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 (ḥalāl/harām) to the level of permissible and good (ḥalāl and tayyib). In that paradigm, it would more actively seek to achieve common welfare (falāḥ) and public good (maslahah). 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, qarḍ hasan, takāful and microfinance as well as practically oriented areas such as stock screening and income purification methodologies, country experience of Islamic banking and Shari‘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 Shafiei, 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

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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 Qard Hasan 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 Sharīʿah-compliant equivalent called qard hasan 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 Sharīʿah rules.

The third article, “ISRA-Bloomberg Sharīʿah Stock Screening and Income Cleansing Methodologies: A Conceptual Paper”, by Ashraf Md. Hashim, Farrukh Habib, Ziyaat Isaacs and Mohamed Anouar Gadhoum, furnishes a comprehensive discussion on Sharīʿah 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 Sharīʿah compliance of a stock. It also shows the exact ratios of the Sharīʿah 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 Sharīʿah-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 Yanikkaya 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 Sharīʿah governance framework for Islamic banks in Turkey;
- increasing the variety of instruments offered;
- improving the perception of Islamic banking in society;
- improving 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 Khatrihatay 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 Sharīʿah-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 Sharīʿah Risk Rating Approach for Islamic Banks" by Muhammad Adeel Ashraf and Ahcene Lahsasna proposes a Sharīʿah risk rating model to measure the Sharīʿah risk of Islamic banks. In the process, it provides an overall risk score that represents the Sharīʿah and financial risk of an Islamic bank. This score would assist customers to better gauge the level of Sharīʿah 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 Takāfūl Retirement Annuity Plan in Malaysia" by Younes Soualhi explores the potential market for a takāfūl retirement annuity plan in Malaysia. It capitalizes on previous practices of takāfūl 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 takāfūl retirement annuity plans should have diversified investment portfolios, both in terms of maturity and asset quality.

• "Utilisation of Zakāh and Waqf Funds in Micro-Takāfūl 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-takāfūl models to provide social security and uplift the economic conditions of underserved communities. It also delves into the key Sharīʿah issues related to the use of these two concepts as part of the micro-takāfūl model.

• "Fiqh Views on Bayʿ 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 bayʿ 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 Sharīʿah 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 Shariʿah 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.

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