Editorial

In the Name of Allah, Most Gracious, Most Merciful. One of the positive developments that has emerged out of the COVID-19 pandemic is the spread of Islamic finance knowledge through free webinars to discuss current issues and the future of the industry. While workshops, trainings and conferences in the past hosted up to only a few hundred participants, the online knowledge sharing sessions have proved more impactful with far greater numbers of participants from all over the world benefiting from the discussions. Now, many of these online workshops and courses are even being organised for fees. It can be said that the pandemic has caused a leap in the provision of online Islamic finance education and training, which is becoming a key component in the future of education.

The pandemic has also highlighted a few other Islamic finance areas that are envisaged to grow in importance. Firstly, Islamic fintech is playing a crucial role in providing the necessary platform for innovative products and services to meet the needs of Islamic finance customers. The use of big data and artificial intelligence can also help Islamic banks in mitigating the cost of transparency and tracking problems arising in financing activities. Secondly, there is a heightened importance of Islamic social finance tools – including zakat (alms), *ṣadaqah* (voluntary charity) and *qarḍ ḥasan* (benevolent loan) – to address the challenge of reducing human suffering in the short-term of the pandemic crisis. Reliance on waqf (Islamic endowments) can be another measure for a more sustainable recovery in the longer term. Other Islamic finance tools can also form part of the COVID-19 response and recovery package. In the medium term, for instance, trade financing, financing that is aligned to support specific SDGs, as well as impact investing that supports businesses with social impact could be important avenues through which Islamic banks support recovery. In the long-term, besides waqf that can contribute towards social and economic development, green *ṣukūk*, SDG-aligned *ṣukūk*, SRI *ṣukūk* or other fit-for-purpose *ṣukūk* can raise long-term financing to assist countries to recover more sustainably. Thirdly, another area that is expected to gather momentum is the combination of Islamic finance tools with Islamic digital platforms to increase the reach of Islamic finance products and services to new market segments such as the tech-savvy generation who favour online transactions. An example could be the establishment of Islamic P2P crowdfunding platforms where both individuals and businesses can access financing, invest and even engage in donations through waqf, *ṣadaqah* and zakat. Zakat e-platforms are also being developed based on blockchain technology that enable the tracking of the movement of zakat by zakat institutions from the moment of collection to the point of disbursement. Such zakat digital platforms increase transparency in the management of zakat and ensure the efficient utilisation of zakat funds.

The *ISRA International Journal of Islamic Finance* went online in 2017. This has significantly increased article submissions, especially during the current pandemic lockdown period when submissions peaked compared to previous years. Volume 12 Number 2 (September) issue of the Journal is an extra issue that has been added as from 2020 to

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accommodate the increase in the number of submissions. It publishes eight articles, whose brief summary is provided below.

The first article is titled “Survey on Sharīʿah non-compliant events in Islamic banks in the practice of *tawarruq* financing in Malaysia”. The authors are Mohammad Mahbubi Ali and Rusni Hassan. It is an empirical study that aims to examine the Sharīʿah non-compliance issues in the application of *tawarruq* by Islamic banks in Malaysia. *Tawarruq* constitutes nearly half of Islamic banks’ total financing in Malaysia. It involves a series of successively executed sale contracts. As a result, it becomes susceptible to Sharīʿah non-compliance risk events. This article thus surveys 5 full-fledged Islamic banks and 11 Islamic subsidiaries to determine:

- various forms of potential Sharīʿah non-compliant (SNC) events relating to *tawarruq* financing in Islamic banks;
- the approach adopted by Islamic banks in dealing with SNC events in *tawarruq* financing; and
- the treatment of income resulting from SNC events in *tawarruq* financing.

One of the findings of the study is that *tawarruq* contributes to 40% of SNC events in sale-based financing products offered by Islamic banks in Malaysia. Amongst the key factors leading to SNC events in *tawarruq* financing, improper sequencing of sale contracts scored the highest frequency.

The second article is titled “Conceptual framework of internal Sharīʿah audit effectiveness factors in Islamic banks”. The authors are Latifah Algabry, Syed Musa Alhabshi, Younes Soualhi and Omar Alaeddin. It is a literature-based study which aims to identify the key determinants that impact on the effectiveness of internal Sharīʿah audit in Islamic banks. The article proposes a conceptual framework that enhances internal Sharīʿah effectiveness, comprising the following:

- External factors (e.g. the role of international institutions that set Sharīʿah standards for Islamic financial institutions, Islamic banking laws and regulations, the role of the external Sharīʿah auditor and external auditors).
- Internal factors (e.g. the role of the Sharīʿah supervisory board and board of directors, management support).
- Internal Sharīʿah audit structure (e.g. internal Sharīʿah audit references, charter, plan and manual).
- Internal Sharīʿah auditor requirements (e.g. objectivity, independence and competence).
- Internal Sharīʿah audit processes (e.g. preparation, planning, execution and documentation, reporting and follow-up).

The third article is titled “The effectiveness of technical strategies in Malaysian Sharīʿah versus conventional stocks”. The authors are Pick-Soon Ling, Ruzita Abdul-Rahim and Fathin Faizah Said. It seeks to investigate the weak form efficiency of the Malaysian stock market, including both the Sharīʿah-compliant and conventional segments, based on the effectiveness of technical trading strategies. Weak form efficiency is founded on basic market information, specifically on historical prices and how trading volume influences (or does not) asset prices. Out of the 10 selected technical trading strategies, the study finds that 8 strategies are effective in generating abnormal returns in the Sharīʿah-compliant stocks examined. On the other hand, only 3 out of the 10 strategies are effective in the conventional sample. According to the authors, the results indicate that the Sharīʿah-compliant stocks were more inefficient in the weak form, as compared to the conventional stocks. The authors explain that this implies that the stock prices of Sharīʿah-compliant stocks listed on Bursa Malaysia were more predictable and did not move in a random manner compared to the conventional sample which was proven to be more efficient with only a few strategies being effective to predict stock prices and detecting profitable sell signals.

The fourth article is titled "*Muḍārabah* and *mushārakah* as micro-equity finance: perception of Selangor's disadvantaged women entrepreneurs". The authors are Reazul Islam and Rubi Ahmad. It seeks to assess how members of the Islamic microfinance institution Amanah Ikhtiar Malaysia, comprising disadvantaged Muslim women entrepreneurs in Selangor, perceive the Sharīʿah rules of two micro-equity Islamic financing instruments, namely, *muḍārabah* (profit sharing) and *mushārakah* (profit-and-loss sharing) (M&M). The research administers a questionnaire with a sample of 330 respondents for this purpose. The study finds that the sampled respondents were aware of some of the Sharīʿah rules applicable to M&M financing, such as the rules on information disclosure and the need for having sound moral values. They perceive that the rules resemble those commonly used in general partnership businesses between Muslims. They tended to use those rules that were favourable to their interests.

The fifth article is titled "Developing a Sharīʿah-compliant equity-based crowdfunding framework for entrepreneurship development in Malaysia". The authors are Maya Puspa Rahman, Mohamed Asmy Mohd Thas Thaker and Jarita Duasa. The study follows a two-step approach. Firstly, it seeks to analyse the intentions of 200 entrepreneurs in Kuala Lumpur and Selangor on their use of crowdfunding to raise capital. On this count, the study finds that the sampled entrepreneurs agree on the ease of use of crowdfunding in raising capital. They were, however, apparently quite reluctant to freely share their business ideas online. Secondly, the research proposes a framework for Sharīʿah-compliant equity-based crowdfunding that would promote entrepreneurship development in Malaysia. According to the authors, this framework comprises three main phases, notably the pre-funding, funding and post-funding phases. The authors explain the *modus operandi* of these phases and how Sharīʿah-compliant crowdfunding can become an alternative means for entrepreneurs to raise funds.

The sixth article is titled "A benchmark modelling for participation-based tax increment financing". The authors are Yusuf Varli and Gokhan Ovenc. This article leverages on the conventional tax increment financing (TIF) model to propose a conceptual framework of a new method in public finance called participation-based tax increment financing (P-TIF). The authors explain that TIF is a public financing method that is used by local governments and municipalities to stimulate private investment in a designated tax increment district (TID) that is in need of economic revitalization. Infrastructure development in the TID is expected to result in an increase in property values, as well as property taxes over and above the base tax rate. Municipalities first issue revenue rights or bonds to fund the development projects in the TID. They are then able to divert the incremental increase in future property tax revenues to repay the bonds at the expiration of the TIF. At the end, the debts are paid off and the new higher-level of property taxes are collected by the tax authorities. This study thus applies the conventional TIF method within a Sharī'ah-compliant structure to propose a P-TIF financing method, involving a participation-based contract between the lender and the borrower in a given TID.

The seventh article is titled "The regulation of Islamic banking in Mauritius". The author is Varsha Mooneeram-Chadee. It examines the regulatory framework for Islamic banking in Mauritius as compared to the well-established regulatory framework that applies to conventional banking in the jurisdiction. The research finds that the Islamic banking regulatory initiatives taken so far have drawn mostly from the laws and regulations applicable to conventional banking practices without re-designing them to suit the exigencies of the Islamic banking industry. While the study notes the current status-quo position of Islamic banking in Mauritius, in view of the prospects for Islamic banking that exist, it recommends bolder regulatory steps to give a boost to the sector. It believes that the Mauritian jurisdiction could gain more from Islamic banking if it develops a regulatory framework that takes into consideration the specific needs of the industry instead of importing conventional principles into the Islamic finance panorama.

The eighth article is titled “Classical waqf, juristic analogy and framework of *awqāf* doctrines”. The author is Mohammad Abdullah. It is a library-based research that examines classical jurisprudential treatises on waqf to analyse the Sharīʿah basis of waqf and the juristic analogies applied to derive its rules and principles. The paper finds that initially the conceptual framework of waqf and its Sharīʿah permissibility were critically disputed by jurists. It highlights that the practice of waqf preceded the evolution of its own conceptual and theoretical framework. It opines that the Sharīʿah legitimacy of the concept and mechanism of waqf was based on implicit Sharīʿah evidence rather than having its basis in explicit terms of the Qurʾān or Sunnah. Though jurists approved of the Sharīʿah validity of waqf at a later stage, the paper noted disagreement about its necessary features and defining criteria. It pinpoints the two most disputed aspects of waqf jurisprudence in the classical waqf literature:

(1) The ownership status of waqf; that is, who owns the waqf property?

(2) The requirements for completion of a waqf; that is, whether a waqf is completed by mere pronouncement of the *wāqif* (endower) or requires transfer of the corpus to the designated *mutawallī* (trustee).

In this new era of online education, digital teaching and online publishing, we expect new challenges and opportunities to crop up. At *ISRA International Journal of Islamic Finance*, our challenge remains how to facilitate authors’ publishing journey in light of the significant growth in the volume of submissions. The EarlyCite facility offered by Emerald allows for article-level publishing before collation of final journal issues. We hope we can enrich our collaboration with authors through this strategy.

We close by congratulating the authors who published in this issue of the *Journal*. We look forward to meeting our readers in our forthcoming December issue, *in sha Allah*.

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

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