clear SOPs (standard operating procedures), internal approval routes, and reporting systems, KUST can ensure its readiness. Legal and technical readiness turns good ideas into reliable systems and that's what any sustainable financial program needs. Finally, the success of Sukuk adoption depends on long-term planning. This is not just about launching a one-time project. It's about changing how the university thinks and operates financially. The transcript shows this awareness: *“Training and advisory support can facilitate a smoother transition and increase receptiveness.”*

More importantly, it outlines strategic goals: *“Offering transparent and competitive terms... simplifying the Sukuk issuance process... partnerships with financial institutions.”* These actions show that KUST is not just experimenting it is planning to integrate Sukuk into its regular financial model (Wahab, 2023). Partnerships with banks, legal experts, and Islamic finance bodies will bring in technical help and credibility. Simplifying the process will make it easier for everyone involved internal teams and external investors. Transparency ensures trust. KUST appears to be thinking long-term, aiming to become a leader in Shariah-compliant public finance. If these strategic actions are implemented well, the university could serve as a model for other public-sector institutions in Pakistan.

Theme 7: Challenges and Opportunities in Implementing Hybrid Sukuk Models in Government Universities

Funding infrastructure projects at government universities through hybrid sukuk models, such as Musharakah and Ijarah, offers a viable opportunity for their adoption as they provide a new way of receipt and appropriation of investing funds. But they depend on a multitude of factors,

including the receptiveness to these models by the institution and how aligned with Shariah principles they would be. The receptiveness and perception from institutions involved are central to the implementation of hybrid sukuk models. Universities determine to adopt these financing modes largely on how they appreciate them in terms of being financially viable and also in terms of their conformance. As highlighted in the discussion, ***“It really depends on how the university perceives these products.”*** This statement is highlighting that there is a potential subjectivity in financial decision making in educational institutions as they may be cautious as they have not issued any of these (sukuk). The adoption of such innovative financial instruments is either facilitated or hindered by the levels of familiarity and acceptance of the university decision makers.

Sukuk as a model has its own financial and operational challenges. The question of whether to adopt new financing methods and the ability to make repayment eventually must be addressed by universities. The complexity is further articulated: ***“The Islamic finance terminology, liquidity issues, the university’s willingness to adopt, repayment capabilities ... are all potential concerns.”*** These are some of the challenges that underscore the requirement for a sturdy financial structure that does not just aid sukuk frameworks but also clears up the predominant concerns regarding liquidity and repayment modes that may be dissimilar to the conventional financing models. In order to maintain credibility and ethical standing, sukuk financing should ensure adherence to Shariah compliance and dispell misconceptions (Billah et al., 2024). Lack of proper information gives rise to misunderstandings about the Islamic banking practices with regard to the use of KIBOR as a benchmark and vaguenesses between theoretical principles and practical application. As pointed out, ***“This model is entirely Shariah-compliant... The misconceptions... are largely due to a lack of information.”*** Detailed educational programmes and transparent communication are needed to remove these misconceptions and to gain the trust and cooperation to all the stakeholders involved.

It reminds one of the importance of educational resources and training. Applying sukuk models, Will only be successful if stakeholders understand the work and benefits of sukuk models. The statement, ***“Awareness and training can be provided through both formal and informal platforms like seminars and workshops in the university,”*** highlights the need for ongoing education and capacity building. This way, not only are the misconceptions addressed, but it also builds up the knowledge, therefore it leads to implementation that will be sustainable. Adoption of the sukuk models can bring also economic impact and community involvement. According to the dialogue, ***“As the popularity of Sukuk grows among Muslims, they will likely be eager to invest in Shariah-compliant contracts.”*** The ready eagerness to invest can have many positive economic implications renews creation, regional development. But for the success of such initiatives, community engagement is crucial and also accepting these benefits to be communicated effectively.

For the sukuk in the modern financial practices, the technological integration has a very important part in the efficiency and transparency of transactions. The assertion that *“Technology will play a critical role in data accessibility, monitoring procedures, and analyzing decision-making processes,”* This underscores the need of digital tool for the complexities involved in sukuk structures. In addition to improving operational efficiency, this integration facilitates and supports compliant and well overseen sukuk lifecycle. Another critical area is adapting pricing mechanisms to utilize a unique set of financial requirements of various educational institutions. Sukuk structures provide the flexibility to tailor financial solutions to fit the requirement of universities. As noted, *“Islamic financial institutions would be better equipped to explain the pricing mechanisms...”* This flexibility requires a very sound understanding both of the financial markets and the specifics of the individual economic environments within which these institutions are operating.

Transparency and governance cannot be trivialised in the adoption of sukuk. To maintain trust, one must ensure that the Shariah advisory committees work with independence and transparency. It is noted that *“To ensure transparency, the processes, steps, and guidelines that govern the issuance... would be the criteria to assess the work.”* Not only morally, but before it can even be referred to as sukuk financing, transparent governance structures are essential for the long-term sustainability of sukuk financing (El Maghrebi et al., 2023). It must also succeed under the legal and regulatory framework. It is obvious that regulatory improvements are necessary to enable the use of hybrid sukuk financing. *“If the legal bodies of the university... allow and permit the university to explore alternatives, we can provide capital.”* Thus, it becomes imperative to have a supportive legal environment where such innovative aspects of sukuk are accommodated without compromising on compliance and oversight.

It is critical to a kind of cultural and institutional readiness of universities to adopt these models. It's very important to overcome internal resistance, build university staff capacity. *“One challenge might be the lack of expertise and understanding of Islamic banking implementation among relevant university staff...”* A conducive environment for the change and having such knowledge and skills, is crucial for the adoption of sukuk financing into university financial systems. Yet the major advantages of implementing the hybrid sukuk models in government universities are equally complex and entail a longer time to implementation. To achieve the maximum potential of Islamic financing in the educational sector, these challenges need to be tackled by way of comprehensive education provided, robust governance and supportive regulatory frameworks.

Conclusion

This study explored the prospects and challenges of adopting hybrid Sukuk models, particularly Musharakah and Ijarah, for infrastructure development in public sector universities of Khyber Pakhtunkhwa. The findings reveal cautious receptiveness among universities, with strong recognition of Sukuk's Shariah compliance and ethical orientation.

However, limited institutional experience and technical capacity remain major barriers to immediate adoption. Universities such as Karak and Abdul Wali Khan University acknowledged the potential of Sukuk but highlighted gaps in expertise, governance, and legal frameworks. The absence of precedents in the academic sector contributes to risk aversion, underscoring the need for pilot projects, structured collaborations with Islamic financial institutions, and comprehensive training for finance teams. Building internal capacity is critical for reducing dependence on external consultants and ensuring long-term sustainability.

The study further emphasizes the central role of Shariah governance. Establishing credible advisory boards, transparent compliance mechanisms, and continuous education can address misconceptions and build trust. Community engagement through outreach to students, staff, and religious leaders was also found essential in strengthening legitimacy and acceptance of Sukuk financing. Government support is a decisive factor in enabling adoption. Legal authority to issue Sukuk, the ability to pledge assets, and regulatory or financial incentives were identified as critical areas requiring state involvement. Without such support, universities may struggle to manage risks related to repayment and default.

In conclusion, while challenges of capacity, governance, and regulation remain, hybrid Sukuk models present a transformative opportunity. If implemented strategically, they can provide universities with sustainable, Shariah-compliant financing mechanisms that not only meet infrastructure needs but also reinforce ethical and socially responsible financial practices.

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