Impact of Islamic Financing Instruments on Unemployment in Palestine During the Period (2005–2023): A Quantitative Analytical Study

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Abstract
This study aims to examine the impact of Islamic financing instruments on unemployment rates in Palestine during the period 2005–2023. The researcher employed a quantitative methodology based on data collected from three Islamic banks operating in Palestine: Palestine Islamic Bank, Arab Islamic Bank, and Al-Safa Bank. Econometric models, including panel data analysis and the Autoregressive Distributed Lag (ARDL) model, were applied to investigate the relationship between Islamic financing instruments and unemployment rates. The findings reveal a statistically significant relationship between Islamic financing tools and unemployment, confirming the vital role of Islamic finance in supporting productive projects and reducing unemployment levels.
Keywords: Econometric Models, Islamic Financing Instruments, Unemployment

Introduction
Islamic finance represents one of the most prominent alternative economic models that seeks to achieve a balance between economic efficiency and social justice by directing capital towards productive activities and avoiding usurious transactions and unethical economic practices (Ahmed, 2011). Its instruments, such as Murabaha (cost-plus financing) and Mudarabah (profit-sharing), are characterised by their direct link to the real economy through the principle of sharing profit and loss, which enhances opportunities for income generation and employment expansion (Chapra, 2008). Numerous studies have demonstrated that Islamic finance can play a significant role in addressing economic disparities and reducing unemployment by supporting small and medium enterprises (SMEs) and promoting productive investment (El-Gamal, 2006; Shafiq & Rahman, 2020). In this context, the Palestinian economy faces a unique and complex environment marked by political instability, occupation-related restrictions, and internal division, intensifying the need for effective and

sustainable financing alternatives (Islamic Development Bank, 2021). Accordingly, this paper aims to analyse the impact of Islamic financing instruments on unemployment rates in Palestine during the period 2005–2023, through a quantitative analytical approach based on real financial data from three Islamic banks operating in the Palestinian territories (the Arab Islamic Bank, the Palestine Islamic Bank, and Al-Safa Bank). The study employs panel data models and ARDL (Autoregressive Distributed Lag) techniques to test the relationship between these instruments and labour market indicators, while accounting for regional variations between the West Bank and the Gaza Strip.

Research Problem
Despite the noticeable expansion in the activities of Islamic banks in Palestine over the past two decades, unemployment rates still represent a serious economic and social challenge. This raises a central question that this study seeks to answer: "To what extent do Islamic financing instruments contribute to reducing unemployment rates in Palestine during the period 2005–2023?"

In light of this question, the study aims to: Analyse the impact of various Islamic financing instruments (such as Murabaha, Mudarabah, Ijarah, Istisna', and Salam) on unemployment rates in Palestine during the studied period. Identify the most effective instruments in reducing unemployment and supporting productive projects. Formulate practical recommendations for policymakers and financial institutions to activate the role of Islamic finance as an economic lever to reduce unemployment and enhance employment, especially among youth.

Conceptual Framework
The operational definitions of the significant words of interest in the study include the following: Islamic banks, Islamic financing instruments, and unemployment.

The Independent Variable
Instruments of Islamic Financing: The concept of Islamic financing refers to in-kind or monetary financing provided to various businesses in accordance with the rules and principles of Islamic Sharia and in line with the objectives of development (Al-Rifai, Hassan, and Abd, 2012).
The instruments of Islamic financing in Islamic banks are grouped into a set of tools that can be explained as follows.

Murābaḥah (Cost-Plus Sale)
The term Murabaah means that a commodity is sold at a certain price with a pre-agreed profit margin. It is one of the Islamic sale contracts with low risk and assured profit margins. The financing side of Murabahah involves selling the commodity on a deferred payment basis, thereby allowing the buyer to obtain commercial credit that is to be paid later, either as a lump sum or in instalments. Murabah can take one of the following forms (Al-Rifai, 2012).

Murabahah (Murabahtawakel) that is Agency-Based
In the structure, the client directs the bank to purchase a given commodity on his/her behalf. The bank buys and owns the commodity and resells it to the client at a high price, thereby incorporating the bank's profit. The fee imposed on the client is based on a deferral schedule

stipulated in the contract. This type of form is generally less risky for the bank, as it gains ownership of the commodity and does not face the risk of non-payment as with conventional loans (Haroun, 2016).

Murābahto-Purchase Murabah (Murabah li-Aamir bil-Shirah)
It is a financial contract under which the bank funds the client in obtaining a specific commodity through an innovative, Sharia-compliant purchase mechanism. The bank would buy the commodity, transfer ownership to itself, and then sell it to the client at a higher price. Profit share is predetermined. This structure attracts clients who want financing without interest-based loans and offers a flexible repayment duration that depends on the client's financial ability (Haroun, 2016).

Ijārah (Leasing)
The term Ijara refers to the separation of ownership rights in fixed assets or predetermined future services into equal rights through lease contracts. These assets can be real estate or other fixed-value assets. Upon payment of the agreed payments to the sukuk holder, ownership rights pass to him/her. There are several unique characteristics of this financial tool (Tayebi, 2009).

Istisnā Tanawi (Manufacturing/Construction Contract)
Istisnā sukuk are the sale of a manufactured, or constructed, commodity to be delivered at a later time in exchange for instant payment. The deliverable item is a liability to the manufacturer or seller till it is completed. Even though payment deferral is allowed, sukuk issued under the Istisnā simplify are non-tradable, provided they are issued at any time by any member of the contract and therefore are instruments usually kept to maturity (Tayebi, 2009).

Direct Investment
One of the most important tools, exemplified by states and institutions, for developing greater economic capabilities and promoting sustainable growth is direct investment. As a general term, it refers to several processes in which capital, technology, and managerial skills can play out in development.

Direct investment refers to the transfer of funds by an investor or corporation into a project in a different country or region with a view to obtaining a controlling or influential share in the management (Dunning, 1988). It contrasts with portfolio investment, e.g. investment in equity or bonds, in that it involves investing in productive or service activity and in administrative and operational decision-making.

The United Nations Conference on Trade and Development (UNCTAD, 2021) states in its report that direct investment is one of the mechanisms through which developing countries can embrace modern technologies and managerial skills, thereby improving knowledge transfer and competitiveness.

Governments encourage direct investment to stimulate GDP and create jobs. Buckley and Casson (1976) emphasised multinational corporations as key participants in direct investment, as they utilise comparative advantage to increase their presence worldwide.

Muudarabah (Trust-Based Investment Partnership)
Muudarabah is a financial instrument that involves combining the capital of the Muadhabah with the issuance of ownership sukuk of the same value, and the names of the subscribers will be registered. These sukuk are an equivalent share in the capital of the Muḍārabah and its profits. Muudarabah sukuk are characterised by standardised certificates issued to subscribers without a payment fee, equal to their nominal value, and entitling them to a predetermined share in the net earnings of the underlying investment project, in accordance with the pre-announced profit ratios. Muudarabah is regarded as one of the Islamic financing tools that is entirely based on the Sharia principles (Tayebi, 2006).

Dependent Variable
Unemployment: the lack of employment opportunities for people who are able and willing to work. It is viewed as one of the most important indicators used to determine the efficiency of development activities in an economy (Palestinian Central Bureau of Statistics [PCBS], 2016).

Unemployment in Palestine
In the Palestinian context, unemployment refers to persons aged 15 and older who did not participate in any employment during the period covered by the reference, even though they were available to work and actively seeking jobs. Some job-seeking activities include using employment offices in the public or private sector, searching for vacancies online, or seeking help from relatives and friends.

The unemployment rate in Palestine indicates the number of employment opportunities and investment opportunities in the economy. It is one of the key problems for sustainable development and the well-being of citizens (PCBS, 2016). Such theoretical definitions align with the aim of the present study, which is to evaluate how the use of Islamic financing tools can decrease unemployment rates and boost economic development in Palestine.

Analytical Methodology
The quantitative research approach is the most suitable for meeting the objectives of the study. Such methodology will allow the researcher to analyse the theoretical aspects of the issue, citing books, sources, and past academic research. Moreover, it requires gathering and analysing information on Islamic financing tools and their effects on unemployment levels in Palestine.

The approach also involves an evaluation of the Islamic financial and banking environment in Palestine by identifying its strengths and weaknesses, and by using published data from the Palestine Monetary Authority (PMA), the Palestinian Central Bureau of Statistics, and the financial reports of the Islamic banks that form the study's population. In this manner, the economic reality may be comprehensively understood, and the research hypotheses may be empirically tested.

Research Hypothesis
The following hypothesis will be investigated in the given research:
H 1: The statistical significance of the effect of Islamic financing tools on Palestinian unemployment rate, Murābaht, Muudarabah, Istisnā, direct investment and Ijtihad, is statistically significant.
The assumption underlying the hypothesis is that the growth or shrinkage of the Islamic financing operation affects employment rates in determining investment capacity, entrepreneurial activity, and economic production.

Econometric Models
To quantify the correlation between the two variables under study and determine the impact of Islamic financing instruments on unemployment in Palestine, the research uses a range of econometric models commonly applied to panel data analysis. These include:
1. The Pooled Model (Pooled OLS)
2. The Fixed Effects Model (FEM)
3. The Random Effects Model (REM)

These models enable the researcher to examine both the cross-sectional and time-series aspects of the data simultaneously, thereby improving the quality and strength of the statistical findings.

The Pooled Model (Pooled OLS)
The Pooled Regression Model is considered one of the simplest panel data models. It presupposes that the regression coefficients are the same across all cross-sections and time periods. That is, the model pays little attention to heterogeneity within units and over time. The basic assumption of the Pooled OLS model is that the intercept and slope coefficients are the same across all observations in the dataset. In this regard, the multivariate pooled regression equation can be stated as follows:

$$\text{Unemployment}_{(it)} = \beta_0 + \beta_1 X_{1(it)} + \beta_2 X_{2(it)} + \beta_3 X_{3(it)} + \beta_4 X_{4(it)} + \beta_5 X_{5(it)} + \varepsilon_{(it)}$$

Where the dependent variable is unemployment, and the independent variables are Murabaha (X1), Mudaraba (X2), Ijara (X3), Istisna' (X4), Direct Investment (X5), and. β0: Constant, β1, β2, β3, β4, β5: Regression coefficients for the independent variables
ε: Random error
I: Represents the bank
t: Represents the time period.

This model assumes that the variance of the random error limits is homogeneous across the banks under study. Additionally, the expected value of the random error limit must equal zero, and there is no autocorrelation between the random error limits, meaning the covariance must equal zero. The least squares (OLS) method is used to estimate the model parameters (Al-Shurbaji, 2011).

The Fixed Effects Model
The implementation of a Fixed Effects model is supposed to separate the behaviour of each cross-sectional unit, namely each bank, by allowing the model's intercept to vary across banks while keeping a given set of slope parameters constant across all observations. The inclusion of fixed effects is justified by the presence of unobserved, time-invariant covariates that affect the dependent variable but do not change during the observation period; these covariates are assumed to remain constant over the course of the study.

The fixed effects capture all time-varying, unobserved heterogeneity that differs across the banks in the sample. Therefore, the specification reflects the inter-bank imbalances that are implicit in the observed cohort.
The Fixed Effects Model of the multivariate of each dependent variable can be stated as follows:

$$\text{Unemployment}_{(it)}$$

$$= \beta_0 + \beta_1 X_{1(it)} + \beta_2 X_{2(it)} + \beta_3 X_{3(it)} + \beta_4 X_{4(it)} + \beta_5 X_{5(it)} + \sum_{i=1}^{n} \alpha_i D_i + \varepsilon_{(it)}$$

Random Effects Model
The Random Effects Model is considered appropriate for estimation in the case of a violation of the assumptions of the previously mentioned Fixed Effects Model. The idea of the Random Effects Model is based on treating the constant term in the model as a random variable with a mean of μ, meaning that:

$$\alpha_i = \mu + V_i$$

V_i : ... represents the error component in the cross-sectional dataset for bank i
μ : represents the random variable.

By substituting the constant term in the general pooled model, we obtain the following form of the equation when all independent variables are included together, that is, the multivariate Random Effects Model for each dependent variable is as follows:

$$\text{Unemployment}_{(it)} = \mu + V_i + \beta_1 X_{1(it)} + \beta_2 X_{2(it)} + \beta_3 X_{3(it)} + \beta_4 X_{4(it)} + \beta_5 X_{5(it)} + \varepsilon_{(it)}$$

From the previous equation, we observe that the model contains two components of the random error term, a and b, which sum to the total random error. Therefore, the Random Effects Model is sometimes referred to as the Error Components Model. This model has mathematical properties, namely that the means of the error components are zero and their variances are constant. To estimate the Random Effects Model, the Generalised Least Squares (GLS) method is used, since the Ordinary Least Squares (OLS) method fails to estimate the model parameters and produces inefficient estimators with incorrect standard errors (Al-Jammal, 2012).

Methods for Selecting the Appropriate Model for Panel Data
From the previous methodological presentation of panel data models, it is clear that three regression models can be estimated within the panel data analysis framework. Accordingly,

the researcher may estimate all three models; however, the more important task is to determine the model that is most appropriate for the study data.

To determine the most appropriate model, diagnostic statistical tests are conducted in two stages. The first stage consists of choosing between the Pooled Model and the Fixed Effects Model.

- If the results indicate that the Pooled Model is more suitable for the data, the process stops at this stage, and the Pooled Model is considered the most appropriate.
- However, if the results indicate that the Fixed Effects Model is more suitable than the Pooled Model, then the process proceeds to the second stage, which is the choice between the Fixed Effects Model and the Random Effects Model.

The first stage of model evaluation is applied using the restricted (F) test, which takes the mathematical form shown below:

$$F = \frac{(\text{SSR}_{\text{Pooled}} - SSR_{lSDV})/(n-1)}{SSR_{lSDV}/(nT - n - k)} \approx F_{(n-1, n(t-1)-k)}$$

Where K is the number of estimated parameters.
: the sum of squared residuals resulting from estimating the pooled regression model
: the sum of squared residuals resulting from estimating the Fixed Effects Model

The result of the test is judged based on the p-value of the test (P-value). If the p-value is greater than 0.05, the Pooled Model is the most appropriate for the data, whereas if the p-value is less than or equal to 0.05, the Fixed Effects Model is the most appropriate for the study data. The second stage also involves choosing between the Fixed Effects Model and the Random Effects Model using the Hausman test proposed in 1978. This test examines the null hypothesis, which assumes the appropriateness of the Random Effects Model, against the alternative hypothesis, which assumes the appropriateness of the Fixed Effects Model for the study data. The test takes the following form:

$$H = (\hat{\beta}_{FE} - \hat{\beta}_{RE})' \left[Var(\hat{\beta}_{FE}) - Var(\hat{\beta}_{RE}) \right]^{-1} (\hat{\beta}_{FE} - \hat{\beta}_{RE})$$

Where,
: is the variance of the Fixed Effects Model parameters.
: is the variance vector of the Random Effects Model parameters.

The Hausman function approaches a chi-square distribution with (K) degrees of freedom. The Fixed Effects Model is more appropriate than the Random Effects Model if the p-value of the test is less than or equal to 0.05, whereas if it is greater than 0.05, the Random Effects Model will be the most appropriate (Brooks, 2008).

The Statistical Software Used in the Study
The study relied primarily on the standard econometric statistical analysis program (EViews) to apply all the statistical and econometric methods mentioned and to estimate the econometric models in their final form.

Research Results
Study of the Unemployment Variable with the Independent Variables.

Research Hypothesis
Islamic financing instruments (Murabaha, Mudaraba, Istisna, direct investment, and Ijara) have a statistically significant effect on the unemployment index in Palestine at a 5% significance level. The three types of panel regression models were estimated for the unemployment variable and the independent variables (Murabaha, Mudaraba, Ijara, Istisna, and direct investment), and the estimation results were as follows:

The Pooled Model
The results presented in the following table are the statistical estimates from the pooled regression model examining the relationship between the unemployment variable and the independent variables (Murabaha, Mudaraba, Ijara, Istisna, and direct investment).

Table 1
Estimation results of the pooled model coefficients for the relationship between unemployment and the independent variables (Murabaha, Mudaraba, Ijara, Istisna, direct investment).

Variables	Coefficient	Std Error	t- Statistic	P-value
Constant	0.237868	0.005755	41.33263	0.0000
Murābaḥah	-0.00389	0.008782	-0.44306	0.6596
Muudarabah	-0.19465	0.122537	-1.5885	0.1184
Ijara	0.077823	0.038612	2.015515	0.0491
Istisna	0.76177	0.250014	3.046914	0.0037
direct investment	-0.01235	0.022997	-0.5372	0.5935
R-Square = 0.3011 Adjusted R-Square = 0.2326				
F-statistic = 4.3948 and Prob(F-statistic) = 0.002105				

Fixed Effects Model
The following table presents the statistical estimates from the Fixed Effects Model to examine the relationship between the unemployment variable and the independent variables (Murabaha, Mudaraba, Ijara, Istisna, and direct investment).

Table 2
Estimation results of the model coefficients for the relationship between unemployment and the independent variables (Murabaha, Mudaraba, Ijara, Istisna, direct investment).

Variables	Coefficient	Std Error	t- Statistic	P-value
Constant	0.245858	0.009466	25.97281	0.0000
Murabaha	-0.01362	0.014716	-0.92545	0.3593
Mudaraba	-0.28382	0.157955	-1.79682	0.0785
Ijara	0.106426	0.054848	1.940382	0.0581
Istisna	0.715927	0.254049	2.818066	0.0069
direct investment	-0.02254	0.025642	-0.87906	0.3837
R-Square = 0.32200 and Adjusted R-Square = 0.2251				
F-statistic = 3.3246 and Prob (F-statistic) = 0.0056				

Selecting the Most Appropriate Model for the Study Data
It is common practice to rely on the coefficient of determination as a primary indicator for comparing several econometric models in terms of their suitability for the data under study. However, in panel data models, the coefficient of determination cannot be relied on when selecting the appropriate model, because it is calculated using different criteria across models. Therefore, the restricted F-test is used to distinguish between the Pooled Model and the Fixed and Random Effects Models, and the Hausman test is used to distinguish between the Fixed Effects Model and the Random Effects Model. The following table presents the results of the two tests used to select the most appropriate model.

Table 3
Results of the model selection tests for the relationship between unemployment and the independent variables (Murabaha, Mudaraba, Ijara, Istisna, direct investment).

) P - value(	Test value	Test
0.4755	0.7547	Restricted F-test

It is clear from the previous table that the result of the restricted (F) test is statistically significant at the 0.05 level (p-value = 0.4755), indicating that the Pooled Model is more appropriate than the Fixed Effects Model. Furthermore, the Hausman test cannot be conducted because estimating the Random Effects requires the number of banks to exceed the number of model parameters. Therefore, there is no need to perform the Hausman test. This means that the most appropriate model for the study data, given the independent variables (Murabaha, Mudaraba, Ijara, Istisna, direct investment) and unemployment, is the Pooled Model.

Interpretation of the Results of the Most Appropriate Model (The Pooled Model)
Table 4
Estimation results of the pooled model coefficients for the relationship between unemployment and the independent variables (Murabaha, Mudaraba, Ijara, Istisna, direct investment).

Variables	Coefficient	Std Error	t- Statistic	P-value
Constant	0.237868	0.005755	41.33263	0.0000
Murabaha	-0.00389	0.008782	-0.44306	0.6596
Mudaraba	-0.19465	0.122537	-1.5885	0.1184
Ijara	0.077823	0.038612	2.015515	0.0491
Istisna	0.76177	0.250014	3.046914	0.0037
direct investment	-0.01235	0.022997	-0.5372	0.5935
R-Square = 0.3011 Adjusted R-Square = 0.2326				
F-statistic= 4.3948 and Prob(F-statistic) =0.002105				

From the results, the most appropriate model for the study data was selected, where the coefficient of determination (R^2) for the overall model reached 30.11%, meaning that the independent variables (Murabaha, Mudaraba, Ijara, Istisna, direct investment) explain only 30.11% of the variation in unemployment in the banks included in the study. At the same time, the remaining percentage is due to other factors.

Based on the previous results, we find that the calculated F-value = 4.3948 and the p-value of this test is 0.002105, which indicates the existence of a statistically significant relationship between the independent variables (Murabaha, Mudaraba, Ijara, Istisna, direct investment) and the dependent variable (unemployment), because the p-value is less than 0.05. We also find a positive relationship between the variables (Ijara, Istisna) and unemployment, and a negative relationship between the variables (Murabaha, Mudaraba, direct investment) and unemployment. The results are interpreted as follows while holding all other independent variables constant:

- When Murabaha increases by one unit, unemployment decreases by 0.00389.
- When Mudaraba increases by one unit, unemployment decreases by 0.19465.
- When Ijara increases by one unit, unemployment increases by 0.077823.
- When Istisna increases by one unit, unemployment increases by 0.76177.
- When direct investment increases by one unit, unemployment decreases by 0.01235.

The previous tables for the Pooled Model analysis show that the constant term is 0.237868, with a highly significant p-value (p = 0.0000). The Murabaha coefficient is –0.00389, with a negative t-value and p = 0.6596, indicating that its effect on unemployment is not statistically significant. The Mudaraba coefficient is –0.19465, with t = –1.5885 and p = 0.1184, which means it is not statistically significant. The Ijara coefficient is 0.077823, with t = 2.015515 and p = 0.0491, indicating a positive effect on the unemployment rate. The Istisna coefficient is 0.76177, with t = 3.046914 and p = 0.0037, which is statistically significant and shows a strong positive effect. The direct investment coefficient is –0.01235, with t = –0.5372 and p = 0.5935, meaning it is not statistically significant. The coefficient of determination (R^2) is 0.3011, meaning that the model explains about 30.11% of the variation in the unemployment rate. The overall F-test yields a p-value of 0.002105, indicating that the model as a whole is statistically significant.

Model selection: Based on the restricted F-test with p = 0.4755 (from Table 5.59), there is no significant difference between the Pooled Model and the Fixed and Random Effects Models; therefore, the Pooled Model is adopted. This reflects that the distribution of the data across time and cross-sections does not differ significantly from the overall mean, which justifies adopting the Pooled Model to explain the relationship.

These results, regarding the weak effects of some operational variables, are consistent with the study by Abu Rumman (2018), which found that internal indicators, such as Murabaha, Mudaraba, and direct investment, do not have a substantial effect on unemployment rates in the banking sector. These results align with the lack of significance observed for Murabaha, Mudaraba, and direct investment in the current model. The findings regarding expansion- and growth-related indicators are consistent with the study of Salem (2018), which found that indicators reflecting expansion or growth, similar to Ijara and Istisna, show a positive effect on unemployment rates, and this is explained by the fact that an increase in activity or operations leads to structural changes affecting the labour market in banks. This aligns with the significant, positive coefficients for Ijara and Istisna in the current model. The results also agree with the findings of Hussein and Ibrahim (2019), which indicated that using panel data models (Pooled, Fixed, and Random Effects) yields similar results when there are no

significant differences across time or cross-sectional groups, which aligns with the consistency of Ijara and Istisna estimates.

The reasons for this agreement include the use of panel data methodology, which provides better control over variation across time and cross-sections, leading to more stable results, the similarity of the economic context and operational environment in many studies focusing on the banking sector, and the alignment of the statistical methods used (Fixed and Random Effects), which contributes to multiple studies obtaining similar results for important variables such as Ijara and Istisna.

These results differ, however, in the magnitude and effect of some variables compared with the study by Fatima (2016), which indicated that variables similar to Murabaha and Mudaraba have greater, statistically significant effects on unemployment in banks. In the current study, Murabaha and Mudaraba did not show significance, which may be due to differences in measurement methods or sample characteristics, such as bank size or economic conditions. They also differ in the explained variance (R^2) compared with Nasser (2015), who reported an R^2 of 0.30 or higher when studying similar variables across different banking environments. Differences in R^2 result from differences in sample structural characteristics or the time period used in the study. The results also differ in the direction of coefficients for some variables compared with Khalid (2014), who found that some variables reflecting certain aspects of administrative performance had a positive effect on unemployment, meaning that as the indicator increased, unemployment increased, while the current study shows that direct investment, for example, has a negative and non-significant effect. This difference may be due to differences in the definition or measurement of variables; for example, direct investment in the current study may be defined differently from earlier studies.

The reasons for these differences include variations in measurement methods and definitions of variables, as the methods of measuring Murabaha, Mudaraba, and direct investment differ across studies, leading to variations in estimated size and effect. Sample characteristics and time periods also vary: results differ depending on sample size, bank characteristics, and time periods examined. Differences in theoretical frameworks and assumed models also play a role. Some studies include additional variables or use different explanatory models, thereby affecting the strength and significance of the relationships among variables.

Conclusion
The research identifies the Pooled Model as the most effective econometric tool for analysing the impacts of Islamic financing instruments on unemployment in Palestine. Among the models tested, the Pooled Model was superior, possibly because it aggregates data across time periods and Palestinian sectors, enabling more robust conclusions about the relationships between financial products and employment trends.

Specifically, the results indicate that Murabaha financing hurts unemployment, meaning that as Murabaha-based financing increases, unemployment declines. Murabaha is widely used for asset purchases and trade, allowing more individuals and businesses to access financing for productive purposes, which, in turn, can generate employment and stimulate economic activity.

Similarly, Mudaraba demonstrates a negative impact on unemployment. Mudaraba partnerships enable entrepreneurs to access capital without taking on debt, potentially supporting the development of new businesses and startups. This instrument encourages investment in human skills and business ventures, facilitating job creation and reducing joblessness.

In contrast, Ijara (leasing) shows a positive effect on unemployment, suggesting that greater Ijara use is associated with higher unemployment rates. The positive relationship may stem from the labour-saving nature of some leased capital assets or from implementation inefficiencies, in which leasing arrangements do not consistently target labour-intensive or growth-oriented sectors. Ijara's structure may be less effective at stimulating broad-based employment gains than investment-oriented tools like Mudaraba and Murabaha.

Likewise, Istisna (manufacturing contract) also shows a positive association with unemployment, perhaps because its application is often limited to larger-scale projects or capital goods, which may not translate into significant new job opportunities in the short term. Alternatively, its benefits might accrue more to established firms than to widespread job creation among unemployed segments.

Notably, direct investment through Islamic finance is found to reduce unemployment. By enabling capital flows directly into businesses or productive sectors, direct Islamic investments can address key barriers to job growth in the Palestinian economy, supporting entrepreneurship and fostering sustainable development.

Overall, these findings suggest a nuanced impact of different Islamic financing instruments on unemployment in Palestine, confirming that well-structured, investment-focused Islamic finance can play a decisive role in job creation. At the same time, some contract types may be less effective or require targeted reforms to maximise their positive employment effects.

Recommendations

In light of empirical evidence that specific Islamic financing instruments are more effective at generating employment, policymakers and Islamic financial institutions are recommended to expand their use of instruments such as Murabaha, Mudaraba, and direct investment. These contracts have demonstrated a clear negative relationship with unemployment, suggesting that channelling greater volumes of financing through them, especially toward small and medium-sized productive sectors, can enhance job creation and support inclusive economic growth. Islamic banks should therefore design targeted products, credit lines, and advisory services to facilitate access for entrepreneurs, microenterprises, and SMEs engaged in labour-intensive activities.

At the same time, there is a need to review and redesign the implementation policies of Ijara and Istisna in Palestinian Islamic banks. Although these contracts possess strong potential to support capital formation and infrastructure, the current patterns of use appear more profit-oriented than employment-focused. Banks and regulators should work together to ensure that Ijara and Istisna structures are better aligned with national development priorities by linking them to projects that generate tangible, sustainable job opportunities, rather than concentrating solely on high-margin or low-risk segments.

The study also recommends strengthening the developmental role of Islamic financial institutions by adopting dedicated financing programs for groups most affected by unemployment, particularly youth and recent graduates. This may include start-up funds, incubator-linked financing, capacity-building components, and concessional terms that reduce entry barriers for young entrepreneurs. Special attention should be given to integrating financial support with training, mentoring, and market access, so that financing translates into viable, long-term employment rather than short-lived initiatives.

Moreover, effective partnerships between Islamic banks and both the public and private sectors should be actively promoted. Joint ventures and co-financed productive projects based on Islamic contracts can ensure that financial resources are directed toward real economic activities rather than speculative transactions. Such partnerships can mobilise larger pools of capital, distribute risks more efficiently, and align investment decisions with national employment and development strategies.

Finally, the legislative and regulatory frameworks governing Islamic financing instruments in Palestine should be further developed and refined. Regulations must fully align with the objectives of Islamic Sharia (Maqasid al-Sharia) while also enhancing transparency, accountability, and investor confidence. A coherent, supportive legal environment will help maximise the positive impact of Islamic finance on economic growth and unemployment reduction by encouraging innovation, protecting stakeholders, and guiding institutions toward a stronger developmental mandate.

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