



Editorial Note

Assalamualaikum WBT. In the name of Allah the Most Compassionate and the Most Merciful. All praises be to Allah SWT for the completion and the release of this Special Issue. Thank you to all who have worked really hard to ensure the success of this Special Issue and heartiest congratulation for that as well. May Allah SWT reward us all, abundantly *InshaaAllah*.

This Special Issue is to honour and commemorate the success of an annual conference and this time it is the 6th ASEAN International Conference on Islamic Finance (AICIF) which was held from 14th-15th November 2018, in Manila, the Philippines. The conference was organized by the Mindanao State University with the IIUM Institute of Islamic Banking and Finance (IIiBF) as the strategic partner. The conference was also supported by the Universitas Islam Sultan Agung (UNISSULA), the Universiti Islam Sultan Sharif Ali (UNISSA), the Universitas Darussalam Gontor (UNIDA), the Universitas Islam Negeri Sunan Kalijaga and STEI Tazkia.

As a continuous effort to ensure the industry to remain dynamic, a consistent assessment and re-evaluation on the current state of the industry is imperative among all the players in the industry including various Islamic banking and finance stakeholders, customers, practitioners, policy-makers. For this concern, people in the academic field are no exception as well. Their expertise in the theoretical and empirical assessment carries equal weight with those in the industry. This is when such conference is needed to gather all thinking hats from each sector to share important input and discuss current challenges and perhaps best practices to deal with any problem that may arise. Aware of the needs, this Special Issue acts as a representative of the conference, presenting the essence of what have been presented and discussed in each sub theme, reaching out to those who seek for updated information regarding the current state of Islamic finance in the region. Undoubtedly, such effort like the conference can act as a platform to enhance and strengthen a strong good rapport among the participating universities in the ASEAN region and share the same concerns as highlighted in this Special Issue.

Strengthening Islamic Finance in South East Asia through Innovation, Collaboration and Research, is the theme mutually agreed upon as to highlight the issues and matters pertaining to the current standing of Islamic finance particularly in the Southeast Asia. Innovation, collaboration and research are indeed the perfect platforms for the Islamic finance industry to stay resilient and competitive, come what may, the industry will remain strong and firm. Aiming at knowledge sharing on the current standing of the industry, the conference was segmented into sub themes which include Corporate Governance, Islamic Banking and Capital Market, Money Payment System & Financial Innovation, Takaful & Risk Management and Islamic Social Finance. Through the sub themes, the conference received many papers of good quality filled with information, knowledge and discussions much needed for the industry to flourish further. Hence, in commemoration of the conference, ten out of the presented papers were selected to represent the essence of the conference in this Special Issue.

Under the first sub theme, **Corporate Governance** the authors Audia Syafa'atur Rahman and Razali Haron examined *the Effect of Corporate Governance on Islamic Banking Performance: A Maqasid Shari'ah Index Approach on Indonesian Islamic Banks*. The study provides empirical evidence on the *Maqasid al-Shari'ah* performance of Islamic banks in Indonesia for the period from 2012 to 2016. The examination revealed that SSB characteristics and board structures have an essential role in improving the performance of IBs. A smaller SSB size with higher portion of SSB cross membership, less doctorate degree holder and reputable scholar, more members on board of directors, and less independence non-executive directors can enhance the performance of IBs. The authors also suggested that the *Maqasid al-Shari'ah* performance index should be evaluated with appropriate tool as to assess the contribution of IBs to the society.

The second paper under this sub theme is *Financial and Social Performance Impact on Corporate Governance Mediated by Earnings Quality: Evidence from Indonesian Islamic Stocks* authored by Sugiyarti Fatma Laela, Dian Yuni Anggraeni and Rahma Wijayanti. This study examined the impact of CG on earnings quality and earnings quality on firm value, with earnings quality being a mediating variable. Using the Structural Equation Model (SEM)-Partial Least Square (PLS) on 58 firms-years listed in Jakarta Islamic Index (JII) from 2008 to 2015, it is found that CG positively affects firm value. CG also increases earnings quality and earnings quality increases firm value. Hence, earnings quality partially mediates the relationship between CG and firm's value. This study uses the Corporate Governance Performance Index (CGPI) published by IICG (the Indonesian Institute for Corporate Governance) as the indicator of corporate governance quality. Predictability, neutrality, timeliness, and earning smoothness are used as the indicators of earnings quality with Tobin's Q and corporate social performance representing firm value.

For the second theme *Islamic Social Finance/Money Payment System & Financial Innovation* Muhamad Hasif Yahaya and Khaliq Ahmad authored a study on *Factors Affecting the Acceptance of Financial Technology among Asnafs for the Distribution of Zakat in Selangor-A Study Using UTAUT*. Technology-based financial service or Fintech has evolved significantly and its appearance has impacted the Zakat Institution in Malaysia in terms of zakat payment and collection without having to queue at the counter for zakat transaction. Focusing on mobile banking being the technology-based finance service, this study examined factors influencing the *asnafs* acceptance rate in adopting mobile banking for the distribution of zakat using the UTAUT model.

Income Inequality being the selected topic authored by Siti Nur Azizah, Neneng Ela Fauziyyah and Abdul Qoyum under the title *Short-run and Long-run Relationship between Economic Growth, Foreign Direct Investment, Trade Liberalization and Education on Income Inequality: Evidence from Indonesia*. This second paper under this sub theme examined the relationship between economic growth (GDP), Foreign Direct Investment (FDI), trade liberalization and education on income inequality in short-run and long-run for Indonesia over the period 1981-2015. Using the Vector Error Correction Model, this study found that in the long-run, GDP has a positive and significant effect on income inequality supporting the Kuznets hypothesis but a negative effect in the short-run. Both trade and education have negative and significant effect in the long-run. Meanwhile, in short-run, both have different results. Increasing trade will escalate income inequality significantly, while increasing education will decrease income inequality.

The third selected paper under this sub theme is *Portfolio and Default Risk of Islamic Microfinance Institutions* authored by Luqyan Tamanni. The role of Islamic microfinance in alleviating poverty is still debatable despite many literature assuring the significant contribution of Islamic microfinance in this matter. Using OLS regression, the study investigates portfolio and default risk of Islamic Microfinance Institutions (IMFIs) and unexpectedly finds that they are facing relatively lower risks than conventional MFIs despite the challenging working environment and operating in some of the poorest countries in the world with frequent natural disasters or armed conflicts. IMFIs also appear to be less vulnerable despite their clients are from the poorest segment in the society, often with lower educational level, and the nature of Islamic financial products are relatively unknown to most clients. Many of the IMFIs and their clients live in countries considered to be high risk or have histories of political and/or economic instability.

Under the third sub theme: *Islamic Banking and Capital Market* the first paper selected discussed an *Interest-Free Banking and Finance in Brunei Darussalam: Present Realities and Future Prospects* authored by Jibrail Bin Yusuf, Hassan Shakeel Shah, Mohammad Ayaz and Jabal Muhammad Buaben. Focusing on Brunei, pursuing interest-free banking is a governmental project thus this study examines the development of this institution in Brunei highlighting the present experiences, future prospects, and imminent expectations. Even though Islamic banking and finance is still at its infant stage in Brunei it has been successful and holds good prospects due to political cooperation, thus has consequently promoted the essential values of Islam. Nonetheless, the 'call' for economic diversification has some implications as it exposes Brunei's economic system to international interest and, more importantly, empowers the private sector which will inevitably promote interest-based banking and financial practices. This study, therefore, concludes that Islamic banking has been very successful in Brunei but it still remains vulnerable to non-political future challenges subject mainly to the economic fortunes of the petro-dollar.

The second paper, *Potential Development of SRI Sukuk Models for Higher Learning Institutions in Malaysia based on Wakalah and Waqf* which is authored by Engku Rabiah Adawiah Engku Ali, Syed Marwan Mujahid Syed Azman, Nor Razinah Mohd Zain, Rusni Hassan and Salina Kassim discussed the possibility of alternative financing modes for Higher Learning Institution (HLIs) through Socially Responsible Investment (SRI) *sukuk* and Social Impact Bonds (SIBs) as funding for HLIs in Malaysia has become increasingly constrained due to increasing costs and global economic slowdown. By closely referring to critical review of literature, case study analyses and interview sessions with experts, this study recommends two SRI *sukuk* models: firstly, in the situation where the proceeds are used for income-generating activities, *sukuk* based on *wakalah* is proposed; while secondly for non-income generating activities, a cash-*waqf sukuk* with temporary and permanent features is suggested. In term of the structure of the *sukuk*, the returns and repayments of both *sukuk* are dependent on key performance indicators (KPIs) being achieved. In both cases, it is recommended that the *sukuk* be issued by a consortium consisting of a number of different universities in order to lower the cost of issuance and fund management, as well as efficiently utilizing resources. It is also recommended that the *sukuk* is guaranteed by a third party, preferably by the government.

Another paper on *sukuk* has been selected under this sub theme which discussed the *Structural Development of Ijarah Sukuk: An Appraisal* by Auwal Adam Sa'ad. The nature of the *sukuk* structures which relies on the performance of an underlying asset or on a contractual arrangement pertaining to that specific asset makes it an important facility in Islamic finance. Highlighting some important *sukuk* structures, such as *ijarah* for asset acquisition and *sukuk* with a sale and lease-backed structure, this study put forth some important proposals to help overcome the *Shari'ah* issues in *sukuk* structures. *Sukuk* structures involving the combination of sale and lease-backed contracts should involve a third party who enters into the *ijarah* transaction with the investors rather than the originator himself to avoid *Inah Ijariyyah* (*Inah* trick for) in the structure. The *sukuk* structure for asset securitization on the other hand, should not be traded in the secondary market because it involves a sale of debt for debt which is prohibited according to the *Shari'ah* principles. As for the forward lease *sukuk*, *sukuk* holders should wait for the commencement of the project before trading their *sukuk* in the secondary markets. This is to ensure that the *ijarah* property exists before the sale process began.

Macroeconomic Impacts on Sukuk Performance in Indonesia: Co-integration and Vector Error Correction Model Approach is a study authored by Siti Aisiyah Suciningtias, which analyzes the long and short-term effects of macroeconomic variables such as benchmark interest rate, inflation, exchange rate, world gold and oil prices on the performance of *sukuk* in Indonesia for the period from 2014 to 2017 using the VECM. The results revealed that the long-term, change in *sukuk* return in Indonesia is influenced by changes in exchange rates, inflation and changes in world gold prices. While in the short term, performance of *sukuk* is influenced by the previous performance (one and two months), BI rate, exchange rates and world gold prices. Crude oil price has no significant effect on *sukuk* performance both in the long and short term.

As for last sub theme, **Takaful**, one paper is selected to represent the gist of discussion under this sub theme which is *The Dynamics of Malaysian Takaful Market: Challenges and Future Prospects* by Maizaitulaidawati Md Husin. The author highlighted that *takaful*, still requires attention in order to strengthen their position in the industry as well to increase their market share over their conventional counterparts despite the rapid growth of Islamic finance industry worldwide. This study goes on to discuss the *takaful* market in Malaysia, the challenges facing the *takaful* operators in developing the market and the future prospects of *takaful* business in Malaysia. This study is useful as a guideline to revamp strategies in promoting the market as well as in enhancing the understanding on the local *takaful* market.

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Guest Editor

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