Editorial

In the Name of Allah, Most Gracious, Most Merciful. The Islamic finance industry has to be ever ready to face any crisis impacting the world. Being part of the wider global finance market, Islamic finance is shaken every time there is any major impact on its conventional counterpart. The present coronavirus disease outbreak (COVID-19) is expected to downgrade the growth forecast of many economies for 2020 and is sparking uncertainty for businesses. Economic sectors such as tourism, trade, logistics, capital markets, aviation and the cruise industry have started feeling the brunt of the impact. S&P Global reports that the biggest loser in the S&P500 in February 2020 was Royal Caribbean Cruises, which recorded a 31.30% fall in share price. While the early start of 2020 saw a promising outlook for Islamic finance, after a few years of lack lustre growth, this disease outbreak is now raising fears because of the disastrous effect it may have on equity market performance, in particular, and the general costs it would impose on the industry.

The spread of COVID-19 in key Islamic finance jurisdictions such as Malaysia, Iran and the Gulf countries spells both opportunities and challenges for the Islamic finance industry. *Islamic Finance News*, in its weekly market round-up 22-28 February, reported that Iran Insurance and Saman Insurance now cover coronavirus within their range of insurance products. In Malaysia, many conventional and Islamic banks have started offering financial relief to both individual and business customers to ease their short-term financial constraints in the face of the current COVID-19 situation. The relief packages include, among others, restructuring and rescheduling of financing, allowing temporary deferment of loan repayments. On the down side, we note that many international Islamic finance conferences scheduled for the first half of the year have now been postponed. Also, just as the disease has impacted other industries, it will negatively impact the *ḥalāl* economy as well. The *ḥalāl* economy has been identified by many as the propelling axis of future growth for Islamic finance, and negative impact on it will have a negative knock-on effect on the prospects for Islamic finance growth.

Fortunately, the spread of the virus is not influencing the research aspects of Islamic finance. Starting in 2020, we are pleased to inform our readers that three issues of *ISRA International Journal of Islamic Finance* will be published in a year. We plan to publish in June, September and December, an annual total of 24 articles. The demand for publication in the *Journal* has increased substantially over the years. With three issues, we hope to provide authors more opportunities to publish their articles. As usual, we expect to be ever diligent in maintaining quality and academic rigour in the articles published. This issue, Volume 12 Number 1, of the *Journal* features eight articles, whose details are provided as follows.

The first article is "Sharīʿah-compliant central banking practices: lessons from Muslim countries' experiences" by Zaheer Anwer, Shabeer Khan and Muhammad Abu Bakar. To start with, the research reviews the objectives of central banks in general and the direct and indirect instruments they can make use of to pursue them. In the Islamic context, it details how Islamic monetary policy is carried out by a Sharīʿah-compliant central bank in view of the different sets of tools it can use in an interest-free paradigm. The research then examines

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three case studies of central bank practices in Muslim-majority countries, notably Iran, Sudan and Pakistan, which have aimed to establish a full-fledged Islamic financial system since the 1980s. Its findings reveal the distinctive practices of the central banks in each country.

The second article is "Intellectual capital in non-profit organisations: lessons learnt for waqf institutions" by Abdelkader Laallam, Salina Kassim, Engku Rabiah Adawiah Engku Ali and Buerhan Saiti. This article accords importance to intellectual capital in the operations of waqf (Islamic endowment) institutions just as it has become a fundamental component in enhancing the efficiency and effectiveness of non-profit organisations (NPOs). Waqf institutions currently face a number of obstacles and challenges, mainly relating to government administration of waqf. The authors argue that leveraging on the elements of intellectual capital, notably human capital, structural capital and relational capital, would offer potential solutions in the management of waqf institutions.

The third article is "An analysis of residual net estate distribution to *bayt al-māl* in Singapore" by Sadali Rasban, Adam Abdullah and Aznan Hasan. This article discusses an important issue with regard to the current practice of inheritance in the context of Singapore. Currently, in case the deceased leaves *farḍ* heirs (for whom the Qurʾān prescribes a pre-determined share of inheritance) and/or *dhawū al-arḥām* (outer family members) but no *ʿaṣabah* (agnatic residuary heir by blood), the Syariah court in Singapore will certify that the *bayt al-māl* is entitled to the deceased's residual net estate. The role of the *bayt al-māl* in Singapore is exercised by the Islamic Religious Council of Singapore (Majlis Ugama Islam Singapura, MUIS). Disposal of the residual net estate to the *bayt al-māl* results in a reduction in the share due to the *farḍ* legal heirs, or worse, a total loss to the *dhawū al-arḥām* legal heirs as compared to the predominant contemporary *fiqh* view. This practice has caused much dissatisfaction among those affected by it. This research thus examines the views of the four Sunni jurisprudential schools on this matter and the contemporary practices in some countries. The article also discusses the issue from the perspective of the applicable law in Singapore before it concludes that the *bayt al-māl* in today's context is not the same as the role of the *bayt al-māl* in the past, and on this basis, it supports the view that the residual net estate should be returned to the legal heirs or the dependents of the deceased.

The fourth article is "Are Islamic mutual funds exposed to lower risk compared to their conventional counterparts? Empirical evidence from Pakistan" by Farrukh Naveed, Idrees Khawaja and Lubna Maroof. This article studies different types of risks involved in both Islamic and conventional mutual funds in Pakistan for the period 2009 to 2016 by using different risk measures used in the finance literature. The analysis reveals that Pakistani Islamic funds have a lower total risk exposure in most of the sample years compared to their conventional counterparts. This finding presents good news to Sharīʿah-compliant investors who are on the lookout for low risk investment in Pakistan; Islamic mutual funds could be an attractive investment avenue for them.

The fifth article is "An analysis of *maṣlaḥah*-based resolutions issued by Bank Negara Malaysia" by Suheyib Eldersevi and Razali Haron. This article begins by shedding light on the parameters of *maṣlaḥah* (public interest) based on the *uṣūl al-fiqh* (principles of Islamic jurisprudence) literature. It then examines some selected resolutions issued by the Shariah Advisory Council of Bank Negara Malaysia (SAC-BNM) which have relied on *maṣlaḥah* as the source of the Sharīʿah ruling and assesses the extent to which these BNM resolutions have adhered to the parameters (as determined in the *uṣūl al-fiqh* literature) in their use of the principle of *maṣlaḥah* in their fatwa rulings. In the process, the study also compares the views of other fatwa-issuing bodies on the same matters discussed in the BNM resolutions.

The sixth article is "The nexus between Islamic banking and industrial production: empirical evidence from Malaysia" by Khemaies Bougatef, Mohamed Sahbi Nakhli and Othman Mnari. This study first divides Islamic financing between profit-and-loss sharing (PLS) and non-profit-and-loss sharing (non-PLS) modes of financing and then investigates the contribution of each mode of financing in boosting industrial production in the short and long run. Monthly data sets were used for Malaysia between 2010M1 and 2018M6 for this purpose. The results show that non-PLS modes of financing had a positive effect on industrial production in both the short and long run, while there was no significant relationship in the case of PLS modes of financing.

The seventh article is "Methodology of integrated knowledge in Islamic economics and finance: collective *ijtihād*" by Ildus Rafikov and Elmira Akhmetova. This research starts off by highlighting how scholars of the past concurrently mastered various fields of knowledge and argues in favour of adopting the methodology of integrated knowledge advanced by the International Institute of Islamic Thought (IIIT) to resolve existing problems in the field of Islamic economics and finance. The authors explain that integrated knowledge combines the application of both revealed and existential sciences and that the methodological approach of Islamic economics and finance should be one which integrates Sharīʿah sciences with human/social and natural sciences as well as information and communication technology (ICT) when determining policies and financial solutions. These policies and solutions should be built around the ideas of *tawḥīd* (monotheism) and well-being as the underlying concepts and multi-disciplinarity as the methodological approach. Thus, they would be human-friendly rather than organization-centric. The article also calls for the adoption of collective *ijtihād* (work and effort) in this process as we now live in an age of narrow specializations and need the collective effort of scholars and practitioners for this purpose.

The eighth article is "Conventional REITs, Islamic REITs, and macroeconomic variables in Malaysia: a review" by Mohd Edil Abd Sukor, Zahida Abu Sujak and Kamaruzaman Noordin. This article empirically examines the impact of macroeconomic variables on returns and dividend yields of conventional and Islamic real estate investment trusts (REITs) over the period 2011-2017 in Malaysia. For the purpose of the study, the paper considers 13 Malaysian REITs, including two Islamic REITs, listed on Bursa Malaysia. It further classifies those REITs into large and small market capitalisation to determine if size matters when assessing the impact of the macroeconomic variables. This research is deemed important for industry players in understanding the differences in the characteristics between Islamic and conventional REITs.

As we write this editorial, the fight against the COVID-19 virus is ongoing, and its impact on the Islamic finance industry is yet to be fully known and measured. But this challenge is not the last that the industry will face. The Islamic finance industry will need to surmount many more arising challenges and work towards becoming a real alternative to the world that provides efficient solutions to humanity's varying needs. As the saying goes, "Challenges are what make life interesting and overcoming them is what makes life meaningful."

We end by thanking the authors who contributed to this issue and look forward to collaborating with more authors in publishing their articles in the *Journal*.

May the content of this issue be profitable to our readers and supporters.

Allah (SWT) is the Bestower of success, and He knows best.

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