

ISLAMIC FINANCE AND SOCIO-ECONOMIC TRANSFORMATION IN ASIA

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Islamic finance has been experiencing a double digit growth rate over a decade now. The system, as an alternative to conventional financial system, promotes ethical investment, entrepreneurship in a profit-and-loss sharing basis, and overall an interest-free financial environment. The benefits of the system have helped attracting a growth in Muslim as well as non-Muslim customers in several jurisdictions. On one hand, the innovation in Islamic microfinance has offered limitless opportunities for disadvantaged group of the society, while on the other hand, *Sukuks* offered long-term investment and financing opportunities to develop physical infrastructure in many economies. The impact of this system has been so profound that the regulators are required to redefine corporate governance, corporate social responsibility and equity market frameworks to make places for *Shari'ah* compliant companies. Asian countries have led this tremendous growth over the last three decades. There are new opportunities for Islamic finance in Central Asia, China and India. This special issue aims at covering these new opportunities in Asia that carry special influence on the socio-economic development across countries and sectors. While choosing contributions for this special issue, from a good number equally competitive papers, apart from quality and contribution we have searched for new ideas in alternative context. We have included manuscripts that have contributed empirically and theoretically with quantitative as well as critical discussions. To start with, stock screening has been the key to *Shari'ah* compliant investment. Habib and Ahmad discussed about AAOIFI's screening criteria to identify *Shari'ah* compliant and non-compliant investment with respect to its benefits and challenges for regulators and investors. The study suggests major changes to AAOIFI's criteria to attract more companies and investors into the *Shari'ah* universe. To investigate the increasing importance of Cash *Waqf*, Shukor et al. investigated the antecedents and consequences of cash *Waqf* use among the Muslims. Cash *Waqf* can be a solid fund for financing short- and long-term cash needs in businesses. Taking samples from Malaysia, this study found that trust in *Awqaf* institutions and religious values are important determinants of cash *Waqf* use. Ajmal et al. looked at an analytical view of the fair pricing of *Bai Salam*, one of the increasingly prominent financing instruments used in Islamic finance. The paper addressed some key issues in valuation of the said contracts in different schools of thoughts. Hanudin bin Amin investigated the popularity of Islamic mortgage financing in East Malaysia. Using the Theory of Reasoned Action, the study reported that attitude towards Islamic mortgage, subjective norms, service quality and perceived costs significantly influenced the choice of Islamic mortgage financing. Investors and regulators alike are interested to know the extent of non-

Shari'ah earnings and activities. Rosman et al. investigated the disclosure of *Shari'ah* non-compliance income by Islamic banks from Malaysia and Bahrain for the years 2013, 2014 and 2015. The study made *Shari'ah* non-compliance income (SNCI) index familiar and reported that banks from both the countries improved their disclosure practices. The study suggested policy way-outs for bankers and authorities for other Islamic financial services offering countries. Being one of the largest Muslim populated countries in the world, Bangladesh could set a better example in Islamic financial development. However, due to number of challenges some basic developments related to legislature and awareness did not take place as yet. To portray the prospect of Islamic financial system in Bangladesh, Nisha and Iqbal gave an analytical overview of the halal ecosystems in Bangladesh. The study will surely start relevant debates in several strategic levels on how to expand halal ecosystems in Bangladesh. Similarly, Abdullah et al. discussed about the differences between conventional and Islamic microfinance activities in Bangladesh and Bhuiyan et al examines the Islamic microfinance impact on sustainable livelihood in Bangladesh. Uddin et al empirically investigates the socio-economic determinants of financial development in Bangladesh – a Muslim majority country. Using GMM model, Uddin et al. reports that corruption significantly negatively impacted financial development. Crowdfunding has been growing as an alternative platform to finance small to medium size investment plans primarily to enhance social value. Abdullah and Oseni looked at viability of equity-based crowdfunding to financially assist SME development in Malaysia. With the expansion of business activities globally, ethical business conduct has become a pre-requisite to stakeholders' satisfaction. However, we knew very less about Islamic view of ethics and its implication to reduce corporate unethical practices. Ahmad Saiful et al. critically discussed the implications of Islamic ethics on the corporate fraud citing anecdotes from Malaysian corporate world. Rashid et. al. examines the dynamics and determinants of liquidity creation in Islamic banks in the GCC countries- a much helpful paper on enterprise risk management in Islamic banks. Wanke, Hassan and Gaviado, by using a series of ratio analysis and using TOPSIS method, examines the relative efficiency of both Islamic and conventional banks in the ASEAN countries. Hassan et al. show that because constrained assets tend to be smaller and skewed in nature, thus violating the normality assumption under the mean-variance frontier, higher moments are required when assessing the performance of constrained investment assets. They find that controlling for skewness risk, by using an unconditional coskewness measure, has the power to improve asset pricing tests by expanding the mean-variance frontier specification. They also show supporting evidence suggesting that Islamic mutual funds perform better than Socially Responsible Investing, which in turn outperform conventional mutual funds.

As it is evident from the papers, the special issue has combined experiences from multi-context and multi-country scenario to explore innovations in Islamic finance around Asia. To point few, Bangladesh is yet to have an idea of a combined halal ecosystems, rest of the world is yet to know the full potential of Islamic microfinance and to learn from Bangladesh experience, the literature on Islamic crowdfunding and socio-economic development in Islamic countries are extremely limited, and studies on an integrated *Shari'ah* screening criteria is yet to appear. We believe the new dimensions that are presented by respected authors in this special issue will help in understanding the contribution of Islamic financial system in the extraordinary socio-economic transformation in Asia.