**Can Islamic Finance be an alternative to social responsibility and ethical investing in Sri Lanka?**

**A Research Proposal**

# Introduction

On an empirical note, Islamic finance or *Sharia-compliant* finance refers to some specific banking activities that exhibits a prominent docility towards the Sharia law and caters the cause of boosting Islamic economics. Apart from the typical modes of finance, investment in ventures or services, which evidently violates the moral Islamic principles, is considered as *haraam* (sinful) and this specific can be posed as the prototypal doctrine of ethical or socially responsible investing (Thiranagama, 2016).

The respective amendments on Banking Act No 30 of 1988 have enabled Sri Lanka to obtain legislation for Islamic investments being one of the few non-Islamic countries to avail that opportunity. After this crucial amendment, several financial sectors facilitated their entry in the Sri Lankan market and successfully identified the sectors where the notion of ethical investing can flourish. What is positive about it is it has been able to emphasize and draw the requisite attention towards the moot human resource needs of Sri Lanka.

The empirical aim of this study is to evaluate the possibilities of Islamic finance to become a potent alternative to promote ethical investing in Sri Lanka.

# Background of Study

Though the moot essence of Islamic banking is to stabilize the underprivileged Islam-infested economics, the moral pursuit of this notion owes a great deal from the adage of one of the gospels of Quran, which allows trading, but prohibits gaining interest from any of those trades. In native Arabic, the requisite usury on all the loans of money is known as *riba* and there exist a prominent dispute about the consensus which conveys the fact that *riba* is equivalent to usury or not. However, this vehement protest against charging a single buck as usury in terms of principle in the paradigm of Islam banking facilitates the birth of ethical or socially responsible investing. Moreover, the prohibitions while investing in the services contradictory to Islamic principles might appear another guise of Islamic regression but the financial groups have presented this as an attempt to pursue a deed from their gospel in order to revive the identity of Islam and to prevent the un-Islamic practices across the globe. However, several financial experts have criticized this attempt simply framing their complaint on the failure of availing the notion of profit and loss sharing and recommending several other feasible modes of ethical finance. On the other hand, several financial institutes across the Gulf and Asia pacific region applauded this attempt as an exodus from the economic domination of the West and return to the trajectory of ‘divine guidance’ (Shah and Hussain, 2014).

Ethical investing usually is an investor-intensive opinion where the investor is allowed to eliminate certain domain as investment designating it as rogue or *sin stocks* in accordance with individual ethical conduct. Ethical investing has been extensively discussed as synonymous to socially responsible investing though they differ in significant quarters. In socially responsible investing, the intent of employment of the fund has been predominantly driven by certain principles in accordance with the guidelines of a certain portfolio whereas ethical investing appreciates the perception and principles of the individual investor. The notion of ethical investment has found its origin in the investment history of America where the Quakers served to oath to restrict investment of funds in slave trades (Shiraj *et al.* 2014). The aspect of political and economical bias is inescapable in this discourse since the individual will agree to invest only if the financial instincts of the recipient industry resonate with his/her own.

In recent past, the head International Monetary Fund (IMF), which is considered to be the agent of global Islamic finance index simulated the fact that the non-Islamic countries also deserve to avail the opportunities offered by Islamic Banking since they consider the notion potent to foster even and complete financial development across the globe. This statement is preceded by the amendments of Banking Act 30 of 1988 facilitated Sri Lanka to be a prospective recipient of the privileges of Islamic Banking since the provincial authority considered it potent to pave risk-sharing attempts and encourage property-backed finance might stimulate the public infrastructure projects and SMEs while addressing the human resource demands (Ekanayake and Azeez, 2015).

The recurring study is supposed to pursue the enquiry the proportion of functionality of Islamic Banking agendas in Sri Lanka against the promised activities of the same.

# Aim & Objectives

As it is briefly posed in the introductory phase of the recurring study, on an elaborative note the intent of this research suite can be classified as;

* To evaluate the vulnerability of success of the Islamic Finance agenda in Sri Lanka
* To identify the domains where the agenda of Islamic Finance can foster and flourish
* To evaluate the scope of ethical finance in the agenda of the Islamic Finance
* To evaluate the scope of socially responsible finance in the agenda of the Islamic Finance
* To evaluate the possibilities of Islamic Banking as an potent alternative of the conventional methods of fund allocation

# Research Question

The moot pursuit of this research suit can be posed as the primary question.

* Can Islamic Finance be an alternative to social responsibility and ethical investing in Sri Lanka?

The secondary questions that might ensure the procurement of the additional enquiries can be posed as;

* Do you consider the principles of Islam banking can be successful in Sri Lanka in terms of ethical investment?
* Do you think the ethical investors have been able identify the domains that requires Islamic Finance?
* Do you consider the activities appear as outperforming in the name of being ethical?
* Is the cumulative scenario after the entry of Islamic Finance resemble with the expected scenario?
* What would be the principles that might justify the potency of Islamic Banking as an alternative?
* How the entry of Islamic banking might restrict the natives of Sri Lanka to invest in sin stocks?

# Data collection & Analysis Techniques

*Primary Data Collection:* The primary data regarding the research suite has been accumulated by observing a interview session in Colombo, the capital of Sri Lanka. Two cohorts have been arranged in this regard and the members are enabled to undergo the metric of questions. The first cohort consists of 15 members nominated among the executive managers of several SMEs and large public infrastructural projects across Colombo and rest of the country. On the other hand, the members of the remaining cohort consist of 15 peoples nominated from the correspondents of several Islamic financial institutes (Muslim Commercial Bank, Amana Investments Ltd etc) and several native financial experts. Each individual opinion has been monitored and analyzed further in order to device the cumulative view. In this regard, the participants have been promised not to divulge the issues discussed over the session to exploit it further except this research suite.

*Secondary Data Collection:* The secondary information regarding this suite of research has been accumulated from the pertinent archive of literature available. Moreover, several specific journals and abstracts of scholarly articles assisted the researcher to acquire the rudiments of the study.

The researcher has employed a qualitative technique in order to analyze the acquired data.

# Possible research outcome

*Takaful* aka Islamic Insurance might have the possibility to acquire prominence in Sri Lanka as the correspondents have vehemently agreed over the fact. Though it can also be possible, the mission of composite interest might hinder due to the emerging hostility of the legal ambience of Sri Lanka (Rauf and Irzath, 2016). Apart from being an unfavorable one for the notion of Islamic insurance, the sheer reluctance of the relevant authority to encourage reforms in the legal system is equally consolidating the obstacle.

On this advent of foreign investment, the perception of Islam banking just as an postulate of religious belief which prevalent among the general mass of Sri Lanka might encourage the government to underestimate the capital needs in some severe sectors.

# Timeline

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| --- | --- | --- | --- | --- | --- | --- | --- |
| Activities during research | 1st Week | 2nd Week | 3rd Week | 4th Week | 5th Week | 6th Week | 7th Week |
| *Selection of research topic* |  |  |  |  |  |  |  |
| *Composition of the literature review* |  |  |  |  |  |  |  |
| *Methodology followed in the research* |  |  |  |  |  |  |  |
| *Collection of primary data for the research* |  |  |  |  |  |  |  |
| *Data analysis and interpretation* |  |  |  |  |  |  |  |
| *Findings* |  |  |  |  |  |  |  |
| *Conclusion and Recommendation for the research study* |  |  |  |  |  |  |  |
| *Final submission of the research report* |  |  |  |  |  |  |  |

**Fig:** Gantt chart

**Source:** Self-generated

# Research Gap

While conducting this research, the representatives of several units of Human Resources can be persuaded to attend the interview, where as it is a foremost sector which literally crave for the attention of Islamic finance in Sri Lanka. In this regard, the opinions of them can be the prototype of several other researches, which this particular suite is unable to fathom. The incoherence of statement and reluctance during confession of the participants of the respective interview session has not been included deliberately in order to remain ethically clean. It is a concrete expectation of the current researcher that might indicate an alternate horizon for further research and that might be able to incorporate the opinions of the Human Resource Sector’s correspondents.

# Conclusion

The likelihood of ethical investment in Sri Lanka is large since it has exhibited a considerable docility towards the Sharia law and earns the requisite legislation to be eligible to avail Islamic financial assistance among a few countries In Asia-Pacific. The significance of the study is embedded in the intent to evaluate the potency of this method of capital allocation as an alternate of the typical one.