

Ijarah: “The Concept, Development and Progress of Islamic
Finance
Leasing in Ireland’s Aviation Sector”

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for the degree of

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at Dublin Business School

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Declaration

I declare that this research is entirely original work. It has never been presented to any institution or university for the award of Degree or Diploma. In addition, all literature and sources used are referenced correctly in this work and fully compliant with the Dublin Business School's academic honesty policy.

Signed : **Najib Ayub**

Date : 10th January 2016

Table of Contents

Declaration.....	i
List of Figures and Tables.....	iv
Acknowledgements.....	v
Abstract.....	vi
1.0 Introduction.....	1
1.1 Research objectives.....	3
1.2 Research questions.....	3
1.2.1 Sub-questions.....	3
1.3 Interest in the subject	4
1.4 Limitations of the research.....	5
1.5 Research framework	6
1.6 Structure of the project paper.....	6
2.0 Literature review	9
2.1 Literature background	9
2.2 Taxation developments in Ireland.....	13
2.2.1 Expansion of double tax treaty network.....	13
2.2.2 New tax credit for non-treaty withholding taxes.....	14
2.2.3 Irish ‘Section 110’ companies.....	14
2.3 Cape Town Convention and Aircraft Protocol.....	15
2.4 Irish Aviation Authority.....	17
2.5 Irish Stock Exchange	18
2.6 Political & economic environment	19
2.7 Islamic finance in Ireland.....	20
2.7.1 Shariah Law	22
2.7.2 Sources of Islamic finance.....	24
2.7.3 Islamic Perspective of Riba “Interest” and Profit.....	25
2.8 The structure of Ijarah.....	27
2.8.1 Types of Ijarah.....	29
2.8.1.1 Operating lease (Al-ijarah ‘ain)	30
2.8.1.2 Financial lease (Ijarah Muntahia Bittamleek).....	30
2.9 Lessor’s obligations	32
2.9.1 Making the leased asset available.....	32
2.9.2 Guarantee in respect of defects.....	32

2.10	Lessee's obligations	33
2.11	Taxation of an Ijarah Arrangement	34
2.11.1	Ijarah used for an operating lease	34
2.11.2	Ijarah used for a finance lease	35
2.11.3	Ijarah Muntahia Bittamleek (Hire purchase arrangements)	35
2.12	Value Added Tax (VAT)	36
2.13	Stamp Duty	36
2.14	Termination and consequences of lease arrangement	37
2.15	Contextualizing the research in the literature	38
3.0	Methodology	39
3.1	Research design	39
3.1.1	Research philosophy	40
3.1.2	Interpretivism	42
3.1.3	Research approach	43
3.1.4	Research strategy	44
3.1.5	Sampling - Selecting respondents	44
3.1.6	Time horizon – Cross sectional	45
3.1.7	Data collection instruments	46
3.1.8	Data analysis procedures	47
3.2	Research ethics	48
3.3	Limitations of methodology	50
4.0	Findings	52
4.0.1	Government Initiative	52
4.0.2	Islamic Rules and Regulation	52
4.0.3	Ijarah Structure	52
4.1	Discussion Findings	54
4.1.1	Question 1	54
4.1.2	Question 2	55
4.1.3	Question 3	56
4.1.4	Question 4	57
4.1.5	Question 5	59
4.1.6	Question 6	60
4.1.7	Question 7	60
5.0	Analysis	62
5.1	Government initiative	62

5.2	Islamic rules and regulations	63
5.3	Ijarah structure	65
6.0	Conclusion	67
7.0	Self-reflection on own learning and performance	68
7.1	Background	68
7.2	Learning style.....	69
7.3	Skill development and performance	72
7.3.1	Inter-personal skills	73
7.3.2	Critical thinking skills	73
7.3.3	Personal management skills.....	74
7.3.4	Cognitive and learning skills	74
7.4	Conclusion	75
	Bibliography	76
	Appendices.....	82

List of Figures and Tables

Figure 1: World Airline Traffic Forecast.....	1
Figure 2: Extensive requirement to replace ageing fleets	11
Figure 3: Component in Islam	23
Figure 4: Sources of Islamic finance	24
Figure 5: Research Onion	40
Figure 6: Inductive research.....	43
Figure 7: Ijarah model.....	65
Figure 8: Learning style instrument.....	70

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Abstract

This research conducted on the issues regarding what can be achieve by using the Islamic leasing which is Ijarah and become the “*Centre of Excellence*” for aircraft financing. Islamic securitisation complements the conventional banking as an alternative and more diversified funding option that broadens the pricing options to the asset supply as high demand for alternative investment products

Ijarah is type of leasing in Islamic finance and has been conceptually understood as an agreement between two parties and the contract of exchange where one party enjoys the benefit arising from employment by another party in return for a consideration for the services rendered and from the use of an asset.

This research is applicable to anyone and could be reference for students, professionals and public particularly to non-Muslim that are interested to know more about Islamic leasing method. This research raises issues and thoughts in leasing method and could be a tool for future research and to provide understanding of Islamic finance and break the scepticism people on the Islamic point of view.

1.0 Introduction

Ireland's aviation sector is expected to remain strong in 2015 as lessors able to build its reputation upon previous success and take advantages of the considerable demand that exists for leasing. Many industry experts are expecting massive growth in the aviation industry for over the next decade. The number of lessors are expanding as lease rates remain stable and repossessions are a rarity because with the depth and breadth of the operating lease, lessors are less eager to agree to rental variations or repossessions as the aircraft can be today be quickly placed with another lessee.

A report by Fitch Ratings suggests that aircraft leasing sector is continuing to experience strong growth as a result on the improvement in airline performance, supported by low fuel prices, as well with constructive credit markets and attractive lease rates margins according. Banks and capital markets will continue to play a dominant role in aircraft financing. Securitization and unsecured debt, as well with funding from commercial banks, is allowing the lessors to financing new aircraft at low financing cost which in turn increases margins when leasing.

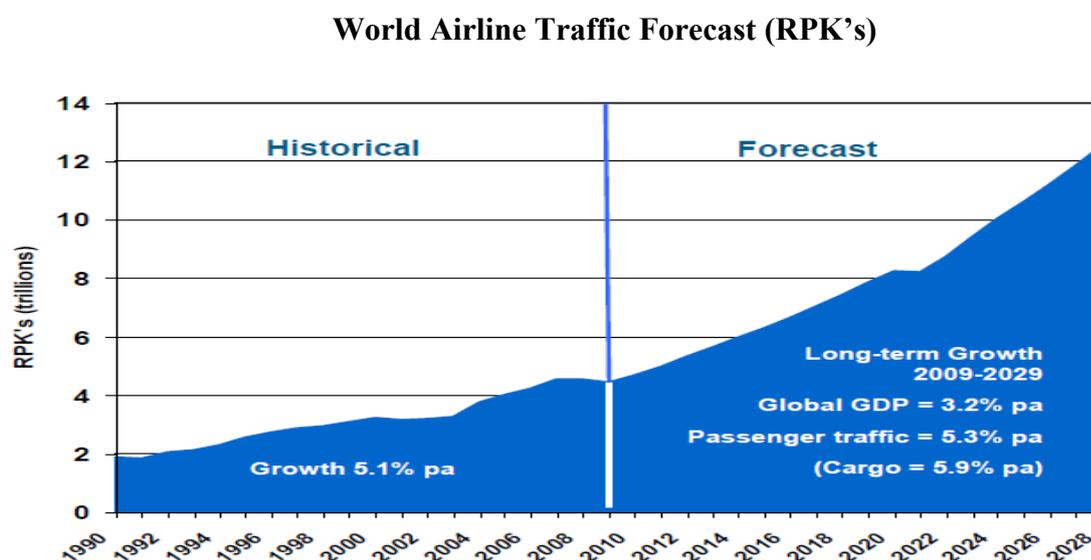


Figure 1: World Airline Traffic Forecast.¹

¹ Source: Airline Monitor, Boeing

The improvement in the operating lease sector is a function of the capital constraints faced by a number of airlines as well as the significant manufacturer's backlogs. With the result of higher than average passenger growth, the expansion of low cost carriers, the need for more efficient aircraft and the decline of the Export Credit Agencies (ECAs) the demand for the operating lease will continue. The figure 1.1 above shows 20 years of traffic growth which forecast of 5.3% per annum driven by long term global economic growth of 3.2% per annum. In addition, airlines are persistently seeking the operational flexibility that leasing brings as well the elimination of an element of risk.

Leasing companies are playing a crucial role in this sector. Often overlooked, the increase of aircraft lessors plays a dynamic role in enhancing the capital base, broaden the customer base and bringing liquidity to the market (Stanley, 2013). Lessors however, concerned more on the returns offered by the operating lease that is facilitating the introduction of capital and resulting to greater competition in lease pricing and terms which will turn to generate additional demand for leasing. This might attract some new lessors to seek opportunities in less familiar fields just to maintaining margins at the expense of increased risk.

Lessors will usually consider that inflationary pressures will be beneficial to the operating lease model as this allows lease rentals to increase on a comparative basis as the value of aircraft either increase or at least depreciate less quickly (Fitch Ratings Ltd., 2015). Despite the existence of general conventional financing methods, Islamic finance techniques have recently become popular among the Muslim countries due to the growing population, demand and the wealth especially in the Middle East and certain other Far Eastern countries.

Consequently, significant number of financial institutions and individual tend to utilize new financing techniques for example Islamic financing, and thus the concept of Islamic finance relating to the conduct of financial and commercial transactions in accordance with Islamic law came into scene. Conventional financing tools are mostly based on interest systems as opposed to Islamic finance techniques which must comply with Shariah law and prohibited interest charging. Principles of Islamic finance are similar in structure to Western legal system but has different in term of its regulations.

1.1 Research objectives

In general, research objectives statement will define a clear purpose of this research and determine the factors within the topic to ensure that it will establish within the parameters by a systematic framework (Saunders et al, 2007).

The primary objective of this study is to identify the level of awareness and to see the progress of any growth in Islamic finance in Ireland but focusing in the aviation sector. The researcher wishes to study on the issues regarding what can be achieve by using the Islamic leasing which is Ijarah and become the “*Centre of Excellence*” for aircraft financing. Lastly, to identify the initiatives by the government has done to so far.

1.2 Research questions

The primary research question for this study will be “*What are the current development in aircraft financing sector and its progress in Ireland to promoting Islamic Finance’s products especially Ijarah as an alternative method in leasing?* However, to answer that question, there will be needed sub-questions to make sure the answer could minimize the gap of information that needed to answer the main research question.

1.2.1 Sub-questions

Question 1: What are the initiative by the Government in the aviation sector since it now became one of the important contributor in the Ireland’s economic growth? Will there be any possible advantage of the alternative method leasing which is Ijarah?

Rationale: To see whether this could encourage Ireland’s as a favourable place in Europe among investors around the world and to support the growth of Islamic finance.

Question 2: Is there any issues relating to regulation, standard, registration and settlement that would apply in Ijarah leasing for the aircraft and what would be the challenges?

Rationale: This question is to assess the government effort to minimize the gap between the conventional lease and the Islamic leasing particularly if the difference could possibly effect investment in aviation sector.

Question 3: What are the Ijarah structure and its characteristics that can be apply in the industry sector of aviation?

Rationale: In what terms of structures and its characteristic that makes Ijarah as an alternative method and what are the demand to meet regulatory requirements.

1.3 Interest in the subject

The researcher possesses a Bachelor Degree in Accounting (Hons.) in Universiti Tenaga Nasional and learnt about Islamic Studies and Islamic Banking. Researcher found that Islamic finance industry is moving towards a new era of socio-economic development due to the successful financing operations since 2000 because Islamic finance offers an alternative financial system with an emphasis more on ethics which include transparency and fairness in all financial transactions. As an alternative to conventional finance that has demonstrated sustained growth trend, it captured researcher's attention particularly when observed in current economic context and recessionary environment during Eurozone crisis.

Over the past 30 years, Islamic Finance industry has grown significantly in Malaysia which accredited as being the global leader in Islamic Banking and Finance. As a person grew up in Malaysia, researcher is also has some knowledge in the topic area thus, this would be an opportunity to increase in research in Islamic finance and economics and give exposure to

others what it is all about . Researcher would like explain and enlighten about this phenomenon and perhaps it will reducing the scepticism of the public on Islamic finance.

Aviation sector is one of the important sector that contribute to the Irish economy. Demand is driven by activity in the air travel industry which the profitability of individual companies depends on the fleet mix and the cost of financing rental inventory mostly through the channel of its aircraft leasing companies. Thus, researcher would like to introduce the alternative method of financing which is Ijarah to the Ireland's aviation sector for aircraft financing and leasing.

1.4 Limitations of the research

Researcher has identified a consultant, accountant, and director of company to take part in the informational interviews. However, not everyone are familiar with the research topic because of the lack knowledge. Even though the data analyses restricted to Ireland, but there will be also data analyses cases from other countries such as Malaysia and Saudi Arabia as a comparative study.

Other than that, time availability is also part of the limitations in this research. Setting up the appointment with the selected participant for the interview could take longer than expected because of the availability for them due to busy schedules and researcher also need time to examine the data collections which need extra careful to be analyse properly.

Another limitation will be the complexity of the research topic where the Ijarah is part of the Islamic finance which has 2 aspects. The first is religious because it is a part of the Islamic financial system, and the other aspect is the financial characteristics aspect, where Ijarah are a special financial instrument which might be different from the conventional characteristics.

Language is also be one of the obstacles the researcher might face, despite the availability of English references mostly for the terms which origin words are in Arabic. Thus, explaining them in different language might restrict their meanings.

1.5 Research framework

In order to achieve a successful dissertation, a clear purpose or set of things need to be made with in-depth reading, analysing and framing of the whole objective of this research and how it is dealt with will have an enormous influence on the form and appearance of the finished work.

This research has been framed within the context of an exploratory analysis of the level of awareness of the average financial services employee in term of aircraft leasing in Ireland following the government's efforts to develop this sector in Ireland. Interviews and open-ended responses to questions provide the evaluator with quotation for assessment purposes and emphasis on intellectual understanding rather than on producing personal change.

This research is being conducted in order to investigate the growth and progress of Ireland's motivation to establish as European Islamic Finance centre within the aviation sector promoting Ijarah to enter the worldwide market not only in western but also in the middle east and Asian region.

1.6 Structure of the project paper

A standard of this type of dissertation will be structured as follows:

Title:

The title of dissertation will be capture the audience's attention as the briefest summary of the topic that will be discuss in this dissertation.

Acknowledgements:

This section will show an expression of thanks to all those people that involved and helped in the preparation and writing during the course of the research.

Contents page:

This will be a guide to the various sections of the work and how it is organized. It will also provide a useful navigation tool to find the page numbers of the different sections.

List of tables and figures

Abstract:

A slightly longer summary of the dissertation outlining the main issues, methods of the investigation and findings.

Chapter 1: Introduction

This chapter will consist of the introduction and the overview of the study to give a clear information regarding to the objective, scope of the paper and definition which is related to the aircraft leasing as well in the concept of Islamic Finance leasing which is Ijarah leasing. The introduction of Ijarah leasing will be explain including the contribution of the study to promoting Ireland as the future Europe's aircraft leasing hub promoting Ijarah related to its growth and development progress.

Chapter 2: Literature Review and Theoretical Framework

The literature review and theoretical framework will be focus in the second chapter. In this section, researcher will identify the gap in the research and produce a rationale evaluation in-depth of previous research which already undertaken on a specific topic.

Chapter 3: Methodology

The third chapter will discuss and describes the methodology used in constructing this research which includes the overall design such as type of study, population and sample, data collection procedures and analysis method.

Chapter 4: Findings

In this chapter, all the interpretation, presentation or discussion will be part with the results. Any comparisons with the results of previous research or effects of methods used on the data obtained will be discuss in this section.

Chapter 5: Conclusion

This chapter will be the conclusions based on the research. This will be crucial main point of this dissertation to come with extremely clearly conclusion related to the research problems or questions.

Chapter 6: Discussion and recommendation

In chapter five, the research objectives are discussed while taking into account the literature reviews to identify and compare these two materials. This allows validity, reliability, limit and the contribution of this research to be assessed thus allowing further discussion to develop recommendations to the research findings.

Chapter 7 - Self-reflection on own learning and performance

This chapter provides an insight on the researcher's skill and development. The researchers learning style are evaluated in this reflective exercise to assess how efficient and effective the researcher has been throughout the entire course of the MSc.

References:

The list of the background reading research both in depth and in scope with numerous extraneous references related.

Appendices

This section contains supporting document to provide evidence and process of this research.

2.0 Literature review

“Research literature” or “literature” refer to the body of research both theoretical and empirical that presents a logically argued case founded which need to consult in order to develop, understand, analysing and evaluate the research (Machi, 2009). To be able to perform a good research, knowledge in the current topic area is very important.

The primary of any literature review are works that appear as past studies whether in books or journal articles which represent the systematic communication of scholarly knowledge (Gabbott, 2004). Thus, in this section, reviewing the previous past research findings on different resources such as books, scholarly articles, electronic databases, reports, conference proceedings and other resources throughout library or the Internet will be relevant and crucial to the research.

The existing literature will help researcher to identify the gaps in current knowledge and provides with different interpretation point of view from past research which already conducted. This will increase the extent of knowledge in selected industry area and enhanced with new research ideas and new perspectives but first researcher must be familiar with the issues before moving forward. Without establishing the state of the previous research, it is difficult to improve the new research from the previous research (Randolph, 2009). It is good to always remember that informative literature review should always defined and guided by the research questions.

2.1 Literature background

Conversely, lessors globally are placing more orders for new aircraft in anticipation of higher future demand and use leases to finance their business activities. Although the volume of leases slowed in 2008, European leasing was still responsible for financing, on average, approximately 28 per cent of European investment, excluding real estate (Leaseurope, 2015).

Morais (2013) suggested that the objective of companies when they decide to lease may not be the same as their objective when they decide to buy. For example airlines are gradually increase leasing in aircraft rather than owning because many airlines company around the world nowadays are less enthusiastic about buying new planes regarding the factors of uncertainty and volatility in the air transport market. Bijan Vasigh (2012) indicated that airlines that apply leasing enjoy the flexibility it provides, which also allows them not to be as constrained from a liquidity position.

Global Industry Analyst (2015) report suggests that when a company deciding whether to finance an aircraft purchase with their own funds or with a commercial bank loan secured on the aircraft or with a leasing arrangement, they will use whichever route minimizes the cost of funding, including the impact of tax depreciation of owned assets.

The growth in air traffic demand and reducing risks to optimize their return on invested capital by establishing portfolio diversification are the principal factors driving demand for leased aircraft (Ackert, 2012). Leasing companies and aircraft manufactures have developed many innovation financing methods to satisfy the needs of the airline industry. These include different kinds of leases, equipment trust certificates and government export credit (Bijan Vasigh, 2012).

Fractional share operators' profitability depends on their ability to recoup the cost of buying, financing and operating the aircraft for example like fuel, pilots, hangars, maintenance and others in their segment pricing (Commission, 2012). As a result, financing costs are very important and will affect to these purchasers as well. The airline's company will also simultaneously try to balance the financial implications of operating leases with financial leases in order to avoid moving away from its optimal capital structure such as leverage or debt level, which could even cause a downgrade in their rating (Esquivel, 2014).

Assets will impact supreme remarketing potential and the ability to select the possible assets better than average value retention is the important step before acquire an aircraft investment

portfolio (Richard Gritta, 2010) . Thus, it requires an extensive understanding of those qualities that enhance an aircraft’s qualified asset strengths. Ackert (2012) in his study indicated this is important criterion for maximizing return on invested capital is the ability to determine the ideal time to invest or divest in aircraft assets.

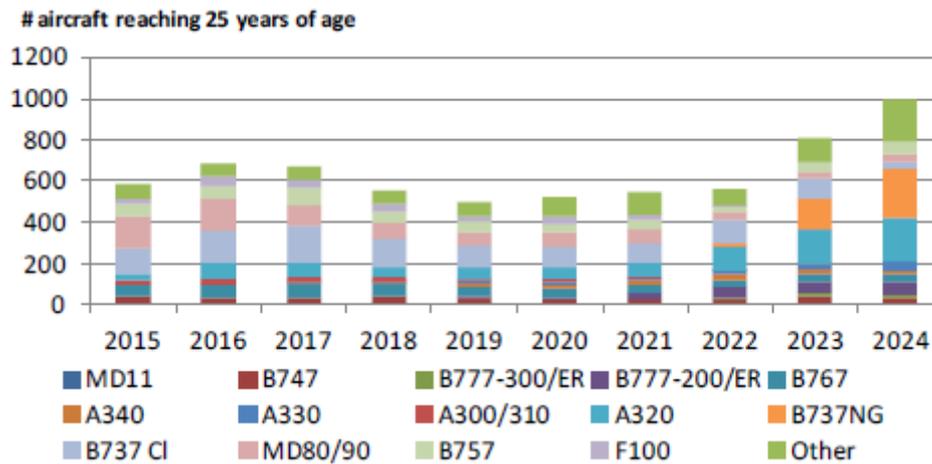


Figure 2: Extensive requirement to replace ageing fleets

Dick Forsberg (2015) said that since aircraft are highly mobile assets and if an airline finds that expected demand does not materialise, it can readily transfer aircraft to other operators. It is a usual activity nowadays facilitated by operating lessors and the original equipment manufacturers (OEM) overbooking profiles because the rising tide of ageing aircraft approaching their natural retirement age will absorb a significant proportion of new deliveries.

The industry expects suggest that airlines can make significant savings by replacing old aircraft with new which is more efficient aircraft (Forsberg, 2015). Figure above shows the extensive requirement to replace ageing fleets and the analysis report by global aircraft leasing, Avolon firm indicated that there are significant savings to be made from replacing older aircraft with new which are more efficient ones. Fuel and oil price are clearly the important factor in the analysis. If fuel price significantly lower than current levels, the economic benefits of a new aircraft would fall to a level that might make airlines reconsider their purchasing requirements (Stanley, 2013).

By leasing, airlines could may structure purchases of aircraft to avoid recognise the asset and related liability associated with the purchase. To determine the effect of structuring purchases as leases, Gritta (1974) suggested by capitalized the lease payments using a present value of future cash flows methodology and long-term leases will considered as financial leases. These also included leases with rentals that may exceeded the purchase price of the equivalent asset, or a contract lease term equal to the useful life of the plane.

In Islamic banking, there are several type of financing that exist to be as alternative to the conventional finance. Conventional Banking is an interest base banking system (Fatima, 2006). Its products and services are totally interest base and there is no mutual understanding among the parties of profit or loss, no liability will be sharing, no risk deviation among parties. It is a fixed profit system against investment and no loss or risk against investment (Kamali, 2007 A.D./1428 A.H.)

Islamic securitization offers the similar economic benefits that conventional structured finance such as the active management of designated asset portfolio and greater control over asset status, as well for certain assets to make them self-financing at a fair market rate. In some circumstances, the Shariah compliance also entails tax exemptions when investors hold direct ownership interest in the securitized assets (Jobst, 2007). Islamic financing are more diversified funding option that broadens the pricing range and asset supply with high demand for alternative investment products, there will be greater lending width amid a low-yield market environment.

Llewellyn, D.T. (2001) indicated that the main difference between Islamic banks and conventional banks is the exclusion of interest. Even though operations of Islamic banks seem similar to those of conventional banks, there are major differences such as the mix of contracts on the liabilities side of the balance sheet, the debt-equity nature of investment deposits implying that depositors will share in the risk of the bank. Other than that, a wider variety of modes of financing and asset mix of banks and the risk sharing characteristics of the contracts issued and who abides the risk.

Gafoor (1990) added that leasing is a financing practice which is allowed under Islamic law. It is a contract on profit sharing between the bank and the client. Finally, the leasing is agreed contract of sum instalments and for a mutually agreed period of time into a savings account held with the same bank. Ansari (2014) discovers on how Islamic banking is working and what effects it is showing Ijarah is working. He added that the important fact under Shariah the leasing and sale or purchase transactions are two separate things and should not be mixed up in one contract, as both are independent and governed by separate rules.

2.2 Taxation developments in Ireland

Ireland continues to build on its reputation as a centre of excellence for aircraft financing and leasing and its position has been further boosted in recent years. There are a number of reasons why Ireland attracts investment in this area which obviously included its favourable tax regime, a wide double tax treaty network and professional expertise (Chris Quinn, 2014). These factors combined with a government which is committed to growing and supporting the industry mean that Ireland has become the obvious location through which to finance and lease aircraft.

The Irish government has repeated its commitment to maintaining the 12.5% corporation tax rate for active trading companies and (PricewaterhouseCoopers, 2014) point this in their report as significant tax planning opportunities while a tax depreciation write off period of certain years is significantly quicker than other leasing locations. This commitment has been positive feedback for the aircraft financing and leasing community. O'Brien from KPMG Ireland also suggested that this attractions is because of to two factors which are low tax and treaty access (Financemagazine.com, 2015).

2.2.1 Expansion of double tax treaty network.

Ireland has now signed 71 double tax treaties (68 of which are now in force). Ireland's most recently signed double tax treaties include treaties with countries such as Ukraine, Thailand, Botswana, Uzbekistan, Ukraine, Kuwait, Qatar, Bahrain, Saudi Arabia, Armenia and Egypt.

The Irish tax authorities are very active in increasing the number of treaties to which Ireland is a party, particularly with emerging market and Middle-East jurisdictions (Chris Quinn, 2014).

Pat O'Brien from KPMG Dublin said in interview for (Financemagazine.com, 2015) said that while different offshore locations may offer different attractions but Ireland's network of double tax treaties is much better and this network is advantages for companies to facilitate aircraft lease securitizations.

2.2.2 New tax credit for non-treaty withholding taxes.

Tax treaties play an important role in Ireland's successful leasing industry by reducing the operating cost or eliminating withholding taxes affected on inbound lease rental payments. Tax treaties allow Irish lessors to claim tax credits against their corporation tax for any unrelieved foreign withholding taxes (Chris Quinn, 2014).

Until recently, an Irish lessor could not claim a similar tax credit for foreign withholding taxes where no tax treaty applied but in recent developments, an Irish lessor carrying on a trade in Ireland may now also claim a tax credit for foreign withholding taxes on lease rentals where there is no applicable tax treaty (Curran M. H., 2011).

The relief is granted on a unilateral basis by Irish domestic law (Eustace, 2013). This recent development has positioned Ireland as an attractive leasing jurisdiction for leasing aircraft and other assets into jurisdictions which do not have a wide tax treaty network.

2.2.3 Irish 'Section 110' companies.

It is crucial to make sure that aircraft financing can be raised in a tax efficient way. In structured finance and securitisation transactions, an Irish 'section 110' company that is generally used to raise debt financing to acquire assets on a tax neutral basis (EY, 2014). It is an Irish standard

for company that satisfies the conditions of section 110 of the Taxes Consolidation Act 1997 of Ireland.

If companies can conduct their activities and participate in most structured and meet certain conditions for finance vehicles, they can qualify as Section 110 companies in such a way that the transaction should be tax neutral on a tax neutral basis (Cox, 2012). It suggest that the company is generally entitled to claim a tax deduction for all of its financing expenses, including its profit-linked financing expenses. Trust (2015) also mentioned about this statement in his research regarding the possibility of Irish company that meet conditions with Section 110 can acquire assets using debt financing by ensuring that the Irish section 110 company pays out all of its return in respect of those assets as tax deductible interest payments to lenders and investors.

The categories of assets in Irish section 110 have been extended to include plant and machinery which also including aircraft. Thus, Irish section 110 companies have proven to be very attractive vehicles to satisfy the bankruptcy remote requirements of financing banks in aircraft financing transactions and the trend of using bankruptcy-remote Irish section 110 companies in aircraft financing transactions has continued from year to year (Chris Quinn, 2014). Enhancements to Ireland's "Section 110" securitisation regime in 2011 indicating greater opportunities for other foreign investors seeing Ireland as a location for aircraft leasing and financing activities, by delivering a better overall after-tax return (PricewaterhouseCoopers, 2014).

2.3 Cape Town Convention and Aircraft Protocol.

The Convention and Protocol are also known as the "Cape Town Convention" which they are together to be regarded as an EU Treaty as defined in section 1(2) of the European Communities Act 1972, by virtue of the European Union (Definition of Treaties) for the Convention on International Interests in Mobile Equipment and its Protocol on matters detailed to Aircraft Equipment Order 2014 (OGL, 2015).

The Cape Town Convention is designed through an International Registry to create a standard for international structure aimed at the development, registration, protection and enforcement of certain international interests in airframes, aircraft engines and helicopters (O'Driscoll). The objective of the Cape Town Convention is to reduce the cost of raising finance for the high value mobile assets which usually cross borders (Chris Quinn, 2014).

The Convention provides the outline for the financing of this type of asset accompanying with the protocols raised by financing a specific type of asset such as aircraft equipment. Therefore, this guidance only relates to ratification of the Aircraft Protocol (OGL, 2015) and will result in reduced finance costs to airlines for financiers (Planta, 2009). For example, one of the case for airlines in ratifying states that they want to add Boeing aircraft and US Eximbank agreed on a discount as its exposure fee on financings into Cape Town conditions (O'Driscoll). The Convention and the Protocol provide for effective and efficient legal system in order to protect creditor's rights to allow financiers to use high value aircraft and aircraft engines as collateral for the amount monies borrowed (Planta, 2009).

The law will also provide creditors with a range of basic default remedies and recourses. If there is evidence of certain defaults, the Cape Town Convention provides a means of efficiently obtaining interim relief pending final determination of its claim on the merits, deregistration, repossession, sale, lease and export of aircraft equipment (David B. Kierans, 2013). The protection under the Cape Town Convention and Aircraft Protocol has been progressively relied on by lenders and in certain transactions because some of the traditional local law mortgages are inefficient from a time and cost perspective (Chris Quinn, 2014). For example, if the borrower and mortgagor is located in Ireland, the lenders will get the benefit of the Cape Town Convention and Aircraft Protocol.

An Irish limited liability company which known as Aviareto Limited, is a joint venture between the Irish Government and SITA reappointed as the Registrar to the International Registry for a further five years after 2012 (Donohoe, 2015). Ireland was one of the first Contracting States to the International Registry and Aircraft Protocol and this has more experiences to be the reason why investors favour Ireland as a jurisdiction for aircraft financing (Chris Quinn, 2014).

In addition, the Irish High Court was also appointed as the international centre for the aircraft leasing disputes under the Convention (Eustace, 2013).

2.4 Irish Aviation Authority

The Irish Aviation Authority stimulates and oversees the safe operation of all aspects of General Aviation within the State, Irish registered aircraft and Irish license holders that may engaged in aviation activity². The Irish Aviation Authority (IAA) also plays a critical role in supporting the activities of the aviation finance and leasing industry.

Most of aircraft which are operated in countries such as Russia and Italy are registered with the Irish Aviation Authority. Owners and lenders choose Ireland as the State of Registration to remove deregistration risk and protect the residual value of the aircraft by having the aircraft registered with an EASA registry (Chris Quinn, 2014).

Further protection benefits can be applied through registration of an IDERA with the Irish Aviation Authority. In addition, this development has continued in recent years and has been further boosted by the fact that registration of an aircraft in a Contracting State to the Cape Town Convention and Aircraft Protocol is one of the advantage factors under the Convention and Protocol to create an international interest.

There is a very high level of daily interaction between the leasing industry and the IAA and a significant reliance on the quality of service provided by the IAA. The importance of the role played by the IAA cannot be overstated and, on the whole, the industry is very supportive and appreciative of the good work done by the IAA (FAEI, 2013).

² <https://www.iaa.ie/general-aviation>

2.5 Irish Stock Exchange

The Irish Stock Exchange (ISE) is devoted to explore broader range of opportunities to facilitate and support the facility of capital to the aircraft market. To help investor access aviation assets through a regulatory approved structure, ISE introduced new products and enhanced services from its existing platforms that provide low-cost and efficient listing regimes for aviation assets to (Joe Gill, 2015).

The ISE has recently developed a dedicated Aviation Exchange for aviation related debt and other financing instruments (PricewaterhouseCoopers, 2014). This approach is due to the increasing capital markets to the global aviation sector and at the beginning of 2014, there were 26 aviation debt listings with a total value of US\$12.7bn (Chris Quinn, 2014) and this figure shows that ISE offer a highly efficient, low cost platform delivering better visibility, greater investor reach and improved market growth for the aviation industry (Curran, Ireland as a Location for Financial Services, 2014).

Deirdre Somers, ISE Chief Executive clarified that this new Aviation Exchange will be a *“dedicated platform focussing in aviation to manage the related debt instruments that will provide issuers and investors with what they are looking for reflectiveness and expert knowledge for this sector.”* (Chris Quinn, 2014). In addition, the Irish Government has adopted progressive policies towards creating a legal ownership framework for aircraft investors to make it standardize internationally.

Therefore, it is necessary to provide the infrastructure needed to complement Ireland’s strengths in aviation finance and help expand the capital-raising capabilities of the sector (Joe Gill, 2015). The ISE is located in the jurisdiction that is a global leader in air finance due to a history of skills and services development in support of air finance.

2.6 Political & economic environment

The Irish government is very enthusiastic in the development of the aviation industry in Ireland, as a number of pro aviation procedures were introduced in the recent finance bill which includes the amendment and incentives for foreign administrators repositioning to Ireland and the extension of Section 110 Companies Act as outlined above (O'Driscoll). We can see that Ireland is now in the right path as it dominated to over 50% of the world's leading organisations in this financial services, which includes banking, investment funds, asset financing and insurance sector (Curran, Ireland as a Location for Financial Services, 2014).

Due to financial crisis, on November 29 2010, to save the economy from devastating the government take approaches by negotiated a financial assistance package with the EU and the IMF which totalling €85 billion including a contribution of €17.5 billion from Ireland's own resources (Whelan, 2013). This financing are provided by the programme partners is helping to reduce the impact suffered as a result of the bursting of the bubble to the Ireland's economy and public finances (Commission E. , 2012). EU leaders agreed to reduce the interest rate and to extend the maturity on the EU loans provided to Ireland under the programme in July 2011 to make sure that Ireland are not burden with debt and keep slowly recovered (Whelan, 2013).

The Government recognises the importance of aviation sector to Ireland's economic growth and committed to creating an environment in which the industry can maximise its potential. For example, the suspension of the air travel tax in 2013 has increased the interests of investors to approach Ireland (Donohoe, 2015). In addition, in December 2012 the government and the IAA hosted the National Conference for Aviation Policy in Ireland to launch the development of a new Civil Aviation Policy for Ireland (Chris Quinn, 2014).

Government Policy has also established well and being a crucial measure in making Ireland a location of choice for multinational businesses and for foreign financiers because a stable financial and economic condition is one of a key factors in choosing a jurisdiction in which to structure their transactions (O'Driscoll).

2.7 Islamic finance in Ireland

In 2012, the Department of Finance in Ireland created a report to bring Islamic finance to Ireland. One of the efforts was Finance Act 2010 that brought by former Minister of Finance, Brian Lenihan which introduced to facilitate the introduction and to promote development of Islamic finance in Ireland under Section 35 (Elbay, 2014).

Section 35 FA2010 was introduced to facilitate the introduction and to promote development of Islamic finance and it contained with legislation amendments that are needed for possible adjustment for the possible Shariah compliant transactions to take place in Ireland's jurisdiction (KPMG, 2010). Among of them is the tax treatment in relation to Islamic finance certificate, stamp duty, Ijarah transactions and Takaful arrangement. Subsequently after the issue of 2010 Act, Islamic finance products would be treated and taxed on the same basis as conventional investment products in line with similar approaches that already taken by the FSA in United Kingdom (Elbay, 2014).

The existing tax legislation for conventional investment funds already lodged the Shariah requirement as the products domiciled in Ireland and according to Khan (2009) they are exempted from tax or any capital gain. This will be an advantage to attract more investors for entrants by international institutions Ireland as its tax system is will lead for more growth FDI in the IFSC as suggested by Aalam (2013). As a lowest corporate tax rate of the country at 12.5%, attracted around 20% or €2.5 billion investment of Shariah compliant funds from the Middle East in 2009 are now based in Ireland (Elbay, 2014).

Since Ireland has double tax agreements with most of the Middle East countries and is growing each year (Warde, 2000) have positioned Ireland as a very attractive location for introduction Islamic products and increasing the economic growth. In addition, collaboration with Malaysia via a Memorandum of Understanding, Ireland now has also access to the Asian market (Aalam, 2013).

A Malaysian based company, Amanie Advisors³ has established in Dublin in 2012 to provide advisory and Islamic finance services such as for the consultation on the Islamic capital markets. The Minister for Jobs, Enterprises and Innovation, Mr Richard Bruton indicated that this is significant due to the development of Islamic finance sector in Ireland as it would facilitate to another alternative sources of financing and the investment is supported by the Department of Jobs, Enterprises and Innovation through IDA Ireland (Post, 2012).

Other than that, CIMA Ireland is already in partnership with the Law Society Finuas Network to introduce and expose lawyers with the learning model of Islamic finance⁴. This indicated as an opportunity preparation for Ireland's local professionals to be equipped with Islamic finance basic knowledge and increase the expertise in this sector. CIMA Diploma of Islamic finance (CDIF) also offered to their professionals course and in line with Ireland's objective to be the "Centre of excellence" for Islamic finance and after third year into their program, CDIF have gained more than 100 participants to complete the course (Law society of Ireland, 2012).

The Chairman of Irish Funds Industry Association (IFIA), Ken Owens, said that Ireland and UK financial institutions saw opportunities worth billions in Islamic finance since the demand is keep growing each day from investors and this could help in economic growth by attracting Islamic organizations to Dublin (O'Carroll, 2010). In addition, the government is very positive on enormous growth in the financial industry as a whole for this new opportunities (Faisal, 2012).

PriceWaterHoususeCooper (2012) reported that the Irish Prime Minister pledged his full support by emphasising Islamic finance as a key opportunity for strategic growth for the IFSC in Ireland 2011 until 2016 as published by the Irish government. The IFSC is already managing to a few Shariah funds and as the Financial Regulator set up expertise to specialize in the authorization of Shariah compliant securitisation. According Jill Forde (2010), financial regulator spokeswoman, IFSC is now developing familiarity between the regulatory system here and to Middle-east countries. This argument is supported by Brennan (2010) as IFSC is

³ amanieadvisors.com

⁴ www.finuas.ie/law-soc.html

already managing to five percent of Islamic funds globally and a twenty percent established outside of the Middle East.

2.7.1 Shariah Law

Shariah rulings are taken from the Quran which is the main Islamic text and agreed by all Muslims as being both the original words of Allah (God) as revealed to the Prophet Mohammed. Shariah is also based upon the Sunnah which is from the traditions and practices of the Prophet Mohammed (Millar, 2008).

Shariah compliant securitization consists of two type of point of view assessment which are from an investor's perspective including both the underlying reference assets and the transaction structure need to fulfil two legal regimes that are applicable to commercial law as well as Islamic law. Thus, in Islamic finance and financial instruments that under Islamic law are subject to the approval of a Shariah board, which evaluates the religious compliance of the substance and the structure of the transaction and pronounces its compliance with the Shariah (Jobst, 2007).

Islam may be perceived as comprising three basic elements in religious board. The first element is aqidah, which concerns all forms of faith and belief by a Muslim in Allah and his will; from the fundamental faith in His being to the ordinary beliefs in His individual commands. The second is Shariah, which concerns all forms of practical actions by a Muslim manifesting his faith and belief. The third is akhlaq, which concerns behavior, attitude and work ethics with which a Muslim performs.

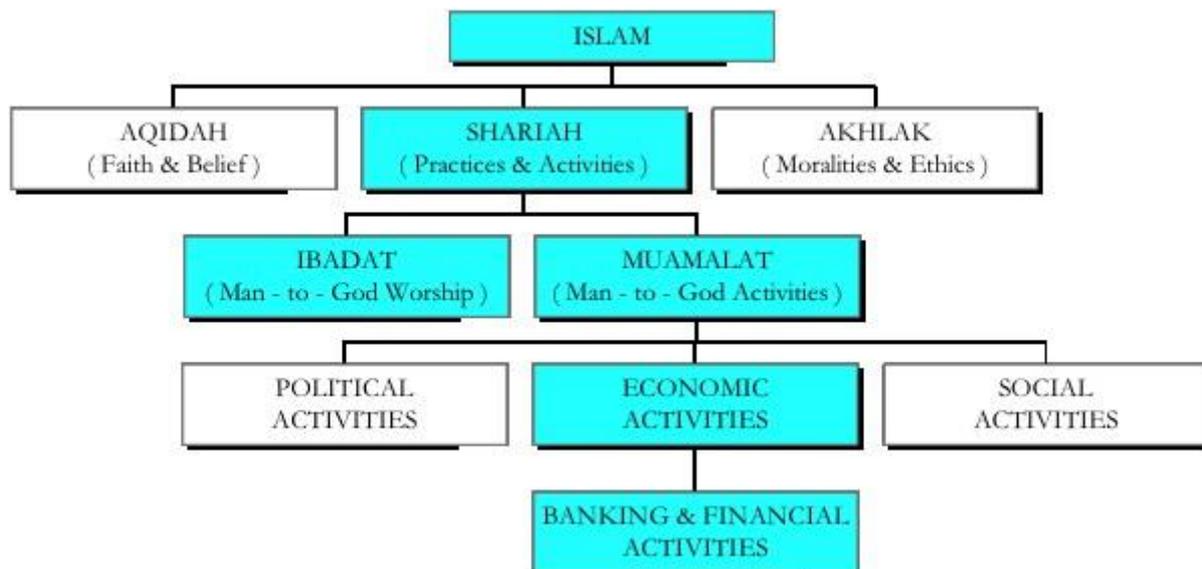


Figure 3: Component in Islam

According to Rodrick Millar (2008, p.3) Shariah law is to create fair and socially systems within the society which is comprises complete and comprehensive not only the code of behaviour but also governing the moral, ethical, spiritual, social the financial and business. This statement also supported by Udovitch (1970) who suggests that Shariah law is significant part of Muamalat, which concerns human relationships, including economic or commercial activities within his while Ibadat is concerned with the practicalities of his worship to Allah which related between man-God relationship. This is the root of Islamic banking and finance.

Ijarah are structured according to the principles of Islamic Shariah law. In addition, all securities that comply with the Islamic Shariah and its investment principles, which prohibits the paying, and charging of interest (LMC, 2008).It must explicitly abide by Shariah and that a Shariah board must be establish to monitor its implementation (Grainger, 2009).

The Islamic world developed the most sophisticated system of trade and currencies the world had yet seen since Islam’s “golden age” which approximately the period from the time of the Prophet Mohammed until the fall of Al-Andalus in 1492. The processes created during this period provide a broad basis from which to construct and extrapolate rules that can be applied to modern day financial transactions.

2.7.2 Sources of Islamic finance

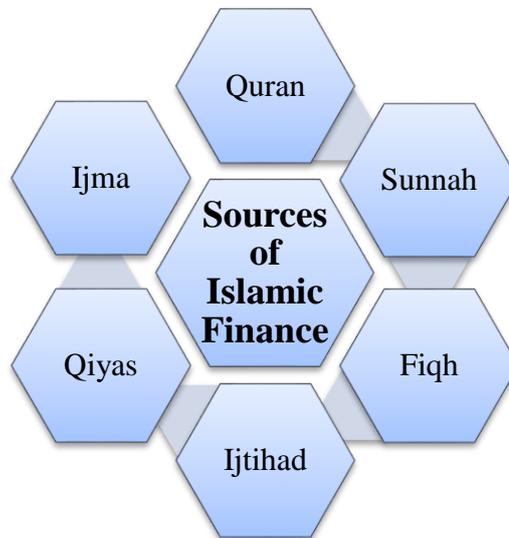


Figure 4: Sources of Islamic finance

Mauro et al. (2013) highlighted the Shariah made based on Quran and Sunnah (daily practice of Prophet Muhammad), sayings and actions which transmitted in the form Hadeeth (stories from companions of Prophet). However, Quran and Sunnah just provide foundation solutions which need interpretation to cover all of the questions confronting the contemporary Muslim community⁵. Thus, secondary sources of law needed.

The secondary sources are Islamic jurisprudence (fiqh), according to the interpretations (ijtihad) of expert in specific problem (e.g. ones of implicit or unclear rules), on deductive reasoning (qiyas)⁶ and expert consent of various schools of thought (ijma).⁷

⁵ The legal evidence is divided into 2 categories: qat'iyat (unambiguous evidence) and zanniyyat (probabilistic evidence), where by the former is not permitted to be interpreted and the latter leaves some scope for interpretation by qualified Muslim jurists.

⁶ This means that if a ruling is required on a case not covered by the Quran and the Sunnah, a comparison can be made with a similar situation covered by these.

⁷ The underlying idea is that the ummah (Muslim community) itself becomes a source of law. However, there is no agreement on the consensus; the scope of which varies from the entire community of believers to the agreements of scholars.

2.7.3 Islamic Perspective of Riba “Interest” and Profit

Prohibition of interest (riba) is one of the fundamental principles of Islamic commerce which prohibits unnecessary profits or excessive gain from a transaction (Fisfo-Oridedi, 2012). This interpretation and many others given by scholars of Islamic jurisprudence (fiqh) have agreed that the interest (riba) on its prohibition as mentioned in the Holy Quran and Hadith (Usmani, 1998). Islamic concepts are fairness and justice and because of that the payment and receipt of interest (riba) is strictly prohibited because it is considered as an application of exploitation and injustice (Fisfo-Oridedi, 2012).

Conventional securitization, however, involves interest-bearing debt (Jobst, 2007) and in conventional western style banking, a transaction is financed by a bank on the understanding that the capital lent to the borrower must be repaid plus interest at a rate agreed in advance as compensation taking into account the time value of money and the value of the service of lending (Fisfo-Oridedi, 2012). For example, at the due date, if the borrower failed to repay the amount borrowed, the loan extended for another year but the borrower had to pay more than the original amount of loan. In addition, if at the end of the second year, the borrower again failed to repay the loan, the loan will be accumulated more than the previous year because of the interest rate. Thus, the insolvent borrower would owe the original loan plus a double or more amount of loan lent to him at the outset (Zaman, 2008). Usmani (1998) suggests that this type of transaction will burden the borrower and be considered as an application of exploitation. Consequently, transactions financed may be declared void or voidable in Islamic law jurisdictions.

Such a purpose under Islamic law must involve the funding or the production of real assets rather than the purchase of financial securities, which would amount to second-order financing similar to lending for derivatives (Wilson, 2004), with the subsequent gearing being speculative. Islamic securitization must confer upon the investor clearly identifiable rights and obligations in securitized assets in order to ensure direct participation in the any distribution of risk and reward between lenders and borrowers with limited risk mitigation or indemnification through credit enhancement.

However, there are various interpretations presented by different researchers on the issues to make profit if there are no interest applicable in any transactions. The issuance of interest-bearing debt securities with a secured redemption could not be resolved with Islamic financing principles because of the prohibition of profit from debt and speculation (Jobst, 2007). Any gains from Islamic fixed-income securities are related to the purpose of the funding is used because financial relationships under Islamic law are not governed by interest but by shared business risk and returns from investment with clear and transparent rights and obligations to investors (Chapra, 2008).

Riba	Profit
1. When money is “charged”, its imposed positive and definite result is Riba.	1. When money is used in productive activity (e.g., in trading), its uncertain result is profit.
2. By definition, Riba is the premium paid by borrower to the lender along with principal amount as the condition for the loan.	2. By definition, profit is the difference between the revenue from production and the cost of production.
3. Riba is prefixed, and hence there is no uncertainty on the part of either the givers or the takers of loans.	3. Even if a sharing ratio is agreed in advance, profit is still uncertain, as its amount is not known until the activity is completed.
4. Riba cannot be negative, it can at best be very low or zero.	4. Profit can be positive, zero or even negative.
5. From Islamic Shariah point of view, it is haram (prohibited).	5. From the Islamic Shariah point of view, it is halal (allowed).

Table 1: Summary of differences between Riba and Profit

A summary of the most relevant differences between riba and profit as accessible by Musa & Musova, (2009) in his research is shown on Table 1⁸. Profit by common definition, is kind of the reward for entrepreneurship that involves business operations such as providing productive resources, business expertise and risk-bearing in a given undertaking. Khan (1995, p.54) believes that “*Profit* by definition is the reward for risk-bearing only and stated that there is no profit for assured principal and any profit for such principal means predetermined positive return or time-value of resources which is not permitted in Islam.”

⁸ http://www.ekf.vsb.cz/shared/uploadedfiles/cul33/Musa_Hussam-Musova.pdf

The application of interest in some commercial transactions is legal in the United Arab Emirate (UAE) even though it known as Islamic country. In Iran however, such transaction will be illegal and void on the basis of the prohibition of interest (riba)⁹. According to Chapra (2008), at the time of issuing a report in 1980 on the elimination of interest from the economy, the Pakistan Council of Islamic Ideology concluded that the term riba encompasses interest in all its financial securitisation whether it relates to loans for consumption purposes or for productive purposes, whether the loans are of a personal nature or of a commercial type, whether the borrower is a government, a private individual or a concern, even if the rate of interest is low or high” (Chapra, 2008, p.109).

In this research, the concept of leasing cost is based on interest rates and can be negotiated depends on its usage. The residual value, which is the estimated worth of the asset at the end of the lease will be closely tied to the number of period of use of the asset. A lower usage will improve the residual value and will lower the lease payment. However, according to Jobst (2007), Islamic securitization from a procedural and substantive perspective would need to involve the conversion of uncertain, business related proceeds of direct investment in religiously-sanctioned real economic activity.

2.8 The structure of Ijarah

Ijarah has been conceptually understood as an agreement between two parties and the contract of exchange where one party enjoys the benefit arising from employment by another party in return for a consideration for the services rendered and from the use of an asset. Even though it is under the term of Islamic finance, Marie Hurley (2010) argued that Ijarah contract is similar to a conventional leasing arrangement. A normal Ijarah arrangement would generally refer to an operating lease. However, Ijarah arrangements can also be used to structure finance leases or hire purchase transactions.

⁹ Ansari-pour, M., *Interest in International Transactions Under Shiite Jurisprudence*, 9 Arab L. Q. 1994, p. 158.

For Ijarah transaction, it is also defined as transferring the usufruct of a particular property to another person in exchange for a rent claimed from him depends on the circumstances and conditions (Usmani, 1998). From the view of juristic (fiqh) definition, Ijarah refers to a contract that utilize a lawful benefit against a consideration (Al-Zuhayli, 2002). In Ijarah, the right to use the object is transferred to the hirer, not its ownership. Thus, Ijarah is a sale of usufruct not of a physical entity.

In general, Muslim scholars define Ijarah as owning a specific benefit of an asset against a consideration and in particular, there are different interpretation definitions cited by the Muslim scholars as the four schools of jurisprudence have given different explanations to the meaning of Ijarah. Shafi'ie, Maliki, Hanbali and Hanafi are scholars of the four schools of Islamic jurisprudence have cited various definitions of the contract of Ijarah. However, despite of different interpretations definitions they agreed on the fact that the contract of Ijarah is a contract on using the benefits or services in return for compensation (Vejsagic, 2014).

Maliki school of Fiqh defined Ijarah as a contract which relates to permissible usufructs for a particular period and a particular consideration not arising from usufruct. While Shafie school of Fiqh distinct it as a contract for a defined intended usufruct liable to utilization and accessibility for a particular recompense. Hanbali school of Fiqh defined it as a contract for a particular permissible usufruct which is taken gradually for a particular period and a particular consideration¹⁰ and according to Hanafi School is that it is a contract which enables possession of a particular intended usufruct of the leased asset (Ayn) for a consideration. Some jurists stipulated that the usufruct from the leased asset should be intended while others explained it as considerable of good intentions by Shariah and reasoning and not just mere intentions (Ghuddah, 2010).

Ijarah is validated by the Quran, Sunnah, and general consensus (ijma) where several verses are found in the Qur'an (al-Kahf, 77: al-Qasas, 26: al-Talaq, 65-6) refer to ijarah as an employment contract and on the operative's entitlement to a remuneration where references are also made to the practices of previous Prophets on Ijarah in the sense of employment as

¹⁰ Al-Fiqh Alaa Al-Mazahib Al-Arbaa 2/95-98

well as rental of real property. The validity of *ijarah* is thus upheld by conclusive (*ijma*) of the companions, as well as general custom (*urf*) among Muslims that prevails to this day (Kamali, 2007 A.D./1428 A.H.).

As concerns the aviation industry, *Ijarah* is considered to be one of the most optimal lease forms for many airlines, as it closely corresponds to the conventional leasing transactions. At some point it also reflects the model of financial or operating leasing and the final contract depends on the specifics of a particular deal whether it is an asset, debt, business or other form of investment (Goberis, 2013).

2.8.1 Types of *Ijarah*

Ijarah can be divided into two types, namely operating lease and financial lease. Traditionally, the only kind of *Ijarah* that was only operating lease, whereby one owns an asset or equipment and leases it to others for rental for a specified period. However, Usmani (1998) indicated that certain financial institutions have adopted leasing as a mode of financing instead of long term lending on the basis of interest since the financial system is now getting more complicated. Types of lease ‘financial lease’ as distinguished from the ‘operating lease’ and many basic features of actual leasing transaction have their own characteristics in Islamic transaction. However, analogous to conventional operating and finance leases, *Ijarah* leasing¹¹ is an asset-based that provide credit in return for rental payments (Jobst, 2007).

The principal of *Ijarah*, in the term of leasing is very similar to the rules of sale because both cases related to something is transferred to another person for a valuable consideration (Ansari, *Islamic Banking: Ijarah and Conventional Leasing*, 2014). The only difference between *Ijarah* and sale is that in the latter case the corpus of the property is transferred to the purchaser,

¹¹ An *ijarah* lease fulfills the functions of either a finance or operating lease. It is increasingly used in aircraft finance by lessees in Islamic countries and in operating lease-back transactions, which combine conventional lending with Islamic investment. Note that Islamic scholars make no distinction between operating and financial leases as to the classification of profits from the use of assets against the prohibition of interest

however in the case of Ijarah, the corpus of the property remains in the ownership of the transferor, but only its usufruct such as the right to use it and it is transferred to the lessee¹².

2.8.1.1 Operating lease (Al-ijarah ‘ain)

Ijarah contracts that do not end up with the transfer of ownership of leased assets to the lessee is also known as simple Ijarah because it does not tied with a purchase agreement. This type of contract, lessor leases an asset to another lessee for periodic rental payments and the lessor can be the owner of the asset or an intermediary lessor (Usmani, 1998). During the lease period, the asset remains the property of the owner who would normally bear the cost of expenses. If the asset is to be insured, the lessor or the lessee may insure it but it must be at the lessor’s expense (Marie Hurley, 2010). However, that cost may be implicitly factored into the calculation of the lease rental whether the lease rentals are specified in the lease agreement and these can be fixed or variable amounts.

If the lease rental becomes outstanding or overdue, the lessor does not charge any interest of any rental payment to the lessee. However, the contract may require the lessee to make an additional payment towards a benevolent cause. Meanwhile, on the expiry of the lease term, the asset is handed back to the lessor and is not preceded by a promise to lease or the concept is not based on prior promise (Marie Hurley, 2010).

2.8.1.2 Financial lease (Ijarah Muntahia Bittamleek)

An Ijarah arrangement can also be used to structure a finance lease where the value of the asset is broadly recovered during the primary lease period and a nominal or token lease rental is charged during the secondary lease period (Marie Hurley, 2010). Despite of the evolution and complexity of leasing transaction, modern Islamic banking and finance has created another

¹² <http://www.islamicbanker.com/education/ijarah-introduction>

form of ijarah known as Ijarah Muntahia Bittamleek (IMB) or financial lease (Kamali, 2007 A.D./1428 A.H.).

This type of Ijarah is defined as a form of transfer of ownership of usufructs of some assets, such as buildings or equipment in a term for a particular period consideration with a defined rent which is usually higher than the normal rental to encourage the lessor to transfer the leased assets at the end of contract after paid all instalments without problem (Ghuddah, 2010). However, even though lessor promise to transfer the ownership is obligatory, but the lessee has an option not to proceed with the transfer (Marie Hurley, 2010).

In a financial lease, it is necessary to mention the principal of method of transfer of ownership in the contract agreement regarding on the final transfer that will occur at the end of the lease period. The manner of transfer must also be discretely in a different document attached to the lease agreement (Dar, 2011). For example, the financial lease attached to the concept of gift is the most applied method by Islamic financial institutions (Finance, 2010).

The difference between ordinary and conditional gifts is that gift without payment condition is not strong by law as opposed to gift with a condition on payment of all rental instalments (AAOIFI, 2008). The conditional gift is similar to a contract which makes it stronger and this is because once the client pays the last instalment, the bank is obliged to transfer the property.

As for promise to transfer the property through sale, this kind of form it that the financial lease agreement will concluded with thoughtful of the lessor will sell the asset to the client (AOSGS, 2010). The process may take place through a nominal value because the crucial part of the selling price has been paid in the form of rental and make sure that the sale may also take place prior to the maturity of the lease agreement. In this case, the sale price may be the market value of the property or the outstanding rental and the parties may also need to agree on sale price that will be paid on instalment.

2.9 Lessor's obligations

2.9.1 Making the leased asset available

The lessor is responsible to make sure that the leased asset is available for lessee throughout the duration of the lease. Making the asset available includes equipping and preparing the asset in the manner which is considered necessary in order for the specified usufruct to be enjoyed according to agreed practice (Usmani, 1998).

However, based on the report by Bank Negara Malaysia (2009) suggested that the existing lessor may sell the leased asset even with current lease contract to a new lessor but the conditions of contract will remain unchanged until the expiry of the lease period and all the rights and obligations of the lessor will then be transferred to the new owner. In addition, the third party as lessor then shall have the right to collect the rental from the lessee. The existing lessor may also manage the leased asset on behalf of the new lessor and also undertake to guarantee the payment of the rentals by the lessee.

If anything happens during the period of the lease for example damage of the leased asset or any impairment leading to inconvenience to lessee and it is not because of the lessee's misconduct or negligence, then lessor should be liable for all expenses incurred in acquiring the leased asset (Bank Negara Malaysia, 2009).

2.9.2 Guarantee in respect of defects

Option of defect is treated as in sale in Ijarah (Ghuddah, 2010). The defect which entitles a lessee to an option that causes an impairment in the usufruct which are the subject of the contract. The same applies if the defect occurs before fulfilment of the benefit but after the

contract is concluded. In either case, the lessee shall have the option of revoking the contract or accepting the impaired benefit while being obliged to pay the full rent¹³.

However, there are some opinion given by scholars of Islamic jurisprudence (fiqh) that a portion of the rent should be deducted for the defect (Kamali, 2007 A.D./1428 A.H.). However, it is not permissible to stipulate in the contract that the major maintenance and repair costs of the leased asset are to be carried out by the lessee as this would lead to the lessee paying a rent that includes an unknown element (AAOIFI, 2008, P. 269).

Furthermore, and in case of impairment of leased asset, the lessor must either offer the client a similar asset to use for the remainder of the contract or refund part of the lease rental, unless if the impairment was caused by misuse or negligence on the part of the lessee (Bank Negara Malaysia, 2009). In other words, as the corpus of the leased property remains in the ownership of the lessor, all the liabilities emerging from the ownership shall be borne by the lessor, while the liabilities referable to the use of property shall be borne by the lessee.

2.10 Lessee's obligations

The utilisation of the leased asset is determined by the specific conditions of the contract or according to practice and the lessee is also responsible for keeping the leased asset intact and for payment of the rent because according to Islamic jurisprudence (fiqh) indicated that the leased asset is a trust in the hands of the lessee.¹⁴

In a situation where the usufruct of the leased asset is impaired wholly or partially as a result because of the lessee's misconduct or negligence, thus, the lessee should be accountable for restoring the usufruct and such cost should including the rental charges payable during the restoration period (Bank Negara Malaysia, 2009).

¹³ Mula Khasro, *Sharh Addor*, Vol. 3, pp.78-279; al Mahbobi, *Kashf al Haqaeq wa Sharh al Weqaiyah*, Vol. 2, p.65;

Sherazi, *al Muhathab* Vol. 2, p.405.

¹⁴ *al Fatawa al Hindiyah*, Vol. 4, p.470.

Lessee will not be held as a guarantor for the leased asset because maintenance of the leased asset in principle is not considered permissible to require in the contract (Fatima, 2006). For example, the maintenance of the leased asset is to be carried out by the lessee this would lead to the lessee paying a rent that includes an unknown element (Usmani, 1998).

2.11 Taxation of an Ijarah Arrangement

2.11.1 Ijarah used for an operating lease

Ijarah arrangement which is used for an operating lease is treated as similar with the arrangement of a conventional operating lease arrangement which applied with the provisions of the Taxes Consolidation Act 1997 (TCA)¹⁵. In this case, the lessor will responsible on the assets and also is taxable on the gross lease rental received. For example, if the asset is an aircraft, the lessor is also entitled to claim the capital allowances due in accordance with Part 9 of the TCA, where the lessee is carrying on a trade and the asset is used for the purpose based on the contract, the lessee can claim an expense deduction for the gross lease rental (Marie Hurley, 2010). In addition, this provision was also included by section 27 of the Finance Act 2015 and commenced by Financial Resolution on 13 October 2015 (Irish Statute Book, 2015).

Alternatively where the asset is a “specified asset” within the meaning of Section 80A of the TCA and the lease does not exceed 8 years, a corporate lessor may claim to have the profits from the leased asset taxed in accordance with the provisions of section 80A as that section applies to operating leases (Marie Hurley, 2010). Thus, a normal Ijarah arrangement would commonly refer to an operating lease whereby the asset is returned to the lessor on the expiration of the lease period (Dar, 2011).

¹⁵ <http://www.revenue.ie/en/practitioner/tax-briefing/archive/78/>

2.11.2 Ijarah used for a finance lease

Accordingly, a company that accounts for the transaction Ijarah Muntahia Bittamleek which known as a finance lease generally under accepted accounting practice, thus, it may be taxed in accordance with the provisions of section 80A TCA 1997 in respect of relevant section 76D of the TCA or, where he makes a claim in that regard and the lease is a “relevant short term leases” on making a claim (Irish Statute Book, 2015). However, where the lessee bears the burden of wear and tear on the leased asset, the provisions of section 299 will apply to claims for capital allowances by the lessee (Marie Hurley, 2010).

In a Shariah compliant arrangement the value of the asset is broadly recovered during the primary lease period and a nominal or token lease rental is charged during the secondary lease period which is similar to a conventional finance lease (Dar, 2011).

2.11.3 Ijarah Muntahia Bittamleek (Hire purchase arrangements)

For Ijarah Muntahia Bittamleek arrangement which is used for a hire purchase transaction as if it were a conventional hire purchase arrangement also applies within the Taxes Consolidation Act 1997 (TCA). A hire purchase arrangement fall within the definition of credit transactions in section 267N of the TCA where a finance undertaking entering into an Ijarah Muntahia Bittamleek may designate to have the provisions of that section applied to the arrangements (Irish Statute Book, 2015).

This lease contract requires the lessee to make an additional payment towards a charitable cause in the event of a lease rental becoming overdue. Usually in conventional contract, if the payment is late, the charge of interest will occurred but in this transaction will be treated as charity cause¹⁶. For example, if the lessee had made the payment directly to the lessor and the lessor made the payment towards the charitable cause which is in fact the normal sequence of payments (Marie Hurley, 2010).

¹⁶ <http://www.revenue.ie/en/practitioner/tax-briefing/archive/78/>

The lessee will be entitled to a deduction and the lessor will be treated as having received the income but will be entitled to a deduction under section 848A of the TCA, subject to the provisions of that section. However, it will be noted that the tax treatment described above is limited to Ijarah on the leasing of plant and machinery and other chattels but does not apply to a lease of immovable property.

2.12 Value Added Tax (VAT)

The VAT treatment of an Ijarah (Finance Lease and Hire Purchase) arrangement in relation to immovable property transactions will depend on the specifics of the agreements (Marie Hurley, 2010). Generally, such agreements are likely to be regarded as the supply of a freehold equivalent interest by the lessor to the lessee at the time the agreement is entered into. As regards arrangements which cover goods other than immovable property, the normal VAT rules concerning leasing (a supply of services), transfer of title (supply of goods) or hire purchase (a supply of goods), as appropriate, would apply.

In addition, under the new VAT Law that operative starting April 2010, VAT imposition on Shariah transactions will only be applicable on the delivery of goods from the VAT entrepreneur to the party that demanding the goods (PricewaterhouseCoopers, 2013).

Previous guidance given by Revenue in relation to the taxation of conventional operating and finance leases and to hire purchase arrangements will, in substantially similar circumstances, also apply to the equivalent Ijarah transactions.

2.13 Stamp Duty

There will be no charge to stamp duty as it will not arise in association to Ijarah (Leasing and Hire Purchase) arrangements in aircraft because the asset that involved does not comprise immovable property or an interest in immovable property (Mason Hayes, 2010). In contrast, if

a lease involving immovable property or an interest in immovable property will be subject to stamp duty under normal rules (Marie Hurley, 2010).

2.14 Termination and consequences of lease arrangement

Revocation of Ijarah for a justifiable reason Hanafis are of the opinion that it is considered permissible to revoke an Ijarah contract unilaterally for a reason of disabilities affecting the parties when a contracting party or to the asset itself even the contract remaining binding (Kamali, 2007 A.D./1428 A.H.).

For example, revocation is valid because it becomes necessary when there is a reason, for example the party having the reason that will be disadvantaged and something he did not agree to in the contract¹⁷. Hence, authorising revocation of the contract in such cases is meant to prevent and make sure that any one of the two parties from being forced to suffer a damage to which he did not agree. If there are conditions of oppression occur in the contract, thus, is obviously against Shari‘ah and the principles of equity and justice.

Usmani (1998) also supported the statement if the lessee breaches any term of the agreement such as the misuse or negligence, thus, the lessor has a right to terminate the lease contract unilaterally and he might also be asked to compensate the lessor for the loss caused by. However, if there is no contravention on the part of the lessee, the lease cannot be terminated without mutual consent and if it does, this is again contrary to the principles of Shariah (Kamali, 2007 A.D./1428 A.H.).

Other than that, the contract can be terminate if the agreement of lease indicated interest-bearing loan concept under the ostensible cover of lease agreement. In this case, the interest of the client in the property is affected (Usmani, 1998) and thus, the lessee is entitled to reject the

¹⁷ Al-Khafif, Ahkam, n.2, 503-504.

asset in which case all additional rental instalment paid by the lessee in order to own the property should be returned.

2.15 Contextualizing the research in the literature

Islamic leasing sector and the Islamic finance industry as a whole will be expected to remain developing from time to time as new players in the industry and seeking to attain the benefits of the growing demand (Kamil, 2014). Thus, the major contributions of this research is to provide some introduction regarding Ijarah which is still new in Ireland.

The research provides information of the initiative undertaken by various parties to introduce the system, challenges and suggestions on the concept of Ijarah that can be implemented in aviation sector. Since Middle East and Asian countries are already showing positive sign in promoting Islamic banking and finance activities as their strong investment, this could be an opportunity for Ireland to be a major player in the aviation sector in the aircraft leasing promoting Ijarah not only in Europe but also to the rest of the world.

In 2005, Emirates pioneered the Islamic capital market and several other industry players such as AirAsia, Air Arabia, Pakistan International Airlines, GE Capital, Ethiopian Airlines, SriLankan, Airlines and Royal Jordanian have already conveyed their strong interest in Shariah compliant resolutions to support their development. The initiative supported by a major aircraft manufacturer came as an acknowledgment that Ijarah deals are no longer a rare alternative but rather a new trend in the global aircraft market not compromises to specific certain region (Goberis, 2013).

This research is applicable to anyone and could be reference for students, professionals and public particularly to non-Muslim that are interested to know more about Islamic leasing method. This research raises issues and thoughts in leasing method and could be a tool for future research and to provide understanding of Islamic finance and break the scepticism people on the Islamic point of view.

3.0 Methodology

It is significant to demonstrate the way that research conducted are relate to the objectives of the research to enable researcher to come out with relevant assumptions to the research problem throughout the methodology (Dawson, 2002). Saunders (2009) explains that methodology should be undertaken on how the research including the theoretical, philosophical assumptions and the implications should be presented by using the method adopted. Thus, this chapter will give explanation about the data and methodology which will be used to make analysis for the result. The methodology implement in this research will be qualitative research in nature. Corbetta (2003) validated that qualitative research is open interactive in nature and observation that leads to formulation of theory whereas quantitative research is structured and theory precedes observation.

"Those who are not familiar with qualitative methodology may be surprised by the sheer volume of data and the detailed level of analysis that results even when research is confined to a small number of subjects"- (Myers, 2000).

3.1 Research design

Research design is the plan and the procedure from research that full decision from broad assumption to detailed methods of data collection and analysis thus these decisions must be considered by the researcher throughout on the nature of the research problem or issue and the personal experience of the researcher (Saunder, 2009). Meanwhile, Yin (1989) suggests that research design `deals with a logical problem and not a logistical problem'.

The scope of research design sections is far too limited to give the readers a detailed and comprehensive view of the decisions taken in the particular studies (Meyer, 2001). Given the format of methodology in this sections will give ideas how to answer three key questions: (a) what are the underlying assumptions, (b) how the researcher is going to conduct the research specifically on the data collection and analysis, and (c) explain reason for the chosen plan would be best suited for the study where researcher will justify choice that has been made.

This study will use the Research Onion to highlight the methodology that has been chosen in this research. The proceeding chapter will explain more on the research methodology adopted.

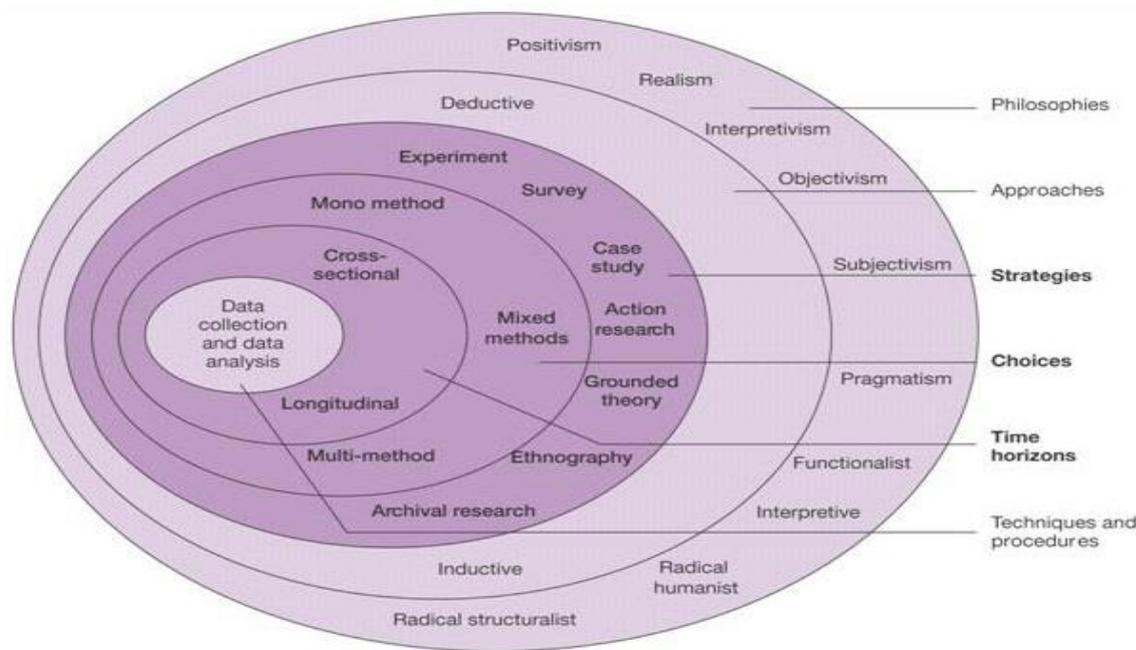


Figure 5: Research Onion

The Research Onion is a very useful tools and its adaptability for almost any type of research methodology in different type of contexts. It illustrates the steps that should be covered during developing a research. Each layer of the onion represents detailed stage of research process to provide an effective progression through which research methodology can be designed (Bryman, 2012).

3.1.1 Research philosophy

The term philosophy relates to the development of knowledge and the nature of the information research philosophy contains important assumptions about interpretation data (Flick, 2011).

Research philosophy is important for the researcher because it will emphasize the research strategy and define the methods to be used. It promotes the behaviour in interpretation of the “social roles” in our own “meanings and actions”. Saunders et al (2009) further suggest that this method is “highly appropriate” in business and management research, where the nature of it is frequently changing. Meanwhile, Kothari (2004) explains this philosophy would help to discover the underlying motives and desires which involves a subjective assessment where an in depth interview is suitable to find meanings to the different attitudes, opinions and behaviour.

Research philosophies might be different on the goals of the research and how it might be used to achieve these goals (Goddard, 2004). The important issue is not so much whether our research should be philosophically informed, but it is how well we are able to reflect upon our philosophical choices towards the knowledge that being investigated in relation to the alternatives we could have adopt (Bogdan, 1992).

Saunders et.al (2009, p.112) suggests that epistemology is level of acceptable of information for a particular field of study for example such as the relationship exists within “feeling of research and the resource of researcher”. The feelings something related with emotion they cannot be seen. Meanwhile, as for “resource” is associated with the progress of information where researchers is adopting.

Researcher need to give attention and to focus on the Ijarah model in the Islamic financing which is quite complex rather than conventional leasing because of the different thoughts in the regulation. Such explanations by Saunders et.al (2009), interpretivism comes from two intellectual backgrounds which are phenomenology and symbolic interactionism. Where phenomenology refers to the human’s behaviour way in which we as humans towards surrounding. Symbolic interactionism refers to the constant process of interpreting the social around us on how we interpret the action of others with whom we interact. Thus, interpretivism philosophy is the most appropriate for this research since interviewing the targeted group will be implemented in this research.

3.1.2 Interpretivism

This research is to access the readiness of aviation sector in the Republic of Ireland to explore any possible opportunity for Ijarah issuance as an alternative method in leasing and to study the current development in aircraft financing sector. To achieve this objective, it is crucial to know what the motivations are and how to give meanings to Ireland government to action accordingly. Therefore, it is important to understand the meaning “how the study subjects perceived to the different background of the participant”.

Is it necessary for the researcher to be professional in judgement and understand during interpreting the phenomenology and the way individual’s behaviour in business and management research because interpretivism is concern to examine and evaluate the social behaviours. According to Myers (2010) p.38 “interpretive researchers undertake the access to reality whether it is given or socially constructed only through social communications such as language, shared meanings, consciousness, and instruments”. It is a study on the actual life experiences and situations, which could not be measured by any statistics. Thus, the research should be conducted without any bias, beliefs or pre-conceptions on the different emergence of ideas, perspectives, and opinions.

In short, interpretivism according to Collis & Hussey (2009) suggests that it relates with a paradigm that emerged in response to criticisms of positivism. It rests on the assumption that social reality is in our thoughts which is subjective and multiple. Therefore, social reality is affected by the act of investigating it.

Thus, this philosophy will fit perfectly to the research since its primary research will be analysing and interpreting the details of the how they improved by the challenge of the Ijarah as an alternative method of leasing for aircraft and to develop a more innovative structure to be expose. Connecting all the collected data together to achieve the main purpose of the research, this is to understand Ijarah structures, to understand the risks facing regarding implementation of different method of leasing and to provide the needed recommendations in the precise and rational way.

The research involves is an inductive process with a view to providing interpretive understanding of social phenomena within a particular context (Collis, 2009). The previous statement will strongly support the choice of this interpretive philosophy for this very specific research.

3.1.3 Research approach

Inductive approaches are commonly related with qualitative research, while deductive approaches are normally linked with quantitative research. Easterby-Smith et al. (2002) explains that inductive process is appropriate in the process to understanding a phenomenon and it would also enable researcher to find a “cause and effect relationship” between different variables.

An inductive research is frequently related to qualitative research and will result to a formulation of a theory. This is sometimes called a “bottom up” approach, because it starts with specific cases on the ground and works its way up to the abstract level of theory that involves “reasoning from particulars to generals, deriving knowledge from empirical experience based upon a system of handling sense data” (Shepherd, 2011).



Figure 6: Inductive research

The inductive research is undertaken by formulating interview questions which will later be gathered “in order to establish different views of phenomena”, thus answering the research question (Saunders, 2009). The findings of the research of how Ireland will introduce and

implement Islamic finance Ijarah in the aircraft leasing will be answered in the data analysis and findings section. However, the inductive approach will help me looking in more depth, understanding, investigating and finally analysing the complexity of the Ijarah characteristics to accomplish the target of this research.

3.1.4 Research strategy

The choice of research strategy depends on variables that are related to the topic of the research. Martyn Denscombe (2003, p.5) describe that researcher has to choose an appropriate strategy for particular aspects of investigation. There are several research methods available in conducting research, for example mono methods, mix-methods and multi-methods (Saunders, 2009). These methods mainly explain which methods are chosen in performing a research.

A qualitative mono-method will be implemented in performing this research topic by conducting an interview with a targeted respondent (Collier, 2008). This method is suitable as the nature of this research would require a selective participant or experts in the research topic area and as Maxwell (2005) explains it to be useful where the subject is complex and there is no specific answer or hypothesis to be tested.

3.1.5 Sampling - Selecting respondents

The non-probability sampling is divided into convenience and purposive sampling. In this research, participants are chosen based on a purposive sampling because before collecting data. Researcher needed to verify that the respondent does meet the criteria for being in the sample. With a purposive sample, you are likely to get the opinions of your target population and Patton (1990) describes it as for “information-rich cases” where “one can learn a great deal about issues of central importance to the purpose of the research”.

Purposive sampling is synonymous with the qualitative research and sometimes this technique have also been referred to as nonprobability sampling or purposeful sampling (Palys, 2008). Purposive sampling techniques involve selecting certain units or cases “based on a specific

determination rather than randomly’’ (Tashakkori, 2003). This is supported by Sekaran (2003) that defines purposive sample as a subgroup or subset of a population. These samples are chosen to represent fundamentals within a population.

Meanwhile sampling is the process of selecting these elements to conduct a study with the objective to understand its “properties or characteristics” (Sekaran, 2003). Islamic finance is fairly new to the Ireland’s financial systems hence there are few of experts who are exposed to the system. Study of a sample would be efficient as it would save time, cost and other human resources and likely to produce more reliable results thus, by a judgment sampling from the purposive sampling has helped researcher to identify a specified selected group of experts in the aviation sector and also Islamic finances within the limited population to derive findings based on the research questions.

Participants are being interview to answer a set of questions that are structured to be open-ended and are open to further discussion based on their experience and knowledge on the topic in question. Respondents are selected among key player in the leasing aviation company, consultants in the development of Islamic finance in Ireland such as fund managers, audit firms, regulators and also representative from the Muslim community in Ireland.

3.1.6 Time horizon – Cross sectional

Saunders (2009) explains that there are two types of time horizons in the research which are cross sectional and longitudinal time horizons. Cross sectional time horizons is used to collect data from different variables like observation of a phenomena and are undertaken only at a period of time which differs from longitudinal time horizons where it collects data over a certain time-consuming time.

Cross-sectional study is presume as comparing different population groups at a single point in time. Thus, cross sectional time horizon is more appropriate to adapt in this research because of the nature of this research is to describe a phenomenon. As for the time constraint, the

researcher would adopt cross sectional method for this study and as mentioned in earlier sections, purposive samplings are used to identify experts in Ireland who are involved in introducing and implementing Ijarah as an alternative financing method to Ireland. Thus, researcher will distinguish the findings from interviewing diverse background of experts and are drawn from whatever fits into the frame.

3.1.7 Data collection instruments

Knowledge is produced through a ‘qualitative’ research encounter that should be understood as the product of a specific interaction between researcher and informants. (Brannick& Coghlan, 2006). Bryman and Bell (2007) identified that the main research method related to qualitative research and some of them are in term of ethnography, qualitative interviewing, focus groups, and language-based approaches to the collection of qualitative data.

In addition, (Leanne, 2004) suggested that data can be attained using “social research tools” which is by observing, and interviews. By using this method, it is a “representational” research where people are studied in their expertise and their experiences can be analysed. Saunders et al (2009) argued that data collected through this method shows that the researcher values the personal interaction rather than an anonymous survey of data.

The research topic subjects to be discussed with selected participants were counselled in advance by email, of such together with the informed consent form. In order not to compromise the interview or prejudice of the results, researcher need to aware about whether have a set of rigid, leading, or biased questions. This is to gain the confidence and interest of the participants by adopting the semi-structured approach, allowing the discussion to keep going, with the participant playing the leading role, prompted by the researcher.

In this research, open-ended interviews are structured for participants for an estimated time of 30 minutes. During this sessions, clarifications on further questions can also be acquired on the spot. Participants include key players in the aviation sector and expertise that involves in the

development of Islamic finance in Ireland. The researcher hopes that through this method a clear idea can be drawn on the financial environment in Ireland with specifications towards the development of Islamic finance in aviation sector promoting Ijarah. The interview questions are structured after thorough research and consultation with the supervisor while looking into information in the literature review. The theme of the questions is also structured in an open format but surrounding the research questions in order to achieve the research objective. This technique allows interviewees enough room to provide detailed responses (Myers, 2000).

Focus group is particularly useful when researching into collective learning as it allows participants to interact in a stimulating atmosphere while a researcher elicit opinions, mental models and attitudes held by the interviewees (Brodbeck, 2002). Thus, researcher has identified a consultant, accountant, government agency, audit firm, academician, fund managers and to take part in the informational interviews.

An interview technique might has a number of problems including lack of time to conduct interviews may often lead to incomplete data gathering which researcher need to make appointment with participants. Lack of trust in the interviewer also may discourage interviewees from revealing sensitive information for example such as elite bias where the researcher tend to focus on high profile informants and difficulty in getting access to a wide and varied range of interviewees in an organisation (Myers, 2000).

3.1.8 Data analysis procedures

In order to interpret the materials, grounded theory is used. It is defined by Glaser and Strauss (1967) as a methodology of analysis that uses systematic methods such as data collection, handling and analysis to generate a theory and the grounded theory is the best model for inductive approach.

Grounded theory is an inductive methodology in the research method (Patton, 1990) which according to Glaser and Strauss (1967) it is designed as to developing social analysis with

abilities for generating theory. It is a method of constant comparison of new data collected through theoretical sampling, with both existing data and the emerging analysis should be relevance which mean that how well does the categories related to the data and derives from constant comparison and conceptualisation of the date while workability refers to the integration of the categories into the core category that emerges (Melia, 1996).

Lastly modifiability which ensuring that all the concepts that are important to the theory are incorporated into it by the constant comparison process. A modifiable theory can be altered when new relevant data is compared to existing data and it involves cycles of data collection, coding, memo-writing and theory building through the emergence of categories in the data (Dey, 1991).

Grounded theory is not an approach to be used lightly. It requires extensive and repeated examining through the data and analysing and re-analysing multiple times in order to identify new theory. It is an approach best suited to research projects where there the phenomena to be investigated has not been previously explored (Glaser, 1967). According to (Goddard, 2004), he emphasizes grounded theory is on interpretations and “judgments on possible outcomes” that are derived from constant comparison, coding and analysis of interview and observational data.

The three main categories of grounded theory data are field data, the interview data and any existing literature. Since the research is based on observations, prejudiced ideas and rigid hypotheses may influence the interpretations of the researcher which can compromise the resultant theory

3.2 Research ethics

Ethics can be defines as the moral principles, standards of behaviour or norms that guide a person’s moral choices of behaviour toward others (Diener, 1978). Ethics should be applied to all stages from planning, conducting and evaluating the project.

Thus, the principle of voluntary participation is being used to ensure that people that participated in this research is not been coerced into participating in research (Maxwell, 2005). The requirement of informed consent is essentially related to the notion of voluntary participation and that prospective research participants must be fully informed about the procedures and risks involved in research and must give their consent to participate.

The process may be violates the rights and welfare of research participants direct or indirectly during conducting research (Chava and David, 1996, p.77) and because of that, researcher need to take precautionary action to adhere the violation of ethics principles during the research process.

The researcher is concern about ethical issues may arise during gathering and analysing the data. Researcher is expected to maintain a certain level of professionalism during the interview session, and interviewee has rights to remain anonymous if they refuse their name to disclose in this research. This research guarantees the participants confidentiality if they are assured that identifying information will not be made available to anyone who is not directly involved in the study.

The stricter standard is the principle of anonymity which principally means that the participant will remain anonymous throughout the study even to the researchers themselves (Nachmias, 1995). Clearly, the anonymity standard is a crucially guarantee of privacy, but it is sometimes difficult to accomplish, especially in situations where participants have to be measured at numerous time and re-measurement.

All interviews are verified in a media recording device that is password protected. So that all vague or doubtful answers are clarified during the interview or after each interview sessions are transcribed to avoid any misinterpretation. Ethics in this research also focuses on the respect of the originality of any data collected by crediting the appropriate authors to avoid plagiarism as suggested by (Corbetta, 2003).

Biasness should also be avoided by having a neutral attitude on the research topic because bias could deteriorate the validity of the findings in research (Sekaran, 2003). Respondent bias arises when the participants hiding the true and refusal to provide a fair view as it will result to inaccurate information and researcher biases, on the other hands, refer to a situation where the researcher's opinion and feelings based on the procedure the study is carried out, or determined the outcome of the study (Denscombe, 2003).

3.3 Limitations of methodology

There are limitations on the availability of Islamic finance sources in Ireland because libraries does not have enough materials for this research topic and there are limited literature in Ireland context hence it might take longer time to search for information. Thus, researcher need to look for other sources such as from the UK, Malaysia and the Middle East to make a comparison findings and references as in the literature review.

Time also plays a major factor in limitations as researcher need to learn and improve knowledge in this area of research could affect the skills of the researcher in order to construct a quality research in the short time period. The data collections will be crucial in this research but due to busy schedules of the participants and the time for researcher to write up the research might affect the evaluation of findings. This research will only cover a certain time frame which is restricted to the time of the dateline of submission date while the study is more to be explore.

The idea of qualitative research lies in the interpretive approach to social truth (Holloway, 1997) but however the main disadvantages associated with interpretivism is too subjective and the approach could lead for bias on behalf of researcher. Denzin and Lincoln (1994) argued that primary data generated in interpretivist studies could not be generalized since data is heavily impacted by personal viewpoint and values. Therefore, reliability and representativeness of data is undermined to a certain knowledge of researcher extent as well.

On the positive side, the adoption of interpretivism for qualitative research areas such as cross-cultural differences in organizations, experts, issues of ethics, leadership and analysis of factors impacting leadership might be studied in a great level of depth. Findings through primary data generated through interpretivism studies might be accompanying with a high level of validity because data in such studies should be trustworthy and honest (Kumar, 2005).

Since the study is still new topic for Ireland and there are also “flaws” in Islamic finance literature as proposed by Usmani (1998) where there are lack of interpretation and different opinion because of restricted numbers of expert in the nature of the topic itself. This is because different narrow and limited geographic focus and lack of comparative analysis for example of the religious, financial and legal (Warde, 2000). This might affect to the faulty expectations about the relation between theory and practice.

Other than that, researcher’s skill in interpreting the data will also be as limitations in this research as there might has different opinions during the interpretation analysis and contradicts with other studies from previous findings. Paton (1990) argues that “*relying on analyses of cases can produce ironic, detailed information, but if we can’t deduce the possible concerns about the representativeness of the findings, or the methods used to construct them, the research might will not been productive*”.

4.0 Findings

In this chapter, researcher will discuss the research findings from interviews with four professionals that participated to convey their opinions and point of views on the subject matter. The aim of this research is to study what can be achieve by using the Islamic leasing which is Ijarah and become the “Centre of Excellence” for aircraft financing in Ireland. The primary motive was to study and understand three different themes as formulated based on the following research questions:

4.0.1 Government Initiative

Question 1: What are the initiative by the Government in the aviation sector since it now became one of the important contributor in the Ireland’s economic growth? Will there be any possible advantage of the alternative method leasing which is Ijarah?

4.0.2 Islamic Rules and Regulation

Question 2: Is there any issues relating to regulation, standard, registration and settlement that would apply in Ijarah leasing for the aircraft and what would be the challenges?

4.0.3 Ijarah Structure

Question 3: What are the type of Ijarah and its characteristics that can be apply in the industry sector of aviation?

Three semi structured interviews were piloted with different points of view for better understanding and clearer information about the research. Saunders, *et al.* (2012) defined semi structure interviews as a widespread category which the interviewer instigates with a different set of interview themes and the researcher will try to vary the questions within different context and situations but within the objective of the research. This is to ensure that conversation will keep going to get more additional information related to the topic. Thus, semi structured interviews will the appropriate method to collect primary data for this particular research and help researcher to explore the Ijarah knowledge with experts in the area to provide important background as well as contextual material.

Researcher concerned regarding the deficiency and lack of studies about the complicated structure of “Ijarah” in Ireland but interview procedure helped researcher to gain more ideas and information as respondent explained their thoughts and point of view of their experiences through the process of interview. These interviews gave the researcher opportunities to relate and understand how the real market expertise see the current situation and how this could be improved in the aviation sector.

The first interviewee is an accountant and advisory in Malaysia Airlines Berhad from Malaysia. He has experiences in airlines industry for almost 3 years and has been exposed in the Islamic Finance field since he was a student. He said in the interview that Islamic Finance in Malaysia is very common because of the exposure is at large.

The second interviewee is a director of one of the auctioneers company in Ireland. He was also been the director of four other Irish companies which two of them are now closed. He has experience in the financial sector for almost 30 years and because of his knowledge in leasing structure, he is consider as a suitable candidate in this research. Throughout the interviews, he explained the arrangement of leasing and how does it works.

The third interviewee is a consultant and advisory in one of aviation leasing company in Ireland. He has more than ten years’ experience in this sector and responsibility for securing new investment in this particular area to other overseas companies.

All data from the audio recording interviews was translated while referring to the literature review and field notes as suggested by Saunders et al (2009). This is to ensure accuracy of the interviews and researcher need to review the data multiple of times to interpret the information so that misinterpretation may be avoided (Sekaran, 2003). As proposed by Fisher (2004) all data are gathered to form series of work that involves with identifying themes, dividing the research material into units and allocating the units to the themes like a puzzle.

Saunders (2009, pp. 159) specifies that the data collection method through interview indicates that the researcher values the human interaction rather than unspecified survey data. The interview session was last forty minutes for each session. The interview session was very interesting as both the researcher and the interviewees shared information and experience through discussions as they are also actively involved in the structuring, promoting and developing on financing aviation sector as well Islamic Finance focusing in Ireland. However, some of the interviewees refused to record our dialogue and declined to mention their name in this report because they said they not confidence enough whether their information are legit to all questions during the process even though they had been given a full corporation and responded to all the questions precisely.

All transcribed interviews was grouped together to show similarities and differences according to the research questions. Finally, data will be interpreted to make sense of the research question while developed a collective opinion and argument on the research topic but first researcher will presented the findings that obtained during the interview. Later on in the analysis section, researcher will analyse the findings with literature review to see the association between them to make the final conclusion.

4.1 Discussion Findings

4.1.1 Question 1

Ireland has been one of the pre-eminent jurisdictions for aircraft finance and leasing for almost 40 years. The Irish industry traces its roots back to the foundation of Guinness Peat Aviation in Shannon, County Clare in 1975 and in the intervening period the aircraft leasing, trading and brokerage industry has proved to be one of Ireland's greatest success stories.

How do airlines finance their aircraft?

According to the first interviewee, he said that airlines finance their aircraft by various ways and he mentioned different kind of method such as cash, operating leasing and sale or

leaseback, bank loans or finance leases, export credit guaranteed loans, tax leases, manufacturer support, enhanced equipment trust certificates (EETCs), and Islamic finance.

Almost similar statement supported by second interviewee and he added that there are variations of financing but those would be the most common way to finance in aviation sector and regardless of loan versus lease, he explained:

“Purchaser usually need at least around 15% or more of its own cash in the aircraft, and also same to the situation if the customer is getting financing through export credits from foreign banks the purchaser need at least 15%. According OECD export financing rules only allow for an ECA to provide a maximum of 85%, not the full price of the aircraft”.

Meanwhile, the third interviewee said aircraft are not cheap and they are also complicated. For example, if we review the list prices of Airbus and Boeing to see just how costly they can be and because of the particular reason, some airlines will or might not be able to afford aircraft even in a bid to keep their balance sheets looking vigorous, they might not want to have such large expenditures. He added that the *“airline industry is very volatile by its nature and regardless of all these checks, sometimes leases do not work out.”*

4.1.2 Question 2

In the case of Ireland, aircraft leasing has grown from a niche market, recorded 18% increase in pre-tax account to euro 676.6 million in 2012 and it is estimates that 50% of the world leased aircraft are managed from Ireland. This is a good point where Ireland has to offer.

Based on these facts, what do you think about the government’s strategy for Ireland in next five years to become a centre of excellent for aircraft sector?

The second interviewee indicated that with an appropriate government policy framework to facilitate a strong aviation sector, Ireland will continue to play one of crucial part in the development of global aviation in the future. He commented that:

“I’m glad to say that in line with this current healthy economic recovery will make the aviation sector in Ireland to grow strong in the future and it is an honour to be a part of contributing the country’s economic recovery purpose preparation of the new aviation policy”.

The third interviewee indicated that maybe nine out of the top ten leasing firms worldwide are operating in Ireland because of the many factors. He commented on the factors as advantages in the tax treatment.

“We have favourable corporation tax rates or maybe the lowest tax rates in this world and tax agreement on tax treaties that allowing leasing companies to be competitive in this sector. We also in the right path as there is a big pool of aviation expertise in our country”.

4.1.3 Question 3

A lease agreement is a contract between two parties, the lessor and the lessee. The lessor is the legal owner of the asset, the lessee obtains the right to use the asset in return for rental payments and thus enforceable by all parties under the contract law of the applicable jurisdiction

Are the concept, structure and features of conventional hire purchase, legally and fundamentally different from an Ijarah?

What are the differences between conventional leasing and Ijarah?

For the features in Ijarah as alternative financing in aircraft, first interviewee mentioned about the argument that Islamic banks in Ijarah saying that they exposed to the risk of the leased asset because Islamic banks also insure their leased asset and this is totally different for conventional banks as whatever loss occurs, insurance company will be held for any of the losses.

“No they are not the same because a conventional hire purchase is not permissible as in Islamic finance prohibited the sale at the end of the hire period although it is entered into at the beginning of the hire period. The Shariah-compliant form of the hire purchase avoids this by either transferring ownership through a conditional promise or by a promise to sell on the part of the owner at a nominal price in such case they are different legally and structurally.”

The second interviewee mentioned that it is *“more likely the same because in conventional leasing, it is a contract between a lessor and a lessee for the hire of a specific asset. The lessor will retain the ownership of the asset and the lessee has the right to use the asset is given to for an agreed period of time in return for a series of payments paid by the lessee to the lessor.”*

Meanwhile, first interviewee mentioned the main difference between conventional leasing and Ijarah is the prohibition of interest. The difference between conventional leasing and Ijarah is merely on the adaptation of interest in the method.

“I think the most obvious thing about differences between them are the interest. As far as I know, Islamic finance really prohibited the application of interest but as in the airline industry, we use a mix of fixed rate and floating rate debt to finance our business because if interest rates increase, we would have to face the higher interest payments to our lenders on the floating rate debt to the extent that it is not hedged.”

These practices have protected the company for all these times against interest rate increases on our floating-rate liabilities by entering into derivative contracts, such as interest rate caps and interest rate swaps.

4.1.4 Question 4

Under the Ijarah contract, an underlying asset which is leased to generate a return. Investors purchase an asset of the beneficial ownership of the underlying assets, receive a return and bear the risk on that asset. In 2013, commercial aircraft leasing became more popular with several Middle Eastern countries utilizing the Ijarah concept to lease aircraft. According to market reports commercial aircraft

leasing will continue to expand despite the sluggish performance of the global economy.

What are the risk factors for alternative financing such as Ijarah in aircraft and their qualification whether there will be more opportunities to invest in aviation assets?

First interviewee said many factors that will affect if we using the alternative financing but first we need to review and analyses how the economic cycle or trend that may impact airline defaults, aircraft values, and maybe interest rates. This is to identify how it could cause association with those fuel prices and development of fuel efficient aircraft shortening the useful lives of certain old aircraft. He added:

“Cash flows is very important like the carrying values of older aircraft nowadays may dependent upon existing lease agreement and we believe that these residual values of older aircraft are unprotected to the market volatility in value because of the current economic environment”.

The third interviewee also supported the first interviewee statement as he mentioned about the economy trend and why leasing is better alternative to acquire an aircraft.

“We can see from the last few years have been a good illustration of why leasing planes can be a better alternative than owning because when demand is unbalanced or unstable, the more flexibility will have in your fleet is much better”.

Meanwhile the second interviewee stressed on the risks factor of tax considerations, depreciation, and stock market requirement which will be a huge influence over alternative financing and how all of this is prepared. However, he didn't stressed out more in Ijarah structure.

“Even for leasing companies don't have enough cash nor do they want to assume the entire financial because it is normal for them to use the same vehicles airlines use to obtain the cash required to buy airplanes”.

First interviewee also mentioned about argument on the risk factors regarding Islamic financing might cost more than conventional because there might be differences between Islamic and conventional finance are less clear especially the necessity in some cases to set up additional intermediaries between suppliers and demanders of funds, as well as more complex transaction structures.

4.1.5 Question 5

Complex lease terms mean that it is often difficult to determine how they should be classified. This article examines IAS 17 and sheds some light on the matter for example the issue on title of ownership leased assets.

What is the ruling regarding the title of ownership of the leased asset?

The first interviewee suggested that in certain cases in Islamic lease, the asset may be registered in the name of the lessee early in the contract and this may be done for regulatory reasons or to make use of available exemptions.

“In such a case, a counter bond is taken from the lessee to authenticate actual ownership.”

In term of the ownership, the bank as the owner will be responsible for the asset throughout the period of the lease and the client merely possesses the legal title of ownership for purposes of practicality alone. In addition, the insurance of leased asset is an ownership related cost and is the lessor's responsibility throughout the period of the contract.

Meanwhile conventional lease according to second interviewee suggested that the ownership of the asset might be transferred to the lessee at the end of the lease term in finance lease but for operating lease, the lessor or owner transfers only the right to use the property to the lessee and at the end of the lease period, the lessee should returns the property back to the lessor since the lessee does not assume the risk of ownership.

4.1.6 Question 6

The tax legislation introduced in 2010 means that tax treatment of Islamic financing is similar to a conventional finance while changes to Ireland's securitization offering in 2011 would enhance the ability to accommodate certain Islamic finance transaction. Ireland has also entered into double tax agreement with 68 countries.

In your opinion, are there any others issues relating to taxation regulation, listing, registration and settlement which still unresolved?

An Irish resident company is compulsory liable to corporation tax for any of its profits wherever raised. However, it may also be taxed in other countries in respect of its income or gains. The second interviewee commented that Ireland is now expanding double tax treaties with more countries to attract more investors into the country.

"I guess that there are some of these agreements have recently been or are in the process of being re-negotiated, so you should check the current position before making any tax-related decisions."

Meanwhile, the third interviewee expressed his opinion in this particular matter and suggests that Ireland is doing well in developing the settlement for taxations and foreseeing with the Irish aviation regulatory which known as Irish Aviation Authority (IAA).

4.1.7 Question 7

In 2012, the Department of Finance in Ireland created a report to bring Islamic finance to Ireland. One of the efforts was Finance Act 2010 that brought by former Minister of Finance, Brian Lenihan which introduced to facilitate the introduction and to promote development of Islamic finance in Ireland under Section 35.

What are challenges do you think Ireland may face in establishing Islamic finance?

How can the government manage these challenges?

The first interviewee suggested that the first challenges is the lack of expertise in Islamic finance sector and many people do not understand the principal of Islamic finance and banking actually are because of less marketing and exposure relating to its products to public. Not just in the finance and banking but also the knowledge of other matters that related to Islam since Ireland is not an Islamic country. He added that the idea of Islamic finance in Ireland might be new concept and new idea.

Third interviewee told in the interview about Irish aviation industry relies on expertise of human capital such as well-educated and well-trained professional personnel. For example, in such industry needed high skilled pilots, air traffic controllers, administrations, engineers and others to meet the requirements of industry. Government should supported this industry and responsibility to expand promoting more benefits in workforce training and planning is capable to meet these challenges.

He added that there does not appear to be a single definition of what is or not an Islamic banking product at large in Ireland and lack of demand for Islamic products.

“If Government can manage this by the standardization rulings, the industry will be more transparent and will boosted confidence among investors.”

5.0 Analysis

5.1 Government initiative

Question 1: What are the initiative by the Government in the aviation sector since it now became one of the important contributor in the Ireland's economic growth? Will there be any possible advantage of the alternative method leasing which is Ijarah?

Ireland's aviation sector won't be successful without the Government involvement in this industry. As a result of the assurance to maintaining lower rate of corporation tax suggested positive feedback. Research findings from the interview supported the result done by PricewaterhouseCoopers in 2014 which indicated in their report as significant tax planning opportunities and treaty access by foreign investors. Since Ireland's network of double tax treaties is much better and this network is advantages for companies to facilitate aircraft lease securitizations.

From the findings, the Irish Aviation Authority (IAA) is foreseeing the activities of taxation or any activities in aviation finance and leasing industry. This is consistent with Chris Quinn (2014) mentioned that this development has continued in recent years and has been further boosted by the fact that registration of an aircraft in a Contracting State to the Cape Town Convention and Aircraft Protocol.

Morais (2013) suggested that the objective of companies when they decide to lease may not be the same as their objective when they decide to buy and this is supported with the interviewee as he mentioned that aircraft is very expensive and they need to finance their aircraft with the most appropriate method to reduce cost. Such method suggested by the interviewee as cash, operating leasing and sale or leaseback, bank loans or finance leases, export credit guaranteed loans, tax leases, manufacturer support, enhanced equipment trust certificates (EETCs), and Islamic finance. It is also consistent with Global Industry Analyst (2015) report suggests that when leasing companies and aircraft manufactures have developed many innovation financing methods to satisfy the needs of the airline industry including Ijarah.

Department of Finance in Ireland introduced Finance Act 2010 that brought by former Minister of Finance, Brian Lenihan to facilitate the introduction and to promote development of Islamic finance in Ireland under Section 35. This is a good approach that might develop the interest of Middle East investors but however, from the findings in term of Ijarah as an alternative leasing for aircraft, the respondent argued on the risk factors regarding Islamic financing might be more expensive than conventional because of the differences between Islamic and conventional finance structure. It is unclear especially the necessity in some cases to set up additional intermediaries between suppliers and demanders of funds, as well as more complex transaction structures. This is inconsistent with Jobst (2007) statement suggested that Islamic securitization offers the same economic benefits conventional structured.

There are advantages and disadvantages for every method suggested for financing thus, there are possible advantage for Ijarah as proposed by Kamali (2007) and Ghuddah (2010) such as the transfer of ownership at the end of the contract. However, the interviewee suggested many factors that will affect if we using the alternative financing but first we need to review and analyses how the economic cycle or trend that may impact airline defaults, aircraft values, or maybe interest rates.

5.2 Islamic rules and regulations

Question 2: Is there any issues relating to regulation, standard, registration and settlement that would apply in Ijarah leasing for the aircraft and what would be the challenges?

In term of the taxation there might not be any difficulty arises as the existing tax legislation for conventional investment funds in Ireland are already lodged with the Shariah requirement as the products domiciled in Ireland and according to Khan (2009) they are exempted from tax or any capital gain. In addition, KPMG Ireland also introduced Section 35 FA2010 which persistence to facilitate the introduction and to promote development of Islamic finance and it contained with legislation amendments that are needed for possible adjustment for the possible Shariah compliant transactions to take place in Ireland's jurisdiction.

Llewellyn, D.T. (2001) found out that the main difference between Islamic banks and conventional banks is the exclusion of interest and the research findings also similar with that statement as the one of the interviewee mentioned about the prohibition of interest in Islamic financing.

“I think the most obvious thing about differences between them are the interest. As far as I know, Islamic finance really prohibited the application of interest”.

Even though interviewee mentioned the prohibition of the application of interest in Islamic financing, but as in the airline industry, the application of interest is very common. This is similar with Jobst (2007) as conventional securitization involves interest-bearing debt because a transaction that is financed by a bank on the understanding that the capital lent to the borrower must be repaid plus interest at a rate agreed in advance as compensation taking into account the time value of money and the value of the service of lending (Fisfo-Oridedi, 2012).

Other than that, lack of expertise will also issues. According to Rodrick Millar (2008, p.3) Shariah law is to create fair and socially systems within the society which is comprises complete and comprehensive not only the code of behaviour but also governing the moral, ethical, spiritual, social the financial and business. Most bank's professionals have been trained in conventional economics but unfamiliarity with the Islamic banking system. Thus, because of this reasons, the necessity to expose with Islamic structures and law are such Shariah law and others regulations are crucial to professionals. There is a need to institute professionalism in banking practice is to enhance management capacity by competent bankers committed to their profession. In term of Ijarah, since it is in complex structures, professionals need to face bigger challenge, as they must have a better understanding of industry, the management of the business as well the knowledge.

Harmonization between Shariah law and conventional law should be done. However an Islamic product has so far prevented standardization because of the uncertainty. Vejzagic (2014) indicated that there various interpretations by Muslim scholars as the four schools of jurisprudence (fiqh). This is difficult for regulators as they like to know exactly what it is they are authorising and will burden on the banks that have to educate customers in new markets. It

might not be problem for taxation in Ireland but for other Islamic products could raise problem due to prohibition to certain things such as interest. One of the interviewee said in his interview:

“If Government can manage this by the standardization rulings, the industry will be more transparent and will boosted confidence among investors.”

5.3 Ijarah structure

Question 3: What are the Ijarah structure and its characteristics that can be apply in the industry sector of aviation?

Interviewee two mentioned that Ijarah is *“more likely the same because in conventional leasing, it is a contract between a lessor and a lessee for the hire of a specific asset. The lessor will retains the ownership of the asset and the lessee has the right to use the asset is given to for an agreed period of time in return for a series of payments paid by the lessee to the lessor*

Since the interviewees doesn't really distinguish the structure of Ijarah that can be apply in aircraft acquisition, thus researcher would like to proposed the methodology for its structure that could be apply in the aviation industry.

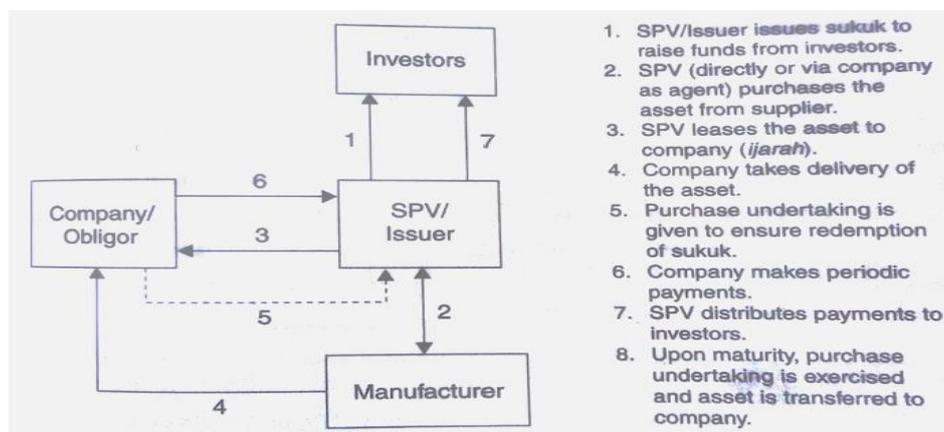


Figure 7: Ijarah model

An airline company would like to acquire a fleet of planes. Upon issuance of the contract, the SPV or issuer would buy the aircraft from the manufacturer and lease them to the airline. The lease is usually similar to a financial lease and follows the rules of Ijarah Muntahia Bittamleek. In this structure, the ownership of the aircraft will be transferred to the airline company at the end of the lease, either by a sale or as a gift. To ensure that this transfer takes place and the contract is redeemed, the airline company as a lessee would give a purchase undertaking that it would acquire the asset upon maturity.

6.0 Conclusion

The primary objective of this study is to identify the level of awareness and to see the progress of any growth of Islamic finance in Ireland but focusing in the aviation sector. The researcher wishes to study on the issues regarding what can be achieved by using the Islamic leasing which is Ijarah and become the “*Centre of Excellence*” for aircraft financing.

A common question that arises regarding the current Islamic banking system, is that this system has failed to deliver those benefits to the society because of lack of exposure and marketing of its products. Islamic finance is still developing and the concept of Ijarah discussed here are often not yet perfectly developed. There are a variety of issues that are really complicated, especially concerning the different thoughts by scholars of jurisdictions (fiqh) in relation to Shariah law.

However, Islamic securitisation complements the conventional banking as an alternative and more diversified funding option that broadens the pricing options to the asset supply as high demand for alternative investment products. The continued presence of those factors will ensure Ireland's position will continue for the foreseeable future as a leading player in this sector even though it is already become the “*Centre of Excellence*” for aviation industry.

The level of awareness of Islamic finance in Ireland is surprisingly increased each year since former Minister of Finance, Brian Lenihan expressed his opinion to facilitate Islamic finance in 2010 to help rebuild the financial services sector. Since Middle East and Asian countries are already showing positive signs in promoting Islamic banking and finance activities as their strong investment, this could be an opportunity for Ireland to be a major player in the aviation sector in the aircraft leasing promoting Ijarah not only in Europe but also to the rest of the world.

7.0 Self-reflection on own learning and performance

When you're struggling, a small 'Success' requires not only action, but also reflection on attitude on which what they have done, what they are doing, and what they will do. Such reflection or thoughtful review is the flip side of active involvement.

"Start where you are. Use what you have. Do what you can." - Arthur Ashe

The learning process that was undertaken over the period in completing MSc International Accounting and Finance will be discuss in this chapter. It will consist of the researcher's skills development, experiences and challenges in order to complete this research while identifying the necessary skills acquired to access the performance of the research.

Model of Felder and Silverman (1988) Learning's Style Instruments of learners has been implemented for this purpose and also the overall conclusion will be made to set a possible future direction to the researchers' development and career.

7.1 Background

Growing up in Malaysia, the researcher was exposed to different cultures and different kind of knowledge every day. The researcher started his academic career with Foundation in Accounting in University Tenaga Nasional which also known as UNITEN, right after graduated from his high school programmes in 2009. The course completed in a year and the researcher continued to pursue his Bachelor Degree in Accounting in the same university, and graduated in year 2014. Upon his graduation, the researcher started his career as an accounting consultant trainee for seven months with Wasi Management Consultant, a Chartered Accountant firm in Shah Alam, Malaysia.

Researcher decided to continue his study afterwards by pursuing master degree in Ireland, because he wanted to explore and feel the environment in Europe. After some independent research and advices from some friends and family, the researcher decided to enrol

in Dublin Business School as one of the student in MSc International Accounting and Finance programme.

Despite many challenges during the programme, researcher found to be more independent in developing his own opinions and make wise decisions before solving the problems. Thus, researcher tend to improve inter-personal, learning skills, critical thinking, and personal management that are necessary in everyday life and not just broadening of this learning beyond the academic context. These attributes and summary of learning style by researcher has applied during the research period will be discussed in the following section.

7.2 Learning style

In this last chapter, self-reflection in learning style will be discuss in capturing both the positive and negative insights acquired throughout the process are of particular relevance. Learning style can be define as “characteristic cognitive, effective and psychological behaviours that serve as comparatively indicators of how learners perceive, cooperate and respond to the learning environment” (Keefe, 1979) while, Honey and Mumford (1986) argued that learning style of each individual is different because every person has different behavior. There are numerous ways of learning style because different individual has different ideas, preference, differs in how they receive the information, varies in how they interpret and contrasts with others in term of understanding because learning style are educational conditions or method or style in which the student prefers to learn (Stewart, 1992).

While Kolb (1984) and Bruner (1966) state learning is a process where “concept” of “ideas” is modified by experience which could leads to personal development. The researcher adapted the learning style instruments which were developed by Felder and Silverman (1988) to describe his learning style. This instrument is about learning and teaching style for engineering students and lecturers, but it is applicable to all major studies. There are four learning dimensions which are active and reflective learners, sensing and intuitive learners, visual and verbal learners and sequential and global learners.

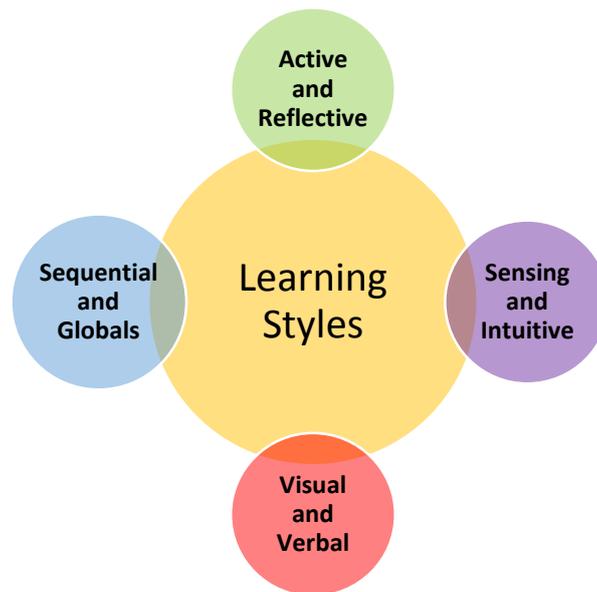


Figure 8: Learning style instrument

According to Felder-Silverman, learning styles instruments consists of four categories which are:

- ***Active and reflective learners***

Active learners are people who remember or understand the information by deliberating the topic with others and discussing it with the group, while reflective learners tend to take their time to think about the topic before making discussion. Active learners are more difficult to understand rather than reflective because they we cannot measure any apply physical communication in understanding the matters.

- ***Sensing and intuitive learners***

The sensing learner are more to the person whom prefer factual and practical without so much difficulty and surprises such as doing the laboratory work and solving problems using proper methods. Meanwhile, the intuitive learner is more innovative and creative such as creating a new technology because they prefers discovering possibilities with new concepts and surprises.

- ***Visual and verbal learners***

Visual learners are people that prefers to memorize things through pictures, diagrams, flow charts and films while verbal learners are more into written and verbal explanations from their teacher or lecturer. Both methods are practical depending on the learner, and which approaches are preferable and suitable for them. These type of learners are capable of processing information presented either visually or verbally

- ***Sequential and global learners***

The sequential learner tends to understand a topic through logical stepwise routes and follows the logical flow in finding the solutions such as solving maths homework. The global learner is a person who receives the information randomly but all of a sudden manages to solve the complex problem and afterwards they may have difficulty in explaining how they managed to solve it.

Researcher discovered his learning style is in the visual, verbal learners and reflective category¹⁸. The researcher usually search for other lectures or discussions on a topic that he doesn't understand in YouTube on his leisure time. Other than that, he prefers source of information that has charts, diagram, pictures and written directions to get clearer and deeper understanding regarding his homework or assignment throughout the course because he is the type of person that needed guidance to visualize effects that happened.

He practically always said "show me and I'll understand." Researcher tend to understand and remember things by sight. Thus, he always picture and imagine the learning process of any topic in his head because he learn best by using methods that are primarily visual. He easily remember that he need to see things, not just hear things in order for him to learn well.

“As a visual learner, you are typically well-ordered and clean” (Felder, 1988). This statement is totally signify the researcher as he certainly need clean and tidy place to study and be easily distracted by sounds and uncluttered places. Researcher need to be well organized and usually will value to-do lists, and written notes for what he should do.

¹⁸ <http://www.educationplanner.org/students/self-assessments/learning-styles-quiz.shtml?event=results&A=7&V=7&T=6>

If you are an auditory learner, you learn best by hearing and listening (Janice Turner, 2016). Researcher attracted to spoken language such as stories that is rich in imagery in order for him to understand and remember things. He have an easier time to understanding the spoken instructions than written ones as he can easily grasp information by the way it sounds. He also often learn by reading out loud because he have to hear it or speak it in order to make sense the information for him. As an auditory learner, he probably hum or talk to himself or others in certain time if he became bored. People may think he may not paying attention, even though he may be hearing and understood everything being said.

A person who usually stand back and observe before making a decision and conclusion falls in reflector learner category. Reflectors are cautious and require a systematic analysis of data. They are being thoughtful, a good listener and frequently take a back seat in meetings and discussions because they enjoy observing other people and requires time before making their own arguments. The researcher realizes he fall in this category especially when it comes to discussion of certain topics in the class. He prefer to absorb information given by the lecturer and only participate in class when he unclear on certain discussion.

The learning style enable the researcher to understand better about him and his attitude in learning process. He believes that is was reflected in the process of completing this research and entire course of MSc. Researcher realize that he is not perfect and a good student. These learning styles might have its disadvantages, thus this assessment expectation would help in building the researcher's personal development in future.

7.3 Skill development and performance

Researcher has faced various challenges and opportunities throughout the course of the MSc program in order for him to complete this research and course. This section will further discuss these experiences and assesses his skills development throughout the year of MSc program.

7.3.1 Inter-personal skills

Researcher has always felt neglected in conversation and he will remain quiet due to his lack of confidence in communicating with people. Even during his work period he faced difficulties in communicating his opinion with colleagues by since moving abroad, the researcher feels that he was able to overcome this at some degree as he meets with different people from different backgrounds.

The multicultural society in Ireland has given the opportunity for the researcher to interact with people and improve his English. From here he learnt that it is not necessary to have perfect English conversation but by using simple words and explain things in understandable manner is much more important.

At the same time, the researcher feels that he was able to improve his negotiation skills as well as communication skills. Other than that, by conducting the interview for this research, the researcher has been confident in communicating more with other people for data collection.

7.3.2 Critical thinking skills

Throughout his previous education process in his Bachelor Degree in Accounting, researcher realized he finds himself memorizing facts and calculating numbers. Not blaming the education system but the researcher feels that this has led to the lack of critical thinking skills because accounting is merely numbers and figures. All of this change when he decided to pursue his study in MSc program in Dublin Business School. Banning (2006) argues that critical thinking involves analyzing, differentiating, and evaluating information as well as reflecting on information to make judgments that will inform clinical decisions.

This MSc program emphasizes on discussion and group work where case studies are analyzed while applying theories to the end result. This program has given the researcher more opportunity to create idea, open his mind and discuss it with others. There were no absolute

rights or wrong answer as long ideas are argued and communicated clearly with the support of theories any answers will be accepted.

The completion of this research was also contributed by all this processes and experience where the researcher was able to train in developing ideas, analyzed the study in the context of Ireland's specific sector which is manufacturing and production industry. Later the researcher provides recommendations by making arguments and relates it back to past literatures.

7.3.3 Personal management skills

Personal management is very crucial as it could control the quality and ensure someone deliver its job. Throughout the course of MSc, researcher realized that the allocation time for writing this dissertation was very limited thus, the time planning is important in order to complete within the required time period. Late respond from the company to participate for the informational interview also affected to the initial time planning.

Time management and handling pressure are very important for researcher to keep moving forward. Researcher will always need contingencies plan and backup if something wrong happened that are not it the actual planning. Researcher need to keep a schedule to ensure each assignment submitted on time. This was also applied to finish this research. The researcher also was able to maintain work life balance and enjoy his hobby. As a result, the researcher satisfy and happy as his personal management skills enables him to finish this research on time.

7.3.4 Cognitive and learning skills

The researcher feels that besides improving his understanding in international practice of accounting, finance and business management, he learns more than that. The MSc course has really changed this researcher in many aspect. For example, the researcher attended few series of group interviews in Dublin and he found he is more active in the group and participate in the interviews actively. He realized himself more confident and feels ease in meeting new people, sharing ideas and presenting his ideas.

The MSc experience also helped the researcher to conduct this research using reliable online material which was provided by Dublin Business School (DBS) library through EBSCOhost, Emerald and others. Researcher also learned to use SPSS software for the purpose of analysis of data. At the end of this research period, researcher was equipped with basic knowledge to conduct the research. In addition, this thesis has exposed the researcher to be unbiased, open-minded and make logic to the experience that he been through. In other words, MSc has opened the opportunity to other learning styles as well.

7.4 Conclusion

As a conclusion the researcher believes learning is a continuous process and always learns from past mistakes to perform better in future. Most importantly the researcher is willing to learn new things every day. The researcher always remembers one of famous quote of Socrates in his life “I know that I am intelligent, because I know nothing”.

From the completion of this course and research, the researcher admits his knowledge in accounting and finance has been improved and gained other skills which boosted his confident. The researcher also believes he could share and educate people in matters related to this research. The completion of this course also has given inspiration for the researcher to pursue his study for professional paper in the field of accounting as he believes learning is never ending process.

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Appendices

Invitation Letter for Interview

<Date>

<Interviewee>

Dear Madam/Ms,

Invitation for Informational Interview for Master Dissertation

I am a postgraduate student at Dublin Business School, Ireland majoring in MSc. International Accounting & Finance.

I am writing to invite you to participate in a research title, *Ijarah: “The Concept, Development and Progress of Islamic Finance Leasing in Ireland’s Aviation Sector”*. This research is about the study on the issues regarding what can be achieved by using the Islamic leasing which is Ijarah to become the “*Centre of Excellence*” for aircraft financing.

I would like to seek the approval to do this research through a series of interviews, observation, request for sample reports in your office and any other information i.e. statistical data, journal and publication that may be helpful for this research. At your convenience, I would like to schedule a 20–40 minute informational meeting with you.

Rest assured that any information given to the undertakings are treated confidentially. Before you decide if you would like to take part, it is important for you to understand why the project is being done and what it will involve. Please take time carefully read the company “*security clearance and confidentiality*” form as per attachment. If you would like to take part please complete and return the security clearance and confidentiality form during the interview session.

I sincerely hope that you will consider participating in this research. I will be contacting you via telephone or email in the near future to confirm your interest in being interviewed. Please feel free

to contact me as specified below with any questions. I appreciate if you would consider meeting me for this purpose. Looking forward to hear from you soon. Thank you.

Yours faithfully,

Najib Ayub

Student,

Msc International Accounting & Finance,

Dublin Business School,

Email: najib0191@gmail.com

Cc: Mr Andrew Quinn

First Supervisor

Dublin Business School

Email: Andrew.quinn@dbs.ie

Dublin Business School
Company Security Clearance and Confidentiality

Name : Najib Ayub
Dissertation Title: Ijarah: “The Concept, Development and Progress of Islamic Finance Leasing in Ireland’s Aviation Sector”

Company Security Clearance

Please initial as appropriate

1. We agree that the student(s) may undertake a dissertation of the nature indicated above and that he/she/they will be given access to appropriate information sources within our Organisation

2. We agree that copies of the finished project will be made available for assessment by staff of Dublin Business School, and External examiners.

3. We request that the completed dissertation be treated as confidential and not used for any other purposes other than assessment

Name : _____
Position : _____
Company : _____
Signature : _____

Note to Student:

Please ensure that the original signed copy of this form is forwarded to the Postgraduate Business Programme Coordinator and a copy of this form also be included in the Dissertation

Interview Questions

By: Najib Ayub

Introduction

1. Firstly, please could you introduce yourself?
2. What is your company's role in the development of aircraft financing in Ireland?
3. How much do you know about Islamic finance or do you have any experience in Islamic Finance?
4. How much do you think the professionals and the general public know about Islamic finance?

Question 1

Ireland has been one of the pre-eminent jurisdictions for aircraft finance and leasing for almost 40 years. The Irish industry traces its roots back to the foundation of Guinness Peat Aviation in Shannon, County Clare in 1975 and in the intervening period the aircraft leasing, trading and brokerage industry has proved to be one of Ireland's greatest success stories.

How do airlines finance their aircraft?

What are the factors that lead to it?

Question 2

In the case of Ireland, aircraft leasing has grown from a niche market, recorded 18% increase in pre-tax account to euro 676.6 million in 2012 and it is estimates that 50% of the world leased aircraft are managed from Ireland. This is a good point where Ireland has to offer.

Based on these facts, what do you think about the government's strategy for Ireland in next five years to become a centre of excellent for aircraft sector?

Question 3

A lease agreement is a contract between two parties, the lessor and the lessee. The lessor is the legal owner of the asset, the lessee obtains the right to use the asset in return for rental payments and thus enforceable by all parties under the contract law of the applicable jurisdiction

Are the concept, structure and features of conventional hire purchase, legally and fundamentally different from an Ijarah, i.e. lease with the option to purchase?

What are the differences between conventional leasing and Ijarah?

Question 4

Under the Ijarah contract, an underlying asset which is leased to generate a return. Investors purchase an asset of the beneficial ownership of the underlying assets, receive a return and bear the risk on that asset. In 2013, commercial aircraft leasing became more popular with several Middle Eastern countries utilizing the Ijarah concept to lease aircraft. According to market reports, commercial aircraft leasing will continue to expand despite the sluggish performance of the global economy.

What are the risk factors for alternative financing such as Ijarah in aircraft and their qualification whether there will be more opportunities to invest in aviation assets?

Question 5

Complex lease terms mean that it is often difficult to determine how they should be classified. This article examines IAS 17 and sheds some light on the matter for example the issue on title of ownership leased assets.

What is the ruling regarding the title of ownership of the leased asset?

Question 6

The tax legislation introduced in 2010 means that tax treatment of Islamic financing is similar to a conventional finance while changes to Ireland's securitization offering in 2011 would enhance the ability to accommodate certain Islamic finance transaction. Ireland has also entered into double tax agreement with 68 countries.

In your opinion, are there any others issues relating to taxation regulation, listing, registration and settlement which still unresolved?

QUESTION 7

In 2012, the Department of Finance in Ireland created a report to bring Islamic finance to Ireland. One of the efforts was Finance Act 2010 that brought by former Minister of Finance, Brian Lenihan which introduced to facilitate the introduction and to promote development of Islamic finance in Ireland under Section 35.

What are challenges do you think Ireland may face in establishing Islamic finance?

How can the government manage these challenges?