

Editorial

In the name of Allah, Most Gracious, Most Merciful. It has become an undeniable fact that Islamic finance is here to stay. The industry is already making its mark in the global financial sphere as a viable alternative to conventional finance. The International Monetary Fund recently expressed proactive support for the promotion of financial stability in countries with Islamic banking; meanwhile, the World Bank Group also expressed interest in leveraging on Islamic finance for economic development in Muslim countries. These global initiatives indicate that the potential of Islamic finance is receiving more and more recognition day by day. On the other hand, the expectations of the masses from Islamic finance are rising as well. People would like to know what Islamic finance can offer them beyond a commercially viable solution. As the ethical and social aspects of finance have been severely questioned in the post-crisis era, people expect Islamic finance to answer the need of the hour.

Islamic teachings consist of the best moral and ethical practices. By virtue of the same, Islamic finance is expected to represent an intrinsically socially responsible and ethical way of finance. It should not only address but also promote the best environmental, social and governance practices. Recognising its role and responsibility in this regard, the Islamic finance industry should move at a faster pace toward ethical and socially responsible finance. For all the participants in the industry, it is high time for a paradigm shift to elevate Islamic finance from the mere level of permissibility/impermissibility (*halāl/ḥarām*) to the level of permissible and good (*halāl* and *tayyib*). In that paradigm, it would more actively seek to achieve common welfare (*falāḥ*) and public good (*maṣlaḥah*). The industry will achieve more if it positions itself to endorse ethical, social, environmental, sustainable and good governance dimensions in its practice.

This June 2017 issue of the *ISRA International Journal of Islamic Finance* covers a number of topics that are of relevance to the different stakeholders of the industry. The subjects discussed include both socially oriented concepts such as *waqf*, cash *waqf*, *zakāh*, *qard ḥasan*, *takaful* and microfinance as well as practically oriented areas such as stock screening and income purification methodologies, country experience of Islamic banking and Sharī'ah risk rating. Four academic articles, one practitioner article and five research notes are published.

The first academic article, "Application of *Waqf* for Social and Development Finance", by Salman Ahmed Shaikh, Abdul Ghafar Ismail and Muhammad Hakimi Mohd Shafiai, discusses the important topic of *waqf* (endowment) which has played a crucial role in the promotion of welfare of Muslim communities in Islamic history. The article is conceptual in nature and explains how the social institution of *waqf* can harness charitable giving in an effective way to foster social and economic development in contemporary societies. Among its recommendations is increasing social awareness for developing the right kind of *waqf* to meet the specific needs of particular societies. For instance, in societies requiring educational services, it suggests the establishment



of *waqf*-based training and vocational centres to increase opportunities for self-employment and upward mobility of beneficiaries.

The second article, “The Optimum Size of Rotating *Qarḍ Ḥasan* Savings and Credit Associations”, by Seyed Kazem Sadr, examines another viable model that has been established in different parts of the world, rotating savings and credit associations (ROSCAs) and their Sharī‘ah-compliant equivalent called *qarḍ ḥasan* associations (QHAs). The article considers QHAs as an important informal, interest-free model to meet the microfinance needs of beneficiaries across societies. It further discusses a few issues associated with ROSCAs and QHAs, notably their optimum size and their determining factors as well as conformity with the practices of QHAs with Sharī‘ah rules.

The third article, “ISRA-Bloomberg Sharīah Stock Screening and Income Cleansing Methodologies: A Conceptual Paper”, by Ashraf Md. Hashim, Farrukh Habib, Ziyat Isaacs and Mohamed Anouar Gadhoun, furnishes a comprehensive discussion on Sharī‘ah stock screening criteria and the cleansing process for income generated from stocks. It mainly focuses on the approach proposed by ISRA-Bloomberg, which is unique in terms of screening criteria for stocks, income purification method and coverage of the universe of stocks. The ISRA-Bloomberg platform provides users (i.e. investors) more detailed information by a simpler and more intuitive technique using a novel color-coding scheme to indicate the Sharī‘ah compliance of a stock. It also shows the exact ratios of the Sharī‘ah compliance criteria to the users so they can closely observe changes in the trend of ratios and decide beforehand whether a company is likely to remain within the Sharī‘ah-compliant list. It further explains the challenges in the screening and cleansing practices faced by the industry.

The fourth academic article, “Causes and Solutions for the Stagnation of Islamic Banking in Turkey”, by Halit Yanıkkaya and Yaşar Uğur Pabuçcu, offers a critical analysis of the evolution of the Islamic banking sector in Turkey. It specifically evaluates the Turkish Islamic banking experience in terms of governance and regulations aspects, instruments, financial and efficiency ratios, and long-term growth strategy of Islamic banks. Among its recommendations are:

- setting up of a sound Sharī‘ah governance framework for Islamic banks in Turkey;
- increasing the variety of instruments offered;
- improving the perception of Islamic banking in society;
- increasing research to address the issues faced by Islamic banks; and
- improving the business models, operational efficiencies and information technology infrastructure to boost the growth of the Islamic banking sector.

The practitioner article, “Purging of Impure Income: A Comparative Study of the Existing Purging Methodologies”, by Wasiullah Shaik Mohammed, Mufti Abdul Kader Barkatulla, Mohammed Husain Khatkhatay and Zaffar Abbas, offers a practical perspective on the process of cleansing impure income realised from an investment. The article presents a comparative study of the existing purging methodologies prevailing in the market. To illustrate the discussion, it also includes a case study of purging based on numerical examples. Its arguments are then supported with empirical data related to the universe of Sharī‘ah-compliant stocks listed on Indian stock exchanges. In conclusion, the authors highlight the lacunae pertaining to the existing purging methodologies and propose changes to the current methodology of purging set by the Accounting and Auditing Organization for Islamic Financial Institutions.

The research notes published in the *ISRA International Journal of Islamic Finance* are short articles summarising the research endeavours at the level of ISRA and other institutions. A summary of these research notes is provided as follows:

- “Towards the Establishment of Cash *Waqf* Microfinance Fund for Refugees” by Omar Ahmad Kachkar utilises the concept of *waqf* to develop a sustainable model to promote the economic engagement of refugees in refugee camps and urban areas. It proposes the setting up of a cash *waqf* microfinance fund to provide Islamic microfinance and microcredit facilities to refugee entrepreneurs having the potential to develop viable businesses.
- “Proposal for a New Shari’ah Risk Rating Approach for Islamic Banks” by Muhammad Adeel Ashraf and Ahcene Lahsasna proposes a Shari’ah risk rating model to measure the Shari’ah risk of Islamic banks. In the process, it provides an overall risk score that represents the Shari’ah and financial risk of an Islamic bank. This score would assist customers to better gauge the level of Shari’ah compliance of Islamic banks and for the banks to determine the adequate amount of capital that should be allocated to mitigate this risk.
- “Challenges of Developing a *Takāful* Retirement Annuity Plan in Malaysia” by Younes Soualhi explores the potential market for a *takāful* retirement annuity plan in Malaysia. It capitalizes on previous practices of *takāful* retirement plans and research conducted on the subject to highlight the key operational challenges in launching the product in Malaysia. Among its preliminary recommendations is that *takāful* retirement annuity plans should have diversified investment portfolios, both in terms of maturity and asset quality.
- “Utilisation of *Zakāh* and *Waqf* Funds in Micro-*Takāful* Models in Malaysia: An Exploratory Study” by Said Adekunle Mikail, Muhammad Ali Jinnah Ahmad and Salami Saheed Adekunle examines how the concepts of *zakāh* and *waqf* can be utilised in micro-*takāful* models to provide social security and uplift the economic conditions of underserved communities. It also delves into the key Shari’ah issues related to the use of these two concepts as part of the micro-*takāful* model.
- “*Fiqhī* Views on *Bay’wa Salaf* and *Qard*-Based Islamic Banking Deposit Accounts in Malaysia” by Mahadi Ahmad and Riaz Ansary undertakes a theoretical study on the prohibition of *bay’wa salaf* (combination of a sale contract and a loan) and its link to the *qard* (loan) policy relating to Malaysian Islamic banking deposit products. One of its findings is that there is no violation of Shari’ah if *qard*-based Islamic deposits are used by Islamic financial institutions to carry out *tawarruq* transactions.

This issue of *ISRA International Journal of Islamic Finance* marks a new beginning with the collaboration developed between the International Shari’ah Research Academy for Islamic Finance (ISRA) and Emerald Publishing Limited for the latter to publish, host and distribute the Journal. *ISRA International Journal of Islamic Finance* has been published since December 2009 and it has always sought to publish articles of superior quality to meet the needs of the different stakeholders of the Islamic finance industry. It is hoped that this recent collaboration will further raise the journal to greater heights to better serve the community.

As always, we thank all the contributors for submitting their work to *ISRA International Journal of Islamic Finance* and wish a pleasant read to our readers.

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

Ashraf Md. Hashim
Editor-in-Chief
ISRA, Kuala Lumpur, Malaysia