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Article

Islamic Hedging in the Perspective of *Maqasid* Shariah 'Abd al-Majid al-Najjar

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ABSTRACT - This study aims to explore the effectiveness of Islamic hedging products in contributing to the Islamic financial industry in Indonesia, particularly in realising the *Maqasid* Shariah objectives according to 'Abd al-Majid al-Najjar. Islamic hedging is generally perceived as an instrument designed to protect the business sector from risks, which aligns with Islamic derivatives' primary objectives. However, the findings of this study reveal that Islamic hedging activities are unable to provide protection for social behaviour and maintain assets against the risks faced by business actors in the Indonesian financial sector. To ensure a fair analysis of these findings, several contributing factors should be further investigated. For instance, there may be a mismatch between the objectives of Islamic hedging and the broader *Maqasid* Shariah framework established by 'Abd al-Majid al-Najjar, as the financial-driven nature of Islamic hedging may lack a focus on social aspects. Hence, this study contributes to the existing literature by highlighting the limitations of Islamic hedging in achieving *Maqasid* Shariah objectives within Indonesia's Islamic financial sector.

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INTRODUCTION

Islamic hedging products have not been able to provide the optimal protection to the Islamic financial industry in Indonesia to realise the *Maqasid* Shariah framework of 'Abd al-Majid al-Najjar, namely maintaining social (community) behaviour and property. Data published by Bank Indonesia indicates that financial transactions use only 153 million US dollars. To avoid the risk of uncertainty of exchange rate fluctuations in the future, Islamic banks have products in the form of Islamic hedging transactions. Even in 2021, transactions using Islamic hedging are very low.

Thus far, the study of Islamic hedging has focused on the problem of the legal basis of Islamic hedging (Ahmad & Halim, 2014; Hidayat et al., 2022; Razif et al., 2012). The main focus of these research was on studying Islamic hedging activities from the perspective of Islamic law. Another study on Islamic hedging is the implementation of Islamic hedging in Indonesia focusing on its implementation and challenges (Anwar et al., 2022.; Chusmita, 2016.; Fitriana, 2019; Suherman, 2022; Suryani & Fathoni, 2017). The last is the study of Islamic hedging as an instrument for risk mitigation, which focuses on activities to control risks of business transaction (Fatturroyhan & Djayusman, 2017; Hasanah, 2022).

The purpose of this study is to complement previous research by examining Islamic hedging from the perspective of *Maqasid* Shariah framework of 'Abd al-Majid al-Najjar. Following the objectives of this study, Islamic hedging activities have not been able to become Islamic financial products that can realise *Maqasid* Shariah framework of 'Abd al-Majid al-Najjar, namely maintaining social (community) behaviour and property. The failure of Islamic hedging in realising

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Maqasid Shariah framework of 'Abd al-Majid al-Najjar can be observed from 1) The financial industry has only increased in one sector, namely the Islamic financing sector, not Islamic hedging activities; 2) Inflation continues to increase even though it is still at a low level; and 3) The growth of money market transaction volume is only partial, while transactions with Islamic hedging activities are still very low.

This research is based on an argument that Islamic hedging activities have not been able to become Islamic financial products to realise *Maqasid* Shariah framework of 'Abd al-Majid al-Najjar, namely maintaining social (community) behaviour and maintaining the property. Notably, Islamic hedging activities have not become something needed by the community. In particular, the main factor is the low level of Islamic financial literacy in Indonesia. Furthermore, people still do not understand the importance of transactions based on Shariah values. Another thing that determines Islamic financial literacy is the infrastructure for the development of Islamic finance, which is not optimal to realise Islamic financial inclusion in Indonesia.

LITERATURE REVIEW

Islamic hedging

Hedging is known in the financial world as an activity to control risks for transactions or investments in the financial sector, especially those related to foreign exchange. In economic activity, hedging is an action taken to minimise risks in business transactions caused by fluctuations in the currency exchange rate against foreign currencies (Pass, 1994). In Islam, every business transaction must avoid things prohibited by Islamic law, such as usury, *maysir*, and *gharar*, that have the potential to appear in financial transactions. In Arabic, hedging is known as *tahawwuth*, which means protection. Meanwhile, in terms of finance, *tahawwuth* can be interpreted as an action in selecting a transaction format that can guarantee a minor risk reduction to maintain the return on investment (Razif et al., 2012).

Islamic hedging transactions, as stipulated in the Fatwa Dewan Syariah Nasional Majelis Ulama Indonesia (MUI), are a method or technique used to reduce risks that occur or risks that are predicted to arise due to fluctuations in currency exchange rates based on Shariah principles. This Islamic hedging transaction is performed under a forward agreement scheme, indicating that the parties pledge each other to spot foreign exchange transactions in the amount agreed in the future based on the exchange rate or the exchange rate calculation mechanism agreed at that time. However, some experts have different concerns about the application of Islamic hedging (Transaksi Lindung Nilai Syariah (Al-Tahawwuth Al-Islami/Islamic Hedging) Atas Niai Tukar, 2015). Al-Swailem mentioned that hedging is used to reduce risk and neutralise risk (Al-Suwailem, 2009). Meanwhile, Benedetti and Campi mentioned that hedging is a process and an effort to stabilise prices to protect consumers against potential price losses (Benedetti & Campi, 2016). Meanwhile, if viewed in the context of asset management, hedging is essential in getting compensation for unbalanced company assets and debts (responsibilities) (Ahmad & Halim, 2014). Thus, it can be concluded that hedging is used to avoid risks, minimise risks, control risks, eliminate risks, avoid losses, and generate profits and guarantees in conducting business transactions on financial assets. However, there is a crucial difference between general and Islamic hedging; Islamic hedging allows forward agreement transactions (Hidayat et al., 2022).

MUI, in its fatwa, explained that the Islamic hedging mechanism could be performed using one of three contracts, namely *'aqd al-tahawwuth al-basith*, *'aqd al-tawhawwuth al-murakkab* and *'aqd al-tahawwuth suq al-sil'ah* (Transaksi Lindung Nilai Syariah (Al-Tahawwuth Al-Islami/Islamic Hedging) Atas Niai Tukar, 2015). These various Islamic hedging mechanisms are published as a result of business development. Islamic hedging using *'aqd al-tahawwuth al-basith* can be called Islamic hedging since the parties promise each other to make spot transactions once in the future on the currency transacted, the nominal amount, the calculation of the exchange rate, and the time of its execution. While Islamic hedging uses *'aqd al-tahawwuth al-murakkab*, the parties promise to make spot transactions more than once. In contrast to Islamic hedging with *'aqd al-tahawwuth suq al-salah*, commodity exchanges provide Islamic hedging facilities by placing orders for *salah* (Islamic commodities) and promising to buy them in the agreed nominal amount both in cash and formidable.

Previous literature generally acknowledges that Islamic hedging protects the business sector, consistent with the primary objectives of Islamic derivatives, which are designed to safeguard assets and mitigate financial risks. However, this study finds that Islamic hedging products have not significantly contributed to the realisation of 'Abd al-Majid al-Najjar's *Maqasid* Shariah objectives in Indonesia's Islamic financial industry, particularly in maintaining social behaviour and property. This may be due to a misalignment between the objectives of Islamic hedging and the broader *Maqasid* Shariah, which encompasses a more comprehensive range of social and economic aspects. The *Maqasid* Shariah, according to 'Abd al-Majid al-Najjar, includes the preservation of religion, life, intellect, progeny, and wealth, yet Islamic hedging appears to be more financially driven than socially oriented. This has resulted in its limited contribution to social behaviour and asset protection in Indonesia.

***Maqasid* Shariah**

Maqasid Shariah consists of two words, namely the word *Maqasid*, which means purpose, go, and will. Meanwhile, Shariah, in this case, is a guide that Allah has handed down to man in the form of rules of law (Khatib, 2018). *Maqasid* Shariah is always related to Islamic law (Mohamad et al., 2020). There are differences in terminology among *ushul* scholars. For example, Muhammad Abu Zahra called it *Maqasid al-ahkam*. While the word *Maqasid al-tasyri'* is used by Zaky al-Din Sha'ban and Abdul Wahab Khalaf. Meanwhile, al-Juwayni uses two terms, namely *Maqasid* and *mashalih* (Auda, 2008). Najmuddin al-Thufi talks more about *al-maslahah*, while *Maqasid* Shariah is a term used by Imam Ishaq al-Syathibi and Abdul Karim Zaidan. However, in principle, the different terms mean the same thing. To avoid confusion in terminology, the term *Maqasid* Shariah will exclusively be used in subsequent writings.

Maqasid Shariah aims for the benefit of mankind, both in the world and in the hereafter. This benefit becomes the basis for legal determination (Zahrah, 1958). *Maqasid* Shariah can be applied to all dimensions of people's lives, especially in the economic field. Notably, the urgency of *Maqasid* Shariah in economic activities is to ensure that economic actors get the welfare of society (Antonio et al., 2020). Thus, any Islamic economic transaction will eventually be aligned with *Maqasid* Shariah.

The study of *Maqasid* Shariah continues to develop. *Maqasid* Shariah was developed by examining the living conditions of humans in the modern era. Even *Maqasid* Shariah studies were also developed in the field of Islamic banking. One of the contributors is 'Abd al-Majid al-Najjar. According to al-Najjar, *Maqasid* Shariah aims to preserve human life, nurture humanity, maintain society, and maintain the environment (al Munawar, 2021). This contrasts with Abu Zahrah's opinion, who stated that *Maqasid* Shariah has the aim of individual education, justice, and benefit (Zahrah, 1958). Abu Zahra's *Maqasid* Shariah underwent a development from the *Maqasid* Shariah initiated by al-Syatibi and al-Ghazali, which included the maintenance of religion, soul, reason, descendants, and property (Zuhaily, 1985).

If traced further, the study of *Maqasid* Shariah has developed along with the increasing thinking of Islamic legal figures. In the middle of the 20th century, the figure of Muhammad Tahir ibn 'Asyur, who had developed the *Maqasid* Shariah, was initiated by al-Syathibi (Auda, 2008). Other figures, such as Jasser Auda, provide explanations regarding the protection of offspring developed into the protection of the family. Another concept is that the protection of property is developed into protection against economic activities to ensure that social inequality does not arise (Auda, 2008). Another contributor is 'Abd al-Majid al-Najjar, who has a different offer of the concept than previous scholars have developed.

‘Abd al-Majid al-Najjar had his own characteristics of thought when formulating *Maqasid* Shariah. However, all elements in *Maqasid* Shariah have the aim of building *maslahah* (Wijaya, 2014). Based on the results of the development of *Maqasid* Shariah framework of ‘Abd al-Majid al-Najjar, *Maqasid* Shariah has the objectives of 1) protecting the value of human life, 2) protecting humanity, 3) protecting society; and 4) protecting the environment (al-Najjar, 2008). The argument of ‘Abd al-Majid al-Najjar is that protecting the essence of humanity can achieve religious goals(Ridwan & Santi, 2019). In addition, human values are attached to the obligation of man as caliph on earth to offer good and avoid damage (Alias et al., 2021). Notably, the development of *Maqasid* Shariah is an effort to promote human values, including the performance of Islamic finance, such as Islamic banking activities.

METHODOLOGY

Research on Islamic hedging, in general, can be conducted using two methods: normatively and empirically (Christiani, 2016; Patten, 2014). Normatively, research on Islamic hedging examines the literature on Islamic hedging regarding its rules and legal basis. Meanwhile, research on Islamic hedging empirically focuses on the development and implementation of Islamic hedging in the Islamic financial industry. This research is empirically researched as it explores Islamic hedging activities in the Indonesian Shariah financial industry, which has not been able to become a Shariah financial product from the perspective of *Maqasid* Shariah framework of ‘Abd al-Majid al-Najjar. As such, the research identified three sources of Islamic hedging problems that have not been able to become Islamic financial products under *Maqasid* Shariah framework of ‘Abd al-Majid al-Najjar. Accordingly, Islamic hedging has the strategic potential to develop a low market share of Islamic finance in Indonesia.

The type of data in this study is secondary data. This study utilises secondary data to obtain reports and statistics on Islamic hedging. Meanwhile, the secondary data is obtained from reliable information search document media through government-owned websites, namely Bank Indonesia and the Financial Services Authority, as well as online news that discusses Islamic hedging.

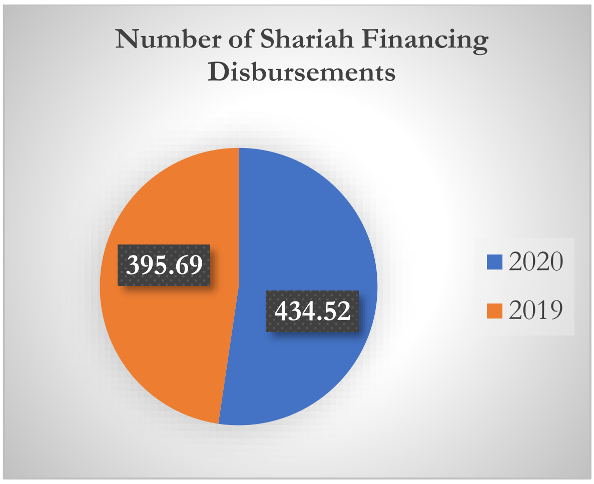
The data analysis used in this study was performed descriptively and critically. As such, descriptive analysis is conducted by building arguments from the data obtained, followed by explanations and interpretations. Descriptive data analysis is used to describe information related to Islamic hedging in Indonesia’s Islamic finance industry. At the same time, critical analysis is used to evaluate Islamic hedging activities in the Indonesian Islamic financial industry. Critical analysis is a solution to various problems of Islamic hedging in seeking the realisation of the perspective of *Maqasid* Shariah framework of ‘Abd al-Majid al-Najjar.

RESULT

Islamic hedging activities have not been able to provide optimal protection for people’s social behaviour due to several fundamental factors. Hence, protection against foreign exchange transactions provides guarantees to financial business actors such as foreign exchange investors, traders, importers, and exporters. With Islamic hedging, losses on assets transacted will be mitigated, especially for prospective pilgrims and Umrah and Islamic financing to increase Islamic financial inclusion. The emergence of Islamic hedging products as an activity to control risks has not been optimal due to the Islamic financial industry. However, this is increasing in one sector only; the inflation rate is increasing, and economic growth in the financial sector has increased with partial growth in transaction volumes in the Money Market. First, the implementation of Islamic hedging is still limited to the formal financial sector and has not reached most people engaged in the informal sector or Micro, Small and Medium Enterprises (MSMEs). Second, the complexity of the Islamic hedging mechanism and the lack of Islamic financial literacy in the community caused this product to be only accessible to certain groups, such as large investors and corporations. At the same time, the general public remains vulnerable to the risk of exchange rate fluctuations. Third, the focus on the development of Islamic hedging, which is more oriented towards aspects of formal Shariah compliance and financial benefits, has ignored the social dimension. This should be one of the main goals of Islamic finance. Fourth, there is no collective protection scheme in the Islamic hedging mechanism that can protect financially vulnerable groups, such as MSME actors and prospective Hajj/Umrah pilgrims from the middle to lower class. As a result, although theoretically, Islamic hedging aims to realise *Maqasid* Shariah in protecting assets and social benefits. In practice, it has not been able to become an effective instrument in providing comprehensive protection for various levels of society.

Islamic financial industry increases in one sector only

Facts related to the Islamic financial industry are increasing, judging from the amount of financing distributed. The amount of Islamic financing distribution can be observed in Figure 1.



Source: Data Processed from Berita Satu, 2021

Figure 1: Shariah financing disbursements

From Figure 1, it is visible that the amount of Islamic financing that has been successfully channelled by the Islamic financial industry in Indonesia has a positive trend and has increased by 6.27%. In this case, the performance of the Islamic financial industry relies on the distribution of Islamic financing for the halal industry. Globally, it indicates that the performance of community business activities has improved where, in that year, the world was still hit by COVID-19. However, foreign exchange transactions have not been able to shift Islamic financing, which contributes the most dominant role in implementing Islamic bank activities. In detail, the development of the Islamic financial industry in 2021 can be observed in Table 1.

Based on a report published by the Otoritas Jasa Keuangan, Indonesia's Islamic financial assets have reached Rp 2,050.44 trillion with a total of 471 Islamic Financial Institutions. It can be observed that the Islamic capital market mostly contributes to Islamic financial assets. This suggests that transactions in the financial sector are still dominantly trusted by the public as a source of long-term investment. However, it is still necessary to strengthen and increase Islamic financial literacy for the use of the Islamic money market for Islamic hedging transactions.

Based on the explanation above, it can be concluded that the use of Islamic hedging contributes to Islamic financial actors in the context of developing the Islamic financial industry. Nevertheless, the Islamic financial industry has not been able to optimise the development of Islamic finance for activities in hedging transactions to ensure that the public does not have to worry about the potential losses received when using transactions in foreign currencies. The Islamic financial industry can grow in various sectors, Islamic financial institutions, and their products, especially for Islamic hedging activities that are not optimal.

Table 1: Development of Islamic Finance in Indonesia

Islamic Financial Assets	Market Share to National Finance	Share of Islamic Financial	Assets (Trillion Rp)	Number of Institutions/Instruments
Shariah Banking	6.74%	33.83%	693.80	▪ 12 Shariah Commercial Banks ▪ 21 Shariah Business Unit of a Conventional Bank ▪ 164 Shariah Rural Bank
Islamic Non-Bank Financial Industry	4.25%	5.90%	120.81	▪ 59 Shariah Insurance ▪ 33 Shariah Finance Company ▪ 6 Venture Capital ▪ 10 Shariah Pension Fund
Shariah Capital Market (excluding Shariah Stocks)	17.37%	60.27%	1,235.83	▪ 1 Shariah Investment Management ▪ 60 Shariah Investment Management Unit ▪ 69 State Sukuk ▪ 189 Corporate Sukuk ▪ 289 Shariah Mutual Funds

Source: Data Processed from OJK, 2021.

Rising Inflation

As published by the Central Statistics Agency, inflation in Indonesia is still in the low category. Data on Indonesia's inflation in the last ten years can be observed in the Table 2.

Table 2: Data on Indonesia's inflation development

No	Period	Inflation Data
1	December 2022	5.51 %
2	November 2022	5.42 %
3	October 2022	5.71 %
4	September 2022	5.95 %
5	August 2022	4.69 %
6	July 2022	4.94 %
7	June 2022	4.35 %
8	May 2022	3.55 %
9	April 2022	3.47 %
10	March 2022	2.64 %
11	February 2022	2.06 %
12	January 2022	2.18 %
13	December 2021	1.87 %
14	November 2021	1.75 %
15	October 2021	1.66 %
16	September 2021	1.6 %
17	August 2021	1.59 %

18	July 2021	1.52 %
19	June 2021	1.33 %
20	May 2021	1.68 %
21	April 2021	1.42 %
22	March 2021	1.37 %
23	February 2021	1.38 %
24	January 2021	1.55 %
25	December 2020	1.68 %
26	November 2020	1.59 %
27	October 2020	1.44 %
28	September 2020	1.42 %
29	August 2020	1.32 %
30	July 2020	1.54 %
31	June 2020	1.96 %
32	May 2020	2.19 %
33	April 2020	2.67 %
34	March 2020	2.96 %
35	February 2020	2.98 %
36	January 2020	2.68 %

Source: Data Processed from bi.go.id, 2023

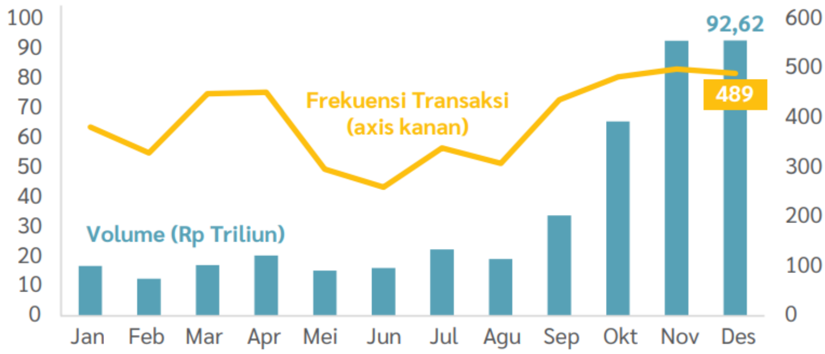
Based on the chart above, inflation continued to increase since March 2022 until its peak in September 2022 reached 5.95%, and at the end of 2022, it decreased by 5.51%. Based on the overall inflation trend, it has fluctuated since 2022, exhibits a negative trend, and tends to increase. Only in 2021 can inflation be suppressed below 2%, indicating that inflation in that year is very low.

Based on the data above, inflation over the last 3 years is still in the category of low inflation even though it tends to increase. The inflation rate of 5.51% indicates that the government can suppress inflation to stabilise prices in the market. Thus, people will not worry about the demand for goods and services to meet their daily needs. The government, through Bank Indonesia, can maintain price stability at the *end-user* level. The impact is that people with low inflation levels still have the motive to hold money not for investment or Islamic hedging transactions on foreign exchange.

The description above illustrates that the inflation rate in Indonesia is still relatively low, and people still have a high motivation to hold money. Therefore, the government, through Islamic banking, has not been able to optimise Islamic hedging transactions to reduce inflation. The lack of infrastructure and low public literacy are problems in increasing national Islamic financial inclusion.

Partial growth of transaction volumes in the money market

Islamic hedging instruments are formulated in line with the volume of Interbank Money Market transactions based on Shariah principles (PUAS), which in 2021 is relatively stable and tends to increase. The development of interbank PUAS can be observed in the following figure.



Source: Data Processed from ojk.go.id, 2021

Figure 2: Development of PUAS transactions

Based on Figure 2, it can be indicated that the volume of PUAS transactions reached its highest level in November 2021, with a total transaction volume of 92.62 trillion. This increase in transactions illustrates that Islamic banking is performing well and is in line with Bank Indonesia's target. Therefore, the domestic economic recovery from the Islamic banking sector will be higher, indicating that the Islamic financial industry is one of the pillars of national economic growth.

Other data published by Bank Indonesia regarding PUAS transaction volume is still stable. Even in November 2021, transaction volume reached 400% compared to the highest volume in 2020, which reached Rp 19 trillion. However, when viewed as a whole, the transaction volume in the Islamic foreign exchange market with the spot system and Islamic hedging activities in 2021 is relatively small. The spot transaction volume is 153 million US dollars. To avoid the risk of uncertainty of exchange rate fluctuations in the future, Islamic banks have products in the form of Islamic hedging transactions. However, in 2021, these transactions are still very minimal since there was no demand for them (www.bi.go.id).

The lack of transactions for Islamic hedging activities is still very minimal, sourced from Islamic financial literacy nationally. Globally, the development and trend of Islamic financial industry products are increasing and tend to develop but only focus on one product or financing. In 2021, the Islamic financial literacy index in Indonesia was 20.01%. When viewed as a whole, the figure of 20% is fairly low since around 80% of others still do not understand the Islamic economy. However, the Islamic financial literacy index has developed since 2019, around 16% (www.bi.go.id).

Based on the data above, it can be concluded that Islamic hedging transaction activities have not been performed optimally by the Islamic financial industry. The growth and development of Islamic finance are only in money market transactions performed by Islamic banks. Meanwhile, Islamic hedging activities are still minimal due to the low national Islamic financial literacy level. This is a concern for regulators who want to formulate strategic policy directions for Islamic hedging transactions that have great potential in Indonesia.

This research produced some facts about Islamic hedging as an Islamic financial product in Indonesia. Islamic hedging activities that are expected to be able to control the risks of foreign exchange transactions are not able to realise the *Maqasid* Shariah 'Abd al-Majid al-Najjar, namely maintaining social (community) behaviour and property. Facts have proved that Indonesia's Islamic financial industry in the Islamic banking sector is still dominated by Shariah financing distribution. Other activities, such as Islamic hedging activities, are not in great demand by the public. On the other hand, people still have a high level of trust in the motive of holding money. Hence, they do not require Islamic hedging activities in Islamic banks. Macroeconomically, the condition of the level of meeting people's needs can still be fulfilled by the government since it can suppress inflation. Another fact proves that the transaction volume growth in the money market with Islamic hedging activities is still very low. This is a result of people who have a level of Islamic financial literacy being less *literate*.

The results of this study reveal that Islamic hedging activities are unable to provide optimal protection for social (community) behaviour and maintain assets for the risks faced by business actors in the Indonesian financial sector. The main problem is the low literacy of the Islamic economy in Indonesia. Thus, the Indonesian people should be provided with adequate access and infrastructure as well as complete information related to the importance of Islamic hedging. Likewise, Islamic banking should not only focus on developing financial products and services in the financing sector but also on developing Islamic financial services to provide a platform for investors who will control their risks to investment in the financial sector. Furthermore, the government, through Bank Indonesia and the Financial Services Authority as policymakers, should build infrastructure to strengthen Islamic financial literacy in Indonesia and encourage investors to perform Islamic hedging transaction activities. Thus, the market share of Islamic finance in Indonesia will increase. From a financial point of view, Islamic banking does not yet have an established quality of management and has limited sources of capital. Accordingly, its financial products are still limited; this is certainly a concern for the government.

This study demonstrates that Islamic hedging products have not significantly supported the realisation of 'Abd al-Majid al-Najjar's *Maqasid* Shariah objectives in Indonesia's Islamic financial industry, particularly in maintaining social behaviour and property. In terms of maintaining social behaviour, data from the Financial Services Authority (Otoritas Jasa Keuangan) in 2023 reveals that only 2.3% of the total Islamic hedging transactions are utilised by MSMEs, while 97.7% are dominated by corporations and financial institutions (Otoritas Jasa Keuangan, 2023). Meanwhile, the limitations in the aspect of property maintenance are reflected in Bank Indonesia data, which suggests that of the total Islamic hedging transactions worth Rp 48.7 trillion in 2023, 85% of them are focused on banking asset protection. Only 15% are for the protection of people's real assets (Bank Indonesia, 2023).

The inconsistency with the goals of *Maqasid* Shariah is evidenced by the research of Ismail et al. (2023), which reported that 78% of the development of Islamic hedging products in Indonesia is still driven by profit motives, while the social aspect only gets a portion of 22%. The structural implications can be observed from data from the Indonesian Shariah Bank Association (ASBISINDO), which notes that 82% of users of Islamic hedging products are customers with assets above IDR 10 billion (Asosiasi Bank Syariah Indonesia (ASBISINDO), 2023). Meanwhile, a study by Karim and Partners (2023) revealed that the average operational cost of Islamic hedging is 25% higher than other Islamic financial products, creating a barrier to entry for the lower middle class. At the same time, the limited socio-economic impact is reflected in the Hajj Financial Management Agency (BPKH) in 2023, which also revealed that only 15% of the total Hajj funds are protected through the Islamic hedging mechanism. This indicates that there is still a significant exposure to exchange rate risk for prospective pilgrims (Badan Pengelola Keuangan Haji (BPKH), 2023). Notably, the fundamental transformation in the development of Islamic hedging products is an urgent need, as recommended in the 2024 Islamic Financial Services Board (IFSB) comprehensive study. This emphasises the significance of reformulating Islamic hedging products by considering the aspects of accessibility (minimum 40% increase), inclusivity (target of 30% MSME penetration), and strengthening social orientation (at least 35% of total product development) for the 2024-2029 period (Islamic Financial Services Board (IFSB), 2023).

This research confirms that the inability of Islamic hedging as an Islamic financial product that can guarantee *Maqasid* Shariah, namely maintaining social (community) behaviour and maintaining assets, is the development of Islamic banks only focusing on the financing sector. Note that Islamic banks with limited capital capabilities have a limited impact on the financial products offered. In addition, management that does not have experience like conventional banks makes Islamic banks not contribute much to Islamic hedging activities. Next is Indonesia's low

Islamic financial literacy, which suggests that people do not understand the significance of Islamic hedging in controlling risks.

This study is a different study compared to previous studies. This research contributes specifically to the study of Islamic hedging, which has not been able to study Islamic financial products that can realise the *Maqasid* Shariah perspective of ‘Abd al-Majid al-Najjar. Thus far, Islamic hedging studies still partially discuss the concept and ability to hedge in Islamic financial transactions. Study of Islamic hedging in Indonesia, hedging study as a risk mitigation instrument (Ahmad & Halim, 2014; Hidayat et al., 2022; Razif et al., 2012;Anwar et al., 2022; Chusmita, 2016; Fitriana, 2019; Suherman, 2022; Hasanah, 2022).

This research has recommendations for improvements that can be made, including encouraging Islamic banks to be more active in performing Islamic hedging by conducting syndicated financing to be able to provide large amounts of financing. As such, syndicated financing must be improved again to ensure that the growth of assets and profitability of Islamic banking will increase. In addition, the government further increases the liquidity of Islamic banking by issuing corporate sukuk. Furthermore, Islamic hedging activities need to be used as mandatory activities, especially for government companies, to increase Islamic financial inclusion in Indonesia.

CONCLUSION

Islamic hedging, as outlined in this study, is an activity by Islamic banks to ensure mitigation of risks for business transactions for customers. Non-optimal Islamic hedging as an Islamic financial product to realise *Maqasid* Shariah is one of the efforts to control the risks of community business transactions. With Islamic hedging, people involved in business transactions related to foreign exchange will be guaranteed against risk. This has the potential for Islamic hedging transactions to become the most dominant financial product since the public, especially investors, will feel safe and able to control their business risks.

Prior research on Islamic hedging tends to focus on practices and mechanisms for hedging. In addition, the past studies of hedging still focuses on the Islamic law approach only. This research paper using the *Maqasid* Shariah perspective allows the Islamic hedging phenomenon to be elaborated from the point of view of Islamic law and Islamic finance simultaneously. The study of Islamic hedging has not been able to become a dominant product in the Islamic financial sector, implying that the development of Islamic financial products has not been optimally targeted to people in need.

This research has limitations in analytical studies focusing on Islamic hedging and *Maqasid* Shariah. Thus, it is still open to exploring comprehensively the study of Islamic hedging in the Islamic financial sector. This study does not examine macroeconomic aspects to observe the overall development of Islamic finance. Therefore, this study suggests conducting further research on Islamic hedging in the macroeconomic sector to ensure that the problem of not being optimal Islamic hedging can be solved comprehensively.

This study reveals that Islamic hedging has not been able to provide optimal protection in realising *Maqasid* Shariah framework of ‘Abd al-Majid al-Najjar, especially in the aspect of safeguarding people’s social behaviour. This is evidenced by several findings: (1) the implementation of Islamic hedging is still limited to the formal financial sector, (2) the complexity of the mechanism and low Islamic financial literacy cause this product to be only accessible to certain groups, (3) the focus of development is more oriented towards aspects of formal Shariah compliance and financial benefits ignoring the social dimension, and (4) the absence of a collective protection scheme for vulnerable groups. These limitations suggest a misalignment between the purpose of Islamic hedging and the broader *Maqasid* of Shariah, as well as its limited contribution to protecting social behaviour and community assets. Nevertheless, this finding opens up space for further research to examine the factors that affect the effectiveness of Islamic hedging in protecting Indonesia's Islamic financial sector.

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