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Islamic Finance and Theories in Interest and Money

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Positive Interest Rate, Stationary Economy, and Inefficiency	1
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Amir Kia, Utah Valley University, USA

This chapter analyses the direct impact of a positive rate of interest (usury) on the production possibility curve. Usury under a stationary state creates inefficiency in the sense that the marginal rate of transformation is not equal to the price ratio. Over the short run Pareto efficiency appears when a transition period is considered and the rate of return moving from one state to another is endogenous and equals the rate of investment. In a non-stationary economy, when a positive rate of return (interest) is equal to the growth rate of the economy, there will be a Pareto-efficient equilibrium. But if the interest rate is exogenous to the system, usury exists, and then Pareto efficiency cannot be achieved under any state, either stationary or non-stationary.

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Extensive research has been done regarding the Islamic pricing benchmark, both in terms of the Islamic jurisprudence (Fiqh) and Islamic economic perspectives. However, there is no in-depth study on the substitution of the interest rate concept to date in the application on the Islamic banking pricing product. This chapter will initiate the difference between the concepts of rate of profit, rate of interest, and practice in the field. Some jurists from the Middle East allow the use of a benchmark rate, such as the London Inter-bank Offered Rate (LIBOR), as a measure of Islamic financial asset prices. They equate the concept of rate of interest with the concept of rate of profit. This is the core reason (raison d'être) for the replacement of usury as instructed in the Qur'an. This study will discuss a financial asset pricing methodology in accordance with the core principles of Islam.

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Hifzur Rab, Independent Researcher, India

Most of the countries suspended gold standard around 1914 leading to massive currency depreciation. Thus, money was delinked from gold and Freely Floating Fiat Money (FFFM) came into being. Riba in case of free-floating money is real interest and profit according to Shari'ah is real profit. Free floating money and its use as a unit of account is an important cause of dominance of the system of interest, growing disparity of income and wealth. It is a major cause of most of the economic problems that led to social political and moral degradation. It is an important reason of failure of Islamic financial institutions in adopting financing modes preferred in Shari'ah. These led to massive poverty, deprivation, and marginalization of the Ummah and its institutions. Currency linked to constant quantity of the basket of national product provides the way out.

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Jameel Ahmed, University of Baluchistan, Pakistan

Patrick Collins, Azabu University, Japan

Ahamed Kameel Mydin Meera, Z Consulting Group, Malaysia

Practical policies are urgently needed to enable countries to reduce their vulnerability to the damaging influence of the world-wide, debt-based money system, which is the underlying cause of economic instability and financial crises in the world economy. Due to its flexibility in response to market forces, the Grondona system of conditional currency convertibility based on primary commodities can be safely implemented independently by individual countries in terms of their national currency. This chapter introduces the Grondona system and describes simulations of how it might have operated over recent years in some countries, which show the stabilizing influence that it would have on the economy of implementing countries. It also explains how implementation by each of the D-8 countries would exert a stabilizing influence on their mutual exchange-rates, thereby facilitating their collective evolution into a currency “bloc”, and so strengthening them collectively against destabilization by external shocks.

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Bilal Kchouri, University of Luxembourg, Luxembourg

Thorsten Lehnert, University of Luxembourg, Luxembourg

This chapter measures the effect of growth in Islamic Banking assets on economic performance in a sample of 32 developed and developing countries based on data for the period 2000-2017. The findings show that, although Islamic banks are considered small relative to the total size of the financial sector, these are positively correlated with economic growth even after controlling for financial structure, macroeconomic factors and other variables. The outcome is robust across different econometric specifications like pooling OLS, fixed effects, and panel data with over-identified GMM. The results are confirmed on two different indicators of Islamic banking and hold for different periods. Empirical findings confirm theoretical expectations that although Islamic banking still represents a relatively very small share of the financial system, it is growing and generating an economic boost to ensure a stable banking industry.

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Mustapha Abubakar, Ahmadu Bello University, Nigeria

Islamic social finance as an order ordained by Allah (Subhanahu wa Taala) for the benefit of mankind, seeks to provide an avenue for financial inclusion as well as entrenching social cohesion among Muslim communities across the globe. This is achieved with the application of Zakat (compulsory alms giving), Waqf (Islamic endowment), Sadaqah (Voluntary charity giving), and Qard (Loan giving) as the instruments. As poverty remains a social disorder and an affront to human prosperity, Islam has provided a remedy to its scourge. This chapter presents a discussion on poverty reduction if these instruments are effectively implemented in Muslim communities across the globe.

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This chapter is a literature study on corporate social responsibility (CSR) of Islamic banks since the concern over CSR is significant to Islamic banks. A review of CSR theories shows that CSR is originated or influenced by Western values. Perhaps, that is why studies on CSR are quite few in Islam although its notion has been suggested to be consistent with an Islamic view of society. Therefore, the purpose of this study is to review the literature of CSR of Islamic banks by firstly looking at the discussion from a conventional and Islamic perspective. This chapter reviews six conventional theories on CSR with the Islamic notion of CSR namely, the Economic Theory, the Agency Theory, the Social Contract Theory, the Legitimacy Theory, Stakeholder Theory and Philanthropic Theory. Through literature review, it is found that, in conventional CSR there are few ulterior motives of doing it either for profit maximization or to comply with society's expectations or to get legitimacy from society or the combination of all motives except for altruistic CSR which is genuine philanthropy. On the other hand, the main motive of doing it in Islam is generally based, among others, on Tauhid, vicegerency, accountability, Taqwa, Ibadah and Da'wah principles. While the review done on CSR of Islamic banks, found that Islamic bank is an acknowledged legal entity in Islam, which consequently, is accountable for CSR. Therefore, there is a need to propose an Islamic CSR framework that can be used by the regulators involved to establish a CSR framework that is comprehensive, applicable and to be practiced not only in the Islamic banks, but also for other Islamic financial institutions and all Islamic business entities.

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Masudul Alam Choudhury, University of Science and Technology, Bangladesh

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Adebayo Rafiu Ibrahim, University of Ilorin, Nigeria

Saheed Afolabi Ashafa, Lagos State University Foundation, Nigeria

History of Zakat in Nigeria is not uniform across various regions of the country. Ever before the invasion of the colonialists to the northern part of the country, its collection and disbursement were largely in the hands of the Emirs. This was not the case in the south-western region where Zakat was not given the desired attention by the Muslims and did not win the support of the rulers for proper administration. In the post-colonial Nigeria, Zakat administration in the northern part of the country received a boost consequent upon the re-introduction of Shari'ah legal system to some states in the region. While state governments support its collection and disbursement through agencies set up for the purpose, this is not the case in the southwestern region where no government is involved. This chapter sought to evaluate Zakat distribution in south-western states of Nigeria with a view to determining how compliant with Shari'ah the entire process is.

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Maruf Adeniyi Nasir, Osun State University, Nigeria

The modern financial system has continuously been traumatised by money laundering and terrorism financing. This is partly because it is a concept that revolves around the complex relationship between money and crime. The challenges posed by these menaces have become a phenomenon that the world has ceaselessly looked for means to address. Yet launderers and terrorists continue to perfect methods of perpetuating their illegal activities, while the havoc created by the menace of these crimes are enormous and remains unquantifiable in term of the actual estimate. Interestingly, Maqasid al Shari'ah has caught the attention of several Muslim scholars as a useful tool that can resolve several contemporary issues. Consequently, examining the relevance of Maqasid al Shari'ah which is the basis of Islamic Finance on money laundering and terrorist financing (AML/CFT) is desirable. The focus of this chapter, therefore, is to examine the relevance of Maqasid al Shari'ah in the fight against the menace of money laundering and terrorism financing

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The purpose of this chapter is twofold: to investigate the relevance and the significance of interest-free formulae for conventional microfinance in non-Muslim countries, (with no religious connotation), and to lay out the foundation of a global interest-free microfinance model. The major result is that the interest-free Musharakah is just a simplified limited liability with limited duration conventional partnership. Sales-based Murabahah can also be a rewardable complement to interest. Islamic Ijarah is a leasing formulae also practiced in Europe and Africa. Salam is not far from conventional forward contract. Other finance formulae can also be used by conventional lenders to 'complement' the interest rate. These

results, contrary to the general belief, concluded that investment formulae of the two systems are not far from each other. Moreover, interest-free formulae are practiced in Africa without being related to Islam. This indicate that if we look at the interest-free formulae from the point of view of their usefulness, and not from a religious point of view, these will have universal applications without being identified as Islamic. The chapter lays out the foundation of a global interest-free microfinance model capable of serving Muslims and non-Muslims alike.

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Philippe Adair, University Paris-Est Créteil, France

The performance of MicroFinance Institutions (MFIs) is analysed for the period 2004-2015. Sample consists of 67 MFIs in the Middle East and North Africa region. It includes a subsample of 18 Islamic MFIs (IMFIs), whereof Solebusiness grants exclusively Islamic financial services and Window provides both Islamic and conventional services. A model of simultaneous equations with interacting variables tests seven hypotheses addressing financial performance, social performance, and the social and financial performance relationship. Conventional MFIs (CMFIs) experience higher financial performance than IMFIs and Window experiences higher financial performance than Solebusiness; IMFIs do not experience higher social performance than CMFIs; whether conventional or Islamic, MFIs face a financial vs. social performance trade-off.

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While microfinance institutions play a role in the provision of financial services to individuals and small businesses that lack access to banking and related services, the question is: Can this role be taken up solely by the banking institutions? This chapter discusses the performance and application of microfinance institutions and challenges in developing a sustainable microfinance environment. The chapter deliberates the importance of integrating Islamic microfinance with Islamic commercial banks. It is argued that the integration of Islamic microcredit into the banking and credit schemes of Islamic commercial banks and Islamic microfinance institutions is a key to promoting financial inclusion. In addition, the chapter discusses how the Islamic microfinance model can be applied towards improving and humanising society and suggests strategies to improve the sustainability of microfinance institutions.

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Muhamad Abduh, Universiti Brunei Darussalam, Brunei

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This chapter investigates the relationship between service quality of Baitul Maal wat-Tamwil (BMT) and the satisfaction of small and micro-enterprises in Indonesia with perceived benefits as the mediating variable. Primary data is collected from 454 small and micro-enterprises located in the western part of

Jawa Island of Indonesia and the CARTER model is adopted to test the satisfaction of small and micro-enterprises upon the services provided by their patronized BMT as Islamic microfinance institutions. By using the structural equation model, the finding confirms that perceived benefits fully mediate the relationship between service quality of BMT and small and micro-enterprises' satisfaction.

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This chapter bridges the concepts of microfinance and Zakat, and proposes a conceptual framework as a potential strategy to solve poverty. This study employs qualitative approach. Specifically, it performs content analysis on related manuscripts, and conducts a structured interview with selected stakeholders of Zakat institutions. The study proposes that Zakat institution must have a clear definition about which Zakat fund portion should be used for the program. Authors propose the use of amil for the program and it must be given by amil voluntarily and there must be clear mechanism on which deserving categories (asnaf/mustahik) should be prioritised to be the part of the program. In practice, amil can be considered as investors (where Zakat institution distributes and becomes Islamic microfinance institution) or financial intermediary (where the amil distributes and becomes Islamic microfinance institution appointed by the authority).

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This chapter explores Cash Waqf in terms of awareness, religiosity, attitude, intention, subjective norms, theory of planned behavior, and perceived entrepreneurship development in Nigeria. The chapter extends the applicability of these factors of Cash Waqf in investigating the perception of micro, small, and medium business entrepreneurs in Nigeria. Structured questionnaire was designed to survey 459 Nigerian entrepreneurs. EFA analysis was used to test the theoretical framework and hypothesis. Result shows low cash Waqf awareness, and a high level of religiosity among the micro entrepreneurs of Nigeria on Cash Waqf for perceived micro entrepreneurship development. It is argued in this research that there is a positive perception toward Cash Waqf, by Muslim and non-Muslim micro entrepreneurs in Nigeria for entrepreneurship development.

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Hasnan Baber, Woosong University, South Korea

Crowdfunding has been a topic in limelight for the last few years. Crowdfunding platforms are the intermediaries which connect the contributors with fundraisers. Crowdfunding has started its journey in traditional finance however; its attributes and characteristics are much alike with Islamic financing.

While the same concept will be applied to Islamic finance, there must be a proper framework which will guide the Islamic crowdfunding platforms to raise funds for Shari'ah compliant projects as per Islamic laws and regulations. This chapter provides different outlooks of crowdfunding and illustrates how different Islamic finance instruments and products can be used in Crowdfunding. The chapter provides framework for process of crowdfunding campaigns which will be compliant with Shari'ah regulation under the supervision of the Shari'ah body. At the end of chapter, two crowdfunding platforms are discussed which does not claim to be Shari'ah compliant but can be roadmap for Islamic crowdfunding platforms.

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Razali Haron, International Islamic University, Malaysia

Recent years have witnessed the growth of Islamic crowdfunding from its mere existence to successfully distinguishing itself from conventional crowdfunding. The concept of crowdfunding is known as a practice of funding a project or venture by raising small amounts of money from many people, typically via the Internet. The concept of crowdfunding has gained popularity worldwide as an alternative source of financing, especially among small businesses which include small and medium enterprises (SMEs). As SMEs continuously face lack of financing which may hinder their business growth, it is projected that the emerging crowdfunding model may help solve this problem while at the same time sustain SMEs' financial suitability. In this chapter, the concept of Islamic crowdfunding, crowdfunding models, the benefits and weaknesses of crowdfunding for SMEs, the applicability of crowdfunding towards driving financial sustainability initiatives for SMEs and issues for future research are discussed.

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Rashedul Hasan, INTI International University, Malaysia

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Small and Medium Enterprises (SMEs) play a vital role in the economic growth. However, the industry has been facing challenges due to lack of access to finance among entrepreneurs. This chapter explores alternative financing platforms for SMEs and proposes specific solutions to the credit risk of SMEs. Authors used a structured literature review approach to analyse relevant publication to provide evidence on the application of cash Waqf as a viable source of Islamic finance for the SME sector. The donation-based cash Waqf model for SME financing is developed under the lens of stakeholder theory and Maqasid al-Shari'ah. The model is expected to provide greater insight to Waqf institutions on their role to operationalise the conceptual model in fostering the growth of SMEs and change the perception of stakeholders about the dynamics and potential of cash Waqf in economic development.

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Md Hafij Ullah, Coventry University, UK

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Islamic banks must comply with the Shari'ah rulings fully as it is the foundation of Islamic banks. However, the level of Shari'ah compliance is not the same among the Islamic banks. Similarly, despite performing well, the financial performances of Islamic banks differ from each other. Therefore, the chapter explores the association between financial performance and Shari'ah compliance. The chapter used both the primary and secondary data. The primary data was collected through surveying 300 bank executives from six full-fledged Islamic banks operated in Bangladesh with a structured questionnaire on Shari'ah compliance, whereas information on financial performance were extracted from the annual reports of the sample banks. Descriptive statistics and regression analysis were used to analyze the data and conclude the findings. The findings show that Shari'ah compliance has a positive and significant impact on the financial performance with respect to the total liabilities and total assets.

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<i>Abd Hakim Abd Razak, Ajman University, UAE</i>	

This chapter examines the legal paradigm of the application of multiple Shari'ah board directorship practice from the common law context of directorial fiduciary duties. It employs the critical legal studies approach to analyse the principles, legislations, case laws, policies, and guidelines in the United States, European Union, the United Kingdom, Ireland and Germany. This study scrutinises the polarity of views concerning the pragmatic Masyaqqah (necessity) surrounding the practice in discussion: the Masyaqqah that encourages and one that discourages the application of the practice and places these against the two predominant directorial fiduciary duties under the common law system namely, the duty to act bona fide and in the best interest of the company, and the duty to avoid conflict of interest. Whilst the practice has proven to benefit Islamic financial institutions ('IFIs'), the findings also notice the substantial risks it could inflict on the IFIs' business operations; some which could seriously damage their Shari'ah compliance assurance.

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Shari'ah Supervisory Board (SSB) is the salient feature of Shari'ah governance upon which the entire operation of Islamic Financial Institutions (IFIs) depends for validations. This chapter examines the status of SSB in the context of Shari'ah governance in Sri Lankan IFIs. The position of SSB has been examined in three dimensions, namely appointment, qualifications of SSB members, and the enforcement of their decisions. The qualitative method of research and the gap analysis have been applied to find the gap between the guidelines issued by Accounting and Auditing Organizations (AAOIFI) and Islamic Financial Services Board (IFSB) and the actual practices of SSB. Some gaps were found in the practice of SSB in the abovementioned three areas though each IFI has setup SSB institutionally at micro level. The recommendations are put forward to enhance the SSB practices in Sri Lankan IFI, which is the significant contribution of this chapter.

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This chapter discusses the concept of good governance in the context of Waqf institutions as a part of their process of revitalization. The study is qualitative and exploratory in nature, whereby a library research method was used by accumulating, identifying, and reviewing existing literature. Based on this information, further analysis was performed for the purpose of conceptualizing the Islamic Good Governance Framework for Waqf Institutions. However, the discussion is limited to the conceptual discussion of good governance in the context of Waqf institutions. This chapter proposes that the framework of Islamic good governance for Waqf institutions should be based on the principles of Tawhid (oneness of Allah), 'Adalah (justice), Mas'uliyah (accountability), Amanah (trust), Shura (mutual consultation), Taqwa (Allah-consciousness), Hisbah (enjoining virtue and avoiding evil), and Maqasid Shari'ah (objectives of Shari'ah).

Volume II

Section 6

Risk in Islamic Finance

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The discussions on risk – its bearing, sharing, or transfer – have recently assumed prominence in Islamic finance literature in the wake of devastations the 2007-2008 financial crises unleashed across nations. Islamic scholars were quick to claim that there was no impact of the crisis on Islamic banks because they worked on a risk-sharing principle. In contrast, mainstream institutions suffered because they worked on a different plank – the transference of risk to other parties. This Chapter argues that neither the current practice of Islamic banking supports risk sharing as its sole principle nor do its future prospects depend on it. The proposition only seeks to put Islamic finance on a non-existent trajectory. It clarifies confusion regarding the proposition and some of its corollaries. Contextually, it deals with measurement of risk, its relationship with return to capital, and its distributional equitability. The focus of the Chapter is rather restricted. It does not deal with various types of risks the banks face in their financing activities or with issues in risk management.

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This chapter investigates the operational risk management and practices of Islamic and conventional banks in Saudi Arabia. Authors employ a sample of four Islamic and eight conventional banks and data gathered through a novel questionnaire administered to senior officers and managers carrying out risk

management activity across five aspects of operational risk management: (i) understanding risk, (ii) risk management, (iii) risk assessment analysis, (iv) risk identification, and (v) risk monitoring. The results demonstrate that all of these play an important role in determining the quality of operational risk management. However, risk assessment analysis and risk monitoring are the most influential in determining the overall quality of operational risk management in both conventional and Islamic banks. Overall, conventional banks in Saudi Arabia are better than Islamic banks at operational risk management practices, suggesting the need for careful planning and strategizing, sound recruiting and training policies, and prudent monitoring of capital adequacy by regulators.

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Risk mitigation is one of the key elements in trade financing. The use of documents represents one of the main techniques by banks in managing risks in trade financing. These documents play an important role in financing, insuring, and guaranteeing the banking operations. Islamic finance, on the other hand, utilizes various asset-based contracts. Islamic financial institutions in Malaysia tend to reconcile, using a combination of these contracts, to replicate the conventional banking techniques. These can be at odds with the conventional trade financing concept that “banks deal with documents and not with goods”. Hence, the undertakings may raise concerns regarding Shari’ah suitability. This chapter examines the challenges faced in the usage of documents covering all risk including Shari’ah risk management in Islamic trade financing.

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Hakan Altin, University of Aksaray, Turkey

This study has two important findings firstly, the theoretical results related to the efficient market hypothesis; and secondly, the results of application. The theoretical results show that if the market price of an asset includes all the information that influences its price, then that market is an efficient market. According to the efficient market hypothesis, investors cannot earn gains above the market return. Since stock share prices are unpredictable, it is assumed that when the information that the market had already been expecting is finally announced, the stock share prices will not change. That is because this announcement does not contain any information that can change the prices. The results obtained from the application show that the existence of abnormal return is valid for Islamic Stock Markets. Therefore, the findings mediate against the efficient market hypothesis. However, when the size of abnormal returns is observed, the results are almost equal to market returns. This finding supports the efficient market hypothesis. Islamic stock markets are integrated with the world at least as much as the non-Islamic global markets are. Islamic stock markets act together with the non-Islamic global markets. The risks and returns that the Islamic and non-Islamic stock markets provide to the investors are very close to each other. In conclusion, the efficient market hypothesis maintains its explanatory power for both Islamic stock markets and non-Islamic global stock markets. Islamic markets offer new investment opportunities on a global scale.

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Rafikoddin Riyajoddin Kazi, North Maharashtra University, India

The main feature of traditional financial system is that it considers economic aspects of the transaction only. This system supports the economic development and not the welfare of humankind. However, except for the Islamic financial system, no other financial system stood in front of it as a viable alternative system. Malaysian Islamic financial system has made tremendous progress in creating sound Islamic Financial system. However, the historical aspect of this country which has passed through Islamic and traditional financial system has its own advantages and disadvantages. Despite having mix and heterogeneous culture, it succeeds in creating Islamic Financial System based on dual legal system to satisfy the needs of multi-cultural factors. Due to adoption of dual legal system, several legal issues have arisen. This chapter sheds light on some matters related with the adoption of dual legal system. The chapter is conceptual in nature and the method adopted is the intensive survey of literature, thereby all the information has been gathered from the secondary sources.

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This chapter examines the relationship between corporate governance practices and firm performance. The characteristics of the board of Shari'ah-compliant companies in consumer products counter of Bursa Malaysia were examined against the firm's performance using data from 77 companies from 2014 to 2016. Based on the result of multiple regression; board size, Muslim chairman, and Muslim director have a weak positive correlation with the performance of the firms. However, directors with Shari'ah background seem to have a negative correlation with the performance of the firms. The findings of the chapter would be very useful to the regulators to improve the Malaysian Code of Corporate Governance (MCCG). The findings also help to fill the gap on scarce literature that study the relationship between the corporate governance practices involving Muslim characteristics and performance.

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Noman Arshed, University of Management and Technology, Pakistan

The economic system recognizes the role of the financial system as an important cog in its machinery. Several theoretical and empirical studies have evidenced its contributing role to the economy. Within the overall financial system, the Islamic financial system ensures the increase in productivity of capital as well as in the synchronization between the incomes of the rich and the poor. Mudarabah companies stay at the forefront of the Islamic financial system. Their knowledge-intensive approach helps the allocation of resources in long-term ventures and, because of their participation-based setup, they can theoretically

cause a trickle-down effect via their redistribution process from the borrower to the lender. Practically, though, this requires the financial institutes such as Mudarabah to be cost-efficient. This chapter explores specifically how efficient Mudarabah companies of Pakistan are in terms of cost minimization, and investigates whether different dimensions of intellectual capital can improve cost efficiency.

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Omar Kachkar, Ibn Haldun University, Istanbul, Turkey

This chapter examines the prospects and challenges of using the Mudharabah (profit-sharing partnership) instrument to extend microfinancing to refugees in microenterprise support programs. According to the literature, many Muslim refugees voluntarily exclude themselves from microfinance programs due to the element of interest that is strictly prohibited in Islam. Mudarabah as a Shari’ah-compliant mode of finance represents one potential instrument that complies with the religious teachings of Muslim refugees and could assist in the financial inclusion of many of them. Despite the inherent risks of Mudarabah such as moral hazard and adverse selection, some successful stories are remarkably encouraging. This chapter is proposing a model for a microenterprise support program based on Mudarabah. The chapter concludes that Mudarabah is a viable mode of finance provided that best practices in implementing Mudarabah as well as microfinance programmes are well adopted and observed.

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University of Technology, Mauritius*

Takaful, an alternative to conventional insurance, is based on Shari’ah principles. It is founded on the concept of ta’awun, which means “mutual assistance”. The practice of Takaful is to provide participants financial security based on mutual responsibility and assistance. The primary objective of Takaful is not to maximize profits as in conventional insurance but rather to help participants—in a spirit of solidarity—to face well-defined risks. Despite its steady growth, the Takaful industry faces many challenges. The core issue remains, the structure and application of the Takaful business model. This chapter critically analyzes the main business models and proposes a Takaful business model that matches the expectations of both the shareholders and the participants in line with Shari’ah rules and principles. The model is structured on Musharakah principles at both the shareholder and participant levels and has been termed “The Musharakataan Business Model.”

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This chapter examines the determinants that influence the customer’s adoption towards the use of family Takaful scheme by extending the diffusion of innovation (DOI) theory in the context of Pakistan. The published work allied to Takaful studies and DOI was reviewed. Total of 282 respondents who are non-

users of family Takaful product were used for the purpose of primary data collection through convenience sampling. The customer's adoption towards Islamic insurance is determined not only by perceived relative advantage and perceived compatibility but also by awareness and religious belief. Perceived complexity, on the contrary, turns not to be a predictor of family Takaful adoption. Further gender, age and education level do not moderate the family Takaful adoption by the customers. This research like others have limitations in terms of sampling method used and only covers one city of Pakistan, namely, Karachi. Further studies need to be conducted in other cities as well with a large population. Diffusion of innovation theory is not used in the context of Pakistan due to scarcity in the literature on empirical studies. Therefore, the author extends the diffusion theory of innovation in the current work. Further, this chapter will be a useful reference guide for the academicians, operators of Takaful business and future researchers.

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<i>Amirul Afif Muhamat, Universiti Teknologi MARA, Malaysia</i>	

This chapter discusses the Takaful operators' corporate social performance which has been given limited attention in previous studies as compared to financial performance. In addition, essential features of Takaful operators like structure and models are presented. These aspects influence the way Takaful operators perform their social obligations which can be categorized into several components: CSR1, CSR2, and CSR3, which are collectively referred to as CSP. Being Islamic financial institutions (IFIs), the Takaful operators are expected to achieve the social and financial objectives.

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Takaful is an Islamic insurance contract introduced to substitute the conventional insurance which has been precluded by nearly all Muslim scholars as it encompasses the components of gharar (uncertainty), maysir (gambling), and riba (usury). Its feasibility is evidenced after numerous Fatwas were issued by Fiqh academies and Ulama in its support. Takaful is founded on the basis of cooperation and mutual aid as it is broadly used in the commercial sector. The Takaful business operation is regulated by the codes of Shari'ah and by other laws. Many models such as the Wakalah model, Mudharabah model, and the amalgamation of Mudharabah and Wakalah models have been applied in the Takaful corporate operation. This chapter explicates the existing implications and future prospects of the Takaful industry in Malaysia. It offers a review on Takaful industry in Malaysia and emphasizes issues and challenges, opportunities, and recommendations.

Section 10

Islamic Financial Products: Sukuk

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<i>Essia Ries Ahmed, University of Nizaw, Oman</i>	
<i>Aminul Islam, Universiti Malaysia Perlis, Malaysia</i>	
<i>Fathyah Hashim, Universiti Sains Malaysia, Malaysia</i>	

The chapter reviews and describes the history and development of Sukuk. It starts with the basic concept of Sukuk, its history and the basic foundations of Sukuk in Shari'ah. The chapter also outlines the sources of Shari'ah and the concept of Ijtihad. Basic principles of the Islamic financial system, and the concept of debt and equity in Islam are also discussed. Finally, the chapter continues with an outline of the development of the Sukuk market and the types of Sukuk structures.

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Economic and Social Impacts of Sovereign Sukuk 732

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This chapter explores the economic and social impacts of sovereign Sukuk in Sudan and its unique challenges. The first of its kind, this research collected primary data from different groups of investors of Sudanese governmental Sukuk. Adopting a qualitative approach (interview questions and open and closed-ended surveys), four sets of questions were distributed to four groups (individual investors, institutional investors, government officials, and academics). The survey found that despite Sukuk's influence in activating the economy and financial markets, and encouraging savings awareness, the market in Sudan is facing many challenges. Accordingly, it is recommended that Sukuk issuances should appeal to a wider audience including retail investors. The ensuing system, which could likewise be adopted by other countries, would generate more liquidity for development projects and may prove helpful for developed Sukuk markets. Additionally, evolving capital markets would enhance the economic and social impact of governmental Sukuk.

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This chapter examines the economic impact of the migrants' return to Kerala, India during the Gulf oil crisis 2014-2016. Many migrants returned to their homeland during the crisis because they could not find work in the Middle East. The Kerala economy confronted this as one of the biggest threats which directly affected the economy. Almost USD 900 million had been brought to the homeland as remittance from Non-Residential Keralites (NRKs) working in Gulf countries. But the return of a large number of NRKs decreased the remittances to 10-15%. This chapter proposes Social Impact Sukuk to support the migrants who are back to their homelands from GCC countries. Data and information are collected from primary and secondary sources. This study provides policy implications for Kerala state government to examine the impact of returning NRKs issue and a feasible solution for their immediate rehabilitation.

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Sukuk as an Infrastructure-Financing Tool..... 770

Ahliddin Malikov, Westminster International University in Tashkent, Uzbekistan

Although many studies have stressed potential benefits of using Sukuk for funding large-scale infrastructure projects, several technical, legal, and political obstacles that are encountered by new sovereign and corporate issuers, investors, and Shari'ah boards remain largely unexplored. This research evaluates the opportunities, barriers, and potential risks for future Sukuk issuances that are proposed for funding large-scale infrastructure projects in developing countries. A purposive sampling method was employed to conduct in-depth interviews with several Islamic finance experts in support of the qualitative data analysis. Using the maximal variation and snowball approach, the researcher identifies the key challenges for large-scale Sukuk issuances and provides useful interpretations that can contribute to the expansion of Sukuk structures for a wider international investor base.

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Rukhsana Kalim, Lahore University of Management and Technology, Pakistan

Public debt is a prime source of government revenue to finance budget deficit. Developing countries have been relying on public debt to cater the needs of fiscal expenditure. With the emergence of Islamic banking and finance across the globe, Muslim governments have introduced Sukuk (Islamic Bonds) to generate funds by the governments to meet their expenditure. The present study aims to discuss the possibilities of introducing Sukuk as an alternative way of financing public expenditure in Pakistan by replacing other conventional modes of financing in the future. The study will discuss the viable options available to the Government of Pakistan to offer Sukuk instead of bonds as a means of raising funds from abroad.

Section 11

Contemporary Issues in Islamic Finance

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Dispute Resolution in the Islamic Finance Industry..... 804

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A unique and independent legal framework is important to effectively adjudicate Islamic finance disputes, Sukuk bankruptcies, and Takaful disputes. Currently, these disputes are being adjudicated in common law courts or ineffective arbitration centres where often the Islamic finance transaction is inadvertently converted into a conventional transaction due to the common law nature of the dispute adjudication. In this chapter, a framework is proposed for Islamic finance dispute resolution in the form of the Dubai World Islamic Finance Arbitration Centre (DWIFAC), DWIFAC Jurisprudence Office, the Sukuk Bankruptcy Tribunal (SBT) and the Takaful Tribunal (TT).

Chapter 42

Shari'ah-Based Financial Intermediation 834

Abdulazeem Abozaid, Qatar Foundation, Qatar

Financial intermediation is the core of the banking business, as its role is to mediate between the owners of surplus funds and those in need of finance, sharing the generated profit with the funds' owners. However, financial intermediation does involve some economic risks in terms of concentration of debt in financial institutions and the possibility of the inability of financed clients to repay their debts. When this happens, financial crises are inevitable, as it occurred in 2008. Islamic finance does not differ in this

regard from its traditional counterparts, because the concentration of debts also holds on the concept of Islamic institutional finance, and the possibility of collective default is possible as well. The study treats the issue of financial intermediation and its risks from Maqasidi aspect using home finance as a point of comparison between conventional home finance with Islamic home finance in terms of their economic effects. The study eventually proposes a model for home financing that is free of these cautions.

Chapter 43

Financial Reporting of Islamic Financial Institutions: Comparative Analysis of AAOIFI and IFRS	854
<i>Mezbah Uddin Ahmed, International Shari'ah Research Academy for Islamic Finance (ISRA), Malaysia</i>	

This chapter elucidates the arguments for and against differential approach pertaining to financial reporting amongst Islamic Financial Institutions (IFIs). The chapter has identified additional objectives which the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) aims to achieve in comparison to International Financial Reporting Standards (IFRS). The chapter has also identified the global adoption status for both AAOIFI Financial Accounting Standards (FAS) and IFRS Standards, as well as the difficulties faced in adopting AAOIFI's FAS. This chapter offers illustrative examples of AAOIFI's FAS and IFRS applications to help in providing a much better understanding in terms of similarities and differences in the application of these two sets of standards.

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<i>Norhanim Mat Sari, Putra Business School, Malaysia</i>	

New innovative digital and advanced technologies are transforming the way we access and use existing financial products and services. Fintech is becoming disruptive more and more by latest and advanced technologies such as blockchain, cloud computing, big data analysis, Internet of Things, robo-advisors, and artificial intelligence. This chapter discusses the crucial innovation, structural and institutional development for financial technologies in Islamic Finance. The blockchain proposes a new operational design, where all actors within the capital market can work from common ledgers, with collective datasets in almost real-time, and supporting operations which are more streamlined. The system will also incorporate fraud-detection and compliance enhancements, where applicable. This conceptual chapter also assesses the key features of the AI and blockchain architecture and protocol developments. It identifies areas where AI and blockchain can bring substantial transformational change, while at the same time, identifies some of the major barriers to adoption within the capital markets.

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