

Priority Research Areas

The Islamic Research and Training Institute (IRTI), as the knowledge arm of the Islamic Development Bank (IsDB) Group, leads capacity building efforts through research and publications with the aim to promote innovative solutions for development using the Islamic economics and finance. The Institute follows a rigorous program-based approach on careful assessment of research gaps in the areas that potentially bolster theoretical development, methodological construction, or empirical contributions to policy formulation. It has identified the following themes and sub-themes that form the basis of its research program.

Islamic Finance: Innovation, Development, and Stability

The growth of Islamic finance is dependent upon innovation and its perceived stability-enhancing role. Financial innovation and its impact on financial stability are among the most widely discussed issues in today's finance literature. The focus of research in this area is to understand the contributions various Islamic finance sectors, including banking, capital markets, institutional investors, and insurance, have played in the stability (or instability) of the financial system. The outcome of most research work is policy-oriented whereby policy recommendations are offered to aid the development of the Islamic financial sector in IsDB member countries and Muslim communities in non-member countries.

Research in this area may include:

- *Islamic Banking: Financial Development and Prudential Policy* – This research would focus on issues surrounding financial development and macro-prudential orientation, specifically on issues related to regulatory and supervisory frameworks and the assessment of financial stability. The research would seek to address the gaps in academic and policy literature by providing an understanding of the behavior of the Islamic financial system with respect to specific monetary policies, macro-prudential policies, regulations, and supervision that could be employed to mitigate systemic risks as well as in creating an incentive structure for Islamic finance market players.
- *Product Development* – The focus of this area of research is innovation in product development both for the Islamic finance industry and sovereigns. Examples may include the use of innovative contract structures such as *Istijrar* and *Salam*. To ensure the

application, the research product development should cover the application, *Shariah* compliance and areas of concerns.

- *Risks Management and Stress Testing* – This research would focus on different regulatory (i.e., financial and capital markets), legal, product and financial innovation, *fiqh*, and operational requirements that may dictate a particular method to manage associated risks. This research would provide an in-depth insight into assessing these risks and tools for the Islamic financial system and will attempt to develop a comprehensive “Stress Testing” model to measure ‘risk’ in the Islamic banking sector. It would also supplement the existing work of the Financial Sector Assessment Program for the Islamic Financial Sector (IFSAP) and the development of risk management toolkits for Islamic finance.
- *Islamic capital markets, institutional investors* – The focus of this area would be to prescribe innovative products and solutions to engage and enhance the contribution of investors in Islamic financial products. This may include research on Environment Sustainability and Governance (ESG), impact investing, and climate finance.

A key contributing factor to potential instability is innovation driven by technology. Given the fast-changing developments in the application of technology in finance, the importance of examining the same issues in the context of Islamic finance and economies cannot be overemphasized. Specifically, the application of blockchain technology in developing Islamic financial solutions and in facilitating trade and intermediation through Islamic smart contracts is a dominant theme for research in this area. The following are two major subthemes that merit serious attention from IRTI researchers:

- The impact of digitalization on financial inclusion and stability in IsDB member countries.
- Islamic crowdfunds as alternative sources of financing.

Islamic Finance for Sustainable Development

This is a cutting-edge area of research in Islamic economics and finance. On one side, it aims to explore how sustainable development can be achieved through trade, industrial development, and financial inclusion in the wake of high levels of poverty in IsDB member countries. On the other side, researchers in this area propose Sharī‘ah-compliant interventions based on Islamic social finance principles. There is a need to develop innovative solutions using Islamic social finance

instruments including philanthropic (*zakat*, *sadaqa* and *awqaf*), not-for-profit (*qard*, *kafala*), cooperation-based, and for-profit sectors (Islamic microfinance). Currently, there are several unanswered questions requiring theoretical and empirical research in a concerted and coordinated manner. Possible areas of research include:

- Application and impact of the Islamic social finance sector comprising *zakat* and *waqf* with microfinance serving as a key strategic intervention tool to bring about sustainable and inclusive development leading to poverty alleviation and redistributive justice.
- Developing an inclusive Islamic financial system in IsDB member countries through enabling regulations, enhanced financial literacy, and indigenous institution building at the grass-roots level (e.g. Islamic financial cooperatives, *Baitual Maal wat Tamweels*, *Qard-al-Hasan* funds).
- Mainstreaming Islamic social finance as a critical tool for poverty alleviation (documenting country-wide experiences and case studies of successful experiments that may be replicated elsewhere).

Comprehensive Human Development based on *Maqāṣid al-Sharī‘ah*

There is a growing realization among Islamic economists that *Maqāṣid al-Sharī‘ah* should form the basis of an Islamic economic and financial system. A Maqasid-based approach leads to comprehensive human development as distinct from piecemeal approaches in order to raise income levels - particularly those on lower and medium incomes.

Potential areas of research will include:

- Identifying and understanding the relationship between Sharī‘ah rules and the objectives of the dos and don’ts (Sharī‘ah rules), and mechanisms underlying the translation of these objectives into economic and financial decision-making at the level of individuals, family, business organizations, financial institutions, regulators, government, and society as a whole.
- Measurement of socio-economic development based on *Maqāṣid al-Sharī‘ah*.
- Objectives of financial sector regulation in the light of *Maqāṣid al-Sharī‘ah*.