# Editorial

*In the Name of Allah, Most Gracious, Most Merciful.* One of the recurring discussions about Islamic finance deliberates on the way forward for the industry. The objective is to spread the Islamic finance proposition as a preferred mode of banking and finance beyond traditional markets so that it grows as a universal alternative system of financial intermediation over time. To achieve this objective, efforts are geared at two levels:

(1) embedding sustainability in the core Islamic finance business model by leveraging on its ethical principles so that it represents a unique, value-driven, stable and resilient system of finance; and

(2) mobilising Islamic finance to spur inclusive growth and socio-economic and environmental sustainability of societies.

On the first front, different concepts of sustainability have been advanced as models of growth and development, including the following two streams: environmental, socially responsible and Islamic investing; and value-based intermediation. Now the talk is about democratisation of sustainability through Islamic finance within communities. On the second aspect, a shift in discussions is already happening on the opportunities for the Islamic finance industry in the emerging concept of “blue economy”, after having promoted the “green economy” initiatives.

To lead the Islamic finance industry in the fifth industrial revolution, its digital transformation is also explored. In this respect, discussions are underway on the opportunities and challenges of modern technology, in the form of social media, fintech, blockchain, robo-advisers, artificial intelligence, smart contracts, etc. Debates also analyse prospects of Islamic fintech *vis-à-vis* digital economy *vis-à-vis* intangible economy *vis-à-vis* crypto economy. With these kinds of discussion in progress, are we to see more and more licencing of Islamic digital banks by regulators in the near future? Are we to see more central banks issuing digital currencies based on Sharīʿah (Islamic law) principles? Are we to see the development of more Sharīʿah-compliant cryptocurrencies? The debate is ongoing.

The wide variety of Islamic finance topics submitted to the *ISRA International Journal of Islamic Finance* reflects the diverse areas of discussion in the industry. From among the voluminous number of submissions received, this issue of the journal publishes ten of the accepted articles. They examine ten different topics in Islamic finance from various angles. A summary of the published articles is provided in the ensuing paragraphs.

The first article, “*Determinants of the intention to adopt Islamic banking in a non-Islamic developing country: the case of Uganda”* by Juma Bananuka, Twaha Kigongo Kaawaase, Musa Kasera and Irene Nalukenge, studies the determinants of the intention to adopt Islamic banking in the secular state of Uganda. Such studies are important for countries which are still at an early stage of adopting Islamic finance, such as Uganda. They provide insights on patronage factors among Muslim and non-Muslim customers towards Islamic



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banking. They also provide valuable information to stakeholders such as banks and regulators that would be helpful in their marketing and awareness campaigns. This particular study examines whether attitude (both cognitive, i.e. based on knowledge – and affective, i.e. based on feelings), subjective norm (notably, family influence and friends' opinions) and religiosity (notably, religious experience and ideology) are possible determinants that influence the adoption of Islamic banking in Uganda. The study surveyed managers and owners of micro businesses located in the Kampala Business District and found that all three factors – attitude, subjective norm and religiosity – are significant determinants in influencing this group of customers in their adoption of Islamic banking.

The second article, "*Venture waqf in a circular economy*" by Tariqullah Khan, is a theoretical study that is motivated by the success of venture philanthropy organisations (VPOs) to ascribe a new role to waqf (Islamic endowments) institutions. Against the background of a zero-waste circular economy, the study learns from the example of VPOs that target impactful businesses to make them successful to put forward a venture waqf organisation (VWO). This would be a waqf organisation in the form of a corporate entity. The study combines key concepts such as venture capital, venture philanthropy, small businesses and social responsibility in its proposal for an incorporated model of waqf. The VWO would seek to finance responsible, small, Sharīʿah-compliant and impactful businesses to contribute in an ecologically sustainable way to the economy. Besides waqf contributions, the sources of funds of the VWO could be interest-free loans, charitable grants and even non-pecuniary resources such as voluntary services, advisory services, training services and voluntary guarantees. The VWO would use the funds and resources to provide financing and other services (e.g., training, capacity building, business advisory and incubation, among others) to small and impactful Sharīʿah-compliant businesses. In the end, the small business must repay the financing provided by the VWO such that the VWO exits the venture and can support other new businesses.

The third article, *"Court referral and Nigeria's Financial Regulation Advisory Council of Experts (FRACE)"* by Zakariya Mustapha, Sherin Kunhibava and Aishath Muneeza, studies the case of Islamic finance disputes with regard to Sharīʿah non-compliance and legal risks and how they are resolved in common law courts in Nigeria. In this regard, the article examines the role of expert advice as the basis for court referral to the FRACE – the national Sharīʿah governance body at the level of the Central Bank of Nigeria – in the adjudication of Sharīʿah issues in Islamic finance disputes. In the process, the study also seeks to learn from Malaysia's experience in terms of Sharīʿah-compliant judicial dispute resolution. To achieve the research objectives, the authors collected primary data through interviews with different categories of Islamic finance experts. At the end, it proposes recommendations for the way forward in adjudicating Islamic finance disputes in Nigeria.

The fourth article, "*The impact of credit ratings on capital structure*" by Bora Aktan, Şaban Çelik, Yomna Abdulla and Naser Alshakhoori, seeks to empirically investigate the effect of real credit ratings change on firms' capital structure decisions. The authors argue that credit ratings have the potential to affect the cost of capital, investment process, accessibility to financial markets and the overall value of firms. As such, conducting this research, especially in a new context (i.e., Saudi Arabia) where sophisticated studies comparable to those carried out on other regions of the world are lacking, is important in determining the relationship between credit ratings and capital structure decisions. The study uses three models of credit rating change, including broad rating, notch rating and investment or speculative grade. It considers non-financial firms listed on the Tadawul stock exchange in Saudi Arabia during the period 2009-2016 to test the credit ratings-capital structure hypothesis.

The fifth article, *"An integrated approach for building sustainable Islamic social finance ecosystems"* by Ahmed Tahiri Jouti, seeks to adapt the concept of an ecosystem to the specificities of Islamic finance. The author primarily leverages on the idea of associating all the stakeholders working on socially oriented initiatives in one ecosystem to create more significant impact on their communities. Under such a system, social welfare initiators would collaborate with those who set up a suitable monitoring framework (e.g., governments, regulators, independent agencies, and research and development institutions, among others) and would also collaborate with social finance providers to ensure adequate financing to all the ecosystem components during the whole project life cycle. From an Islamic social finance perspective, the author highlights that there are many opportunities in terms of integration between the traditional Islamic social finance providers (e.g., zakat, waqf, Islamic microfinance) and Sharīʿah-compliant commercial financial institutions (e.g., banks, Islamic capital markets, crowdfunding platforms, *takāful* companies) to mobilise more financial resources for funding social initiatives. Throughout the paper, the author uses real experiences through case studies and literature review to describe the working of the social finance/Islamic social finance ecosystems. In the last part, the paper presents a conceptual framework to describe the methodology and necessary steps required in building sustainable Islamic social finance ecosystems.

The sixth article, "*Business succession from an Islamic accounting perspective"* by Umar Habibu Umar and Junaidu Muhammad Kurawa, aims to discuss a relatively less deliberated topic – that of the inheritance of a business from an Islamic accounting perspective. The paper adapts the relevant provisions of conventional accounting standards and practices that conform to the Sharīʿah and AAOIFI's financial accounting standard for *mushārakah* (partnership) to establish the accounting for sharing an inherited business. The study finds that fair value is the most appropriate measurement to apply in Islamic succession. It thus uses fair value to measure the assets of an inherited business and suggests that liabilities and legacies (i.e., will/bequests) should be deducted therefrom to calculate the equity/residue. The equity should then be distributed among the heirs based on the sharing ratio established in the Qurʾān and Sunnah and according to Muslim jurists' views. As a result, the inherited business turns into a family business which is now owned by the heirs. The paper finally emphasises that the business should remain a going concern to generate income to sustain the welfare of the heirs.

The seventh article, "*Harmonizing and constructing an integrated maqāṣid al-Sharīʿah index for measuring the performance of Islamic banks"* by Fahmi Ali Hudaefi and Kamaruzaman Noordin, aims at developing a performance measure for Islamic banks by harmonising related past studies. The developed yardstick is called an Integrated *Maqāṣid al-Sharīʿah*-based Performance Measure, which seeks to measure both religious and financial performances of Islamic banks. The paper then uses the developed model to quantitatively measure the performance of a sample of 11 Islamic banks from across different countries. Performance of the banks provides evidence of their efforts in realising the *Maqāṣid al-Sharīʿah* (objectives of Sharīʿah) in the banking industry.

The eighth article, "*Performance of Islamic banks: do the frequency of Sharīʿah supervisory board meetings and independence matter?*" by Abdalmuttaleb Musleh Alsartawi, investigates the performance of Islamic banks from a different angle. It investigates the impact of the independence of Sharīʿah supervisory boards (SSBs) and the frequency of board meetings on the performance of Islamic banks across different regulatory environments in the Gulf Cooperation Council (GCC) countries. It uses data disclosed in the annual reports of a sample of 48 standalone Islamic banks listed on the GCC stock exchanges over the period 2013-2017 to conduct this study. Return on assets (ROA) was used as a proxy for the banks' performance. The paper finds a negative relationship between SSB independence and frequency of meetings and bank performance. The author explains that this could be a result of Sharīʿah scholars acting as advisors rather than supervisors and thus allowing managers to supersede their decisions. Moreover, higher frequency of board meetings results in increased costs associated with data preparation and processing, which in turn reflects on returns and banks' financial performance.

The ninth article, "*Interest-free microfinance in India: a case study of Bait-un-Nasr Urban Cooperative Credit Society*" by Wasiullah Shaikh Mohammed and Khalid Waheed, uses a case study of an interest-free microfinance institution to appraise interest-free microfinance practices in India, identify issues and recommend possible solutions. The case of Bait-un-Nasr Urban Cooperative Credit Society (BuN), established in 1976 in Mumbai, is evaluated in terms of growth (e.g., growth of members, deposit accounts, beneficiaries and others) and sustainability (e.g., capital adequacy ratio, solvency ratio, fund mobilisation ratio and others). The paper finds that the overall growth of BuN is satisfactory. However, its performance appears not to be in line with the industry standards on certain performance ratios. Furthermore, there are a number of operational and legal issues faced by the society which need to be tackled for its further growth and expansion.

The tenth article, "*An empirical study of the challenges facing zakat and waqf institutions in Northern Nigeria*" by Mahadi Ahmad, aims to examine the factors inhibiting the development of zakat (alms) and waqf (endowment) institutions in Northern Nigeria so that appropriate solutions can be provided. It sources primary data in the form of participants' point of view to determine the causes of low performance of zakat and waqf institutions in Northern Nigeria. The paper finds the low performance to be mainly because of lack of trust and confidence in the institutions, the dislike of political office holders' involvement in the appointment of the institutions' administrators and the lack of adequate managerial and administrative knowledge in the institutions' staff.

At this juncture, we would like to highlight that because of space constraints, each issue of the journal has only been publishing ten articles. This means that the publication of many high-quality articles has to be postponed to later issues. As from next year, the journal seeks to increase its publication to three issues per year, which will help to accommodate publication of more articles in a year.

Another piece of good news that may be appealing to our readers is the inclusion of *ISRA International Journal of Islamic Finance* within the 2019 Journal Quality List of ABDC (Australian Business Deans Council) ranking. This achievement is yet another milestone in the journal's continuous attempt to improve its performance in terms of articles' quality (content and rigour), accessibility to a larger readership, wider base of authorship and increase in citations, among others.

As always, we thank all contributors and supporters of the journal. May the articles published in this issue be of benefit to the Islamic finance and larger community.

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

**Beebee Salma Sairally**
*Research Development & Innovation Department, International Shari'ah Research Academy for Islamic Finance (ISRA), Kuala Lumpur, Malaysia*