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Innovative Governance Framework for Global Islamic Microfinance Institutions

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Abstract

This paper examines the best practices of innovative global Islamic micro finance governance in relations to independence, competency, confidentiality and consistency and shariah compliance issues. An innovative framework to support the Islamic microfinance institutions in discharging its duties in matters relating to Shariah was formulated within the context of the governance of Shariah Islamic microfinance among Islamic microfinance institutions in Malaysia. The governance model supports the robustness of the Grameen model. Initial investigation revealed that specific policies oriented towards the start-up and growth of innovative higher-growth enterprise was lacking. Although these institutions are able to point out a number of good examples of governance initiatives, however these examples generally not the outcome of a cohesive integrated IMFI's policy framework. Thus, there is an urgent need for the researchers to propose and develop innovative framework that examines the current best practices of global Islamic micro finance governance.

Keywords— Global Islamic micro finance, Shariah, Islamic microfinance institutions, Governance; Malaysia

1. INTRODUCTION

The top management of Islamic microfinance institutions (IMFIs) should try its best to enhance governance and institutions' commitment and encourage an innovative business model via creating an appropriate IMFI global atmosphere. In the local perspective, however, less study has examined policy changes that have taken place in IMFIs after adopting standard governance strategies. Furthermore, the governance model and system is criticised for not having a strong enough policy orientation in favour of innovative governance strategies. Governance structure advocates in the Malaysian assert that IMFIs lack specific policies oriented towards the start-up and growth of innovative higher-growth enterprises and that Malaysian will suffer competitive advantage if these are not put into place.

Although IMFIs in Malaysia can point to any number of good examples of governance and initiatives, these are generally not the outcome of a cohesive integrated IMF's policy framework. One might say they have policies for governance, but not for innovative governance. The researchers argue that a 'stand alone' governance policy may be an appropriate approach in an environment that already has a strong culture of Islamic governance.

Ultimately, the researchers propose that alternate framework in favour of an innovative Islamic governance should be considered in the context of a holistic IMFIs policy framework. The outcome of this paper will address issues on general requirement of global context, oversight, accountability and responsibility, independence, competency, confidentiality and consistency and shariah compliance which support measures for the development of nascent entrepreneurs in their pursuit of any manner of business idea. This paper proposes the triangulation method involving qualitative and quantitative investigation among selected IMFIs in Malaysia and in India. The expected outcomes will form new policy, and reliable framework of assessing the innovative global Islamic governance.

2. LITERATURE REVIEW

There has been large-scale growth in Islamic finance and banking in Muslim countries and around the world during the last twenty years (Zaheer & Hassan, 2001).A significant trend in global finance over the last 15 years has been the rapid growth of Islamic banking and finance (IBF), which has gathered momentum to become a significant feature of the financial landscape in the twenty-first century(Pollard & Samers, 2007) " However, a complete Islamic financial system with identifiable instruments and markets is still at an early stage of evolution. Many problems and challenges relating to Islamic instruments, financial markets, and regulation must be addressed and resolved" (Zaheer & Hassan, 2001).

For the last few years the Islamic banking and finance sector is growing at a very fast speed in Muslims countries in comparison to past. According to Global Islamic Finance Report 2012 the size of Islamic banking industry has grown to 1.35 trillion US. $ with an annual growth of 20%. (GIFR, 2012).Presently 430 Islamic Banks financial Institutions and around 191 conventional banks having Islamic banking windows are operating in more than 75 countries. The recent economics and financial crises also attracted western countries towards this unique system which create real economies instead of bubble economies.

It is matter of satisfaction that Islamic financial industry has made land mark achievements in terms of growth and creating awareness generally among the masses of the world and in particular in Muslim population in the last few years. There is no doubt that it has now gain momentum but is still in transitory stage. It is still facing a lot of challenges. "Among the most important of these challenges are prudential regulation and effective supervision, accompanied by proper internal controls, risk management and external audit, and greater transparency" (Chapra & Khan, 2000).

"Islamic Financial institutions (IFIs) all over the world are generally using the similar modes of Islamic finance and products, with minor differences of nomenclature according to their regional, legal and other conditions. The commonly used modes are Murabaha, Ijara, Musharaka, Mudaraba, Diminishing Musharaka, Salam, Istisna, Wakalah and Kafalah etc. There is no difference of opinion among Shariah scholars of the world about permissibility of these modes. However, there are certain differences in application and modus-operandi of the transactions based on some of the above modes in different countries" (State Bank of Pakistan, 2013). There are some basic differences between Islamic Banking and Conventional Banking (Ahmed & Hassan, 2013).

On the basis of said comparison(Table-A), in addition to our faith as a Muslim, we can easily conclude that the Islamic banking and finance is entirely different from conventional banking and finance. There are several dimensions of these differences. Importantly some of these include:

1- Basic Philosophy
2- Operation
3- Governance
4- Laws, Rules, Regulations and Procedures.
5- Accounting
6- Auditing.

And most importantly the bench mark is Shariah approval and compliance. Actually this aspect is directly related to our faith as a Muslim. It is a matter of life and death for a Muslim. The success in this world and hereafter depends on this. The route reason is that "Riba" in all its form is a great sin.

Shariah should be our bench mark for evolving a financial system. Unfortunately, so for the focus of our efforts are to make some how the conventional financial system acceptable through Islamic coating. So there is a need to change our direction. "This situation needs serious consideration of the players in the field and of the Shariah scholars who oversee the new products for Islamic financial Institution. Many conferences and seminars are being held frequently to consider various aspects of Islamic finance. I think it is high time now to find out ways and means to make our products not only compliant with, but also founded on Shariah" (Usmani,2013).

Presently Islamic financial intuitions are trying to follow a set of accounting, auditing, governance, risk management, rules, regulations, procedures, guide lines and standards to make its operations Shariah compliant . Prominently these include the following:

2-1 Issued by the Central Banks/Regulatory Authorities. of a Country.

These are the guide lines which are issued by the central bank and regulatory authority of a Muslim country. For example State Bank of Pakistan (2008) has issued " Guidelines for Shariah Compliance in Islamic Banking Institutions (IBIs)". Which deals with Shariah compliance, Shariah Internal Audit, Investment in shares, Policy for Profit Distribution, Guidelines for Islamic Micro Finance, which deals with Murabaha Facility Agreement, Musawamah Facility Agreement, Lease Agreement, Salam Agreement, Musharaka Investment Agreement, Istisna

Agreement, Agreement for Interest free Loan, Mudaraba Financing Agreement and Syndication Mudaraba Agreement**.** Other documents include Guidelines on Islamic Financing for Agriculture, Islamic Export Refinance Scheme, Guidelines for Islamic Microfinance Business by Financial Institutions, Risk Management Guidelines for Islamic Banking Institutions and Instructions and Guidelines for Shariah compliance. Similarly the Bank Negara Malaysia, the central Bank of Malaysia, has issued 2nd edition of "Shariah Resolutions in Islamic Finance" which deals in all respect of Islamic finance like Ijarah, Istisna, Mudarabah, Musharaka, Qard, Rahn, Tskafull, Financial Derivative Instruments, Islamic Credit Card and Sukuk.

Likewise other Muslims countries have their own monetary and regulatory authorities to deal the business of Islamic finance as in Table -2. (Please refere to Appendix 1 for the summary of features of Islamic banking and supervisory system of IDB Member countries).

2 International Regulating Bodies

In addition to countries own Islamic finance laws making and regulation agencies there exist a few International Institutions who are made responsible by the Islamic countries jointly to make, standards, rules, regulations and procedures for enforcing and regulating Islamic financial services in the Islamic countries.

"The Islamic Financial Services Board (IFSB)**,** which is based at Kuala Lumpur, Malaysia was officially inaugurated on 3rd November 2002 and started operations on 10th March 2003. It serves as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market and insurance. In advancing this mission, the IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with "*Shariah"* principles, and recommend them for adoption. To this end, the work of the IFSB complements that of the Basel Committee on Banking Supervision, International Organization of Securities Commissions and the International Association of Insurance Supervisors. As at December 2012, the 184 members of the IFSB comprise 55 regulatory and supervisory authorities, eight international inter-governmental organizations and 121 market players, professional firms and industry associations operating in 41 jurisdictions" (IFSB)

2.2.1Islamic Financial Service Board (IFSB)

IFSB has so far issued 13 Standards, 5 Guidance Notes and 1 Technical Note (Technical Note on Issues in Strengthening Liquidity Management of Institutions Offering Islamic Financial Services: the Development of Islamic Money Markets). The details are given at Table-5. In addition, IFSB has issued 2 exposure drafts ED-14 and ED-15, namely Standard on Risk Management for Takāful (Islamic Insurance), Undertakings and Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services [Excluding Islamic Insurance (Takāful)] Institutions and Islamic Collective Investment Schemes. The standards mainly relate to risk management and governance issues as applicable to Islamic Financial Institutions.

On the face of it can be said that IFSB provide a strong Shariah frame work in terms of risk management and governance for Islamic financial institutions. However, there is a need to look into the enforcement and compliance aspects of these standards.

2.2.2 Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

The AAOIFI was established on 27th March, 1991 in the State of Bahrain. It has a commendable strength of 200 members from 45 countries. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is responsible for preparing Shari'a, accounting, auditing and governance standards for Islamic financial institutions. According to AAOIFI web site these standards has been adopted in the Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria. The countries like Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and South Africa have issued guidelines based on these standards and pronouncements.

So far AAOIFI has issued 45 Shari'a, 26 accounting , 5 auditing , 7 governance and 2 ethics standards.(Details at Table 6, 7 & 8) These standards are both in Arabic and English. The organization provides a comprehensive Shariah, accounting, auditing and governance frame work for Islamic financial institutions. Ideally the Islamic financial institutions should formulate and adopt the accounting and auditing policies, procedures and practices in lines and

compliance with these standards instead of conventional standards. However, the state of affairs in this respect is different.
There is no doubt that in every Islamic financial institution a mechanism comprise of a Shariah supervisory board/advisor which is supposed to look into the Shariah compliance aspects of banking but they have no direct supervision or control over day to day business transaction. The most important issue here is that the accounts prepared are and reported under IFRS or GAAP or National or a mixed of these standards. This itself negate and in conflict of the philosophy or basis of Shariah and consequently result in a major non-compliance of auditing and Shariah standards as applicable to Islamic banking and finance.

2.3 Institutions Based Supervisory *"Shariah"* Board/Advisor
Every Islamic bank or financial institution has supervisory board or an advisor to guide and supervise the business. It is the most important characteristic of Islamic banks that distinguishes them from conventional banks. A few issues are related to the composition and functioning of such boards. First of all normally the board members either have the knowledge of *'Shariah'* or finance. In rear cases the board members have the complete knowledge of both of these two.
Further as a common issue of corporate governance, such boards may lack independence. "Banks commonly appoint prestigious scholars to their Shariah boards and pay them handsome fees and retainers. This has left the system vulnerable to charges of conflict of interest: the scholars are being paid by the institutions which they are supposed to be supervising impartially (Arabian Gazette, 2011).
In my opinion there is also a structural and organizational issue of such boards which isolate them from the management stream and therefore, they have no control or grip over the operation of the Islamic financial institutions. In this way the Shariah compliance may not be achievable up to 100 percent level which is mandatory as per Islamic teachings. The Shariah Board normally issued Fatawa as a degree to validate an investment or deposit or Islamic finance scheme as Shariah compliant. It is important to note that in such Fatawa normally it is said that " this approval is subject to implementation of the transaction in strict compliance with the above approved structure, documentation and the process as explained to us.
It can be easily reviled from the above discussion that one of the key issue regarding Islamic financial industry is non existence of a standardized fit to all fully compliant legal, governance, regulating, accounting and auditing institutionalized framework llike almost we have in case of conventional banking. This is equally true in case of microfinance being a part of overall Islamic financial industry.
The dedicated judge at the High Court level for Islamic finance matters; a centralised Shariah Advisory Council (SAC) to advise on issues related to Shariah compliance matters pertaining to the Islamic banking and takaful industry; the availability of Islamic finance talents; and the Kuala Lumpur Regional Centre for Arbitration which focused specific capabilities to deal with Islamic contract matters; are some examples and evidences that Malaysia has initiated and adopted Islamic global legal and regulatory best practices. These supporting mechanisms and legal framework enable the enforceability of Shariah based contracts for Islamic finance while providing governance and legal redress for Islamic financial institutions (BNM, 2011).
The Malaysian Islamic banking industry is governed by the Islamic Banking Act 1983, which provides for licensing, regulation and supervision of Islamic banking and financial business to ensure that such businesses are carried on at all times in accordance with Shariah principles. The development of various regulatory guidelines has been instrumental in providing industry consistency and clarity for the operations of Islamic finance in Malaysia (A&F, 2004). In addition, Malaysia's regulatory guidelines have also set the benchmarks for other countries in developing their own Islamic industry. According to SME Annual Report 2010, a comprehensive microfinance institutional framework involving banking institutions, development financial institutions, and credit co-operatives have been identified to provide microfinance to viable micro enterprise(BNM, 2011) allows Bank Simpanan Nasional to provide microfinance; Bank Rakyat to provide microfinance to members of cooperatives; while Agrobank would continue to provide microfinance to micro enterprise in the agriculture and agro-based sector. Majlis Amanah Rakyat (MARA) and Credit Guarantee Corporation (CGC) are some of the pioneers; the Farmers Organization Authority (LPP), Federal Land Development Authority (FELDA) and agro-based cooperative societies had been continuing to provide micro credit for the agriculture sectors.
Several commercial banks and development financial institutions have also initiated microfinance products. This has benefiting numbers to micro enterprises and self-employed individuals from easy, fast and convenient access to

micro financing for their business activities. The move towards eradicating poverty of the rural poor in Malaysia had been receiving an overwhelming response from the hard core poor and low income households and their micro-enterprises(S, 2006). For example, Amanah Ikhtiar Malaysia had a clear direction in providing and giving out benevolent loans to finance income generating activities to the poor households and eventually move out from the poverty group (A, 2003).

The top management of Islamic microfinance institutions (IMFIs) should try its best to enhance governance and institutions' commitment and encourage an innovative business model via creating an appropriate IMFI's global atmosphere. In the local perspective, however, less study has examined policy changes that have taken place in IMFIs after adopting standard governance strategies. (A&F, 2004, C, 1996). Furthermore, the governance model and system is being criticised for not having a strong enough policy orientation in favour of innovative Islamic governance strategies (A, 2004, A, 2003, W, 2006). Governance structure advocates in the Malaysian assert that IMFIs lack specific policies oriented towards the start-up and growth of innovative higher-growth enterprises and that Malaysian will suffer competitive advantage if these are not put into place (A, 2003, A, 1996, R, 2011). Although IMFIs in Malaysia can point to any number of good examples of governance and initiatives, these are generally not the outcome of a cohesive integrated IMF's policy framework (R, 2011, J 2002). One might say they have policies for governance, but not for innovative governance. The researchers argue that a 'stand alone' governance policy may be an appropriate approach in an environment that already has a strong culture of Islamic governance (W, 2006a,W, 2006b, W, 2006c).

The case of the emergence of Islamic microfinance institutions (MFIs) in Malaysia shows that Islamic MFIs governance can have substantially different meanings, goals and manifestations outside the Western and European. How MFIs should begin to adapt to the challenges of the Islamic disciplines and syariah emphasizes appears to be another emerging issues in global Islamic governance, governance education policy and strategy. Top management of MFIs should adopt a supportive Islamic governance policy which can enhance the MFIs organizational learning which in turn influences on Islamic MFIs governance outcomes. The seriousness of management can be reflected in the readiness of the MFIs to create and provide resources and information, to have a proactive and innovative attitude, to have flexible global Islamic governance framework and policies, to constantly assess the environment change towards global Islamic and, to encourage MFIs shariah compliance adherence etc.

The top management of Islamic microfinance institutions (IMFIs) should try its best to enhance governance and institutions' commitment and encourage an innovative business model via creating an appropriate IMFI's global atmosphere. In the local perspective, however, less study has examined policy changes that have taken place in IMFIs after adopting standard governance strategies [4, 5]. Furthermore, the governance model and system is being criticised for not having a strong enough policy orientation in favour of innovative Islamic governance strategies (A, 2004, W, 2006a). Governance structure advocates in the Malaysian assert that IMFIs lack specific policies oriented towards the start-up and growth of innovative higher-growth enterprises and that Malaysian will suffer competitive advantage if these are not put into place [4, 7]. Although IMFIs in Malaysia can point to any number of good examples of governance and initiatives, these are generally not the outcome of a cohesive integrated IMF's policy framework (R, 2011, J, 2002)7. One might say they have policies for governance, but not for innovative governance. The researchers argue that a 'stand alone' governance policy may be an appropriate approach in an environment that already has a strong culture of Islamic governance (W, 2006a, W, 2006b, W2006c).

In assessing the innovative governance framework for global MFIs, the concept of innovative governance (IG) will adapt the literature on Grameen Bank model and Islamic approach of corporate entrepreneurship (BNM, 2011, H, 2005, F, 2007) as a lens through which the expanded mission of IMFIs can be better understood. In this framework, innovative governance refers to the collection of internal governance structure, policies and practices that interact to shape innovative governance agendas within shariah compliance (BNM, 2011, H, 2005,F, 2007).

3. METHODOLOGY

This study will employ the triangulation method involving qualitative and quantitative investigation among IMF institutions in Malaysia. The expected outcomes will firstly form new policy, practice and reliable ways of assessing the innovative governance framework for global Islamic microfinance Institutions. Additionally, ggeneral requirements of the Shariah governance framework (BNM, 2011) will be examined:

Section I - the general requirements of the Shariah governance framework, which describes the essential key

functions or key organisation.
Section II - oversight, accountability & responsibility. This section outlines the level of accountability and responsibility expected of the board of directors, Shariah Committee and management of an IFI.
Section III – independence. This section aims to safeguard the independence of the Shariah Committee in ensuring sound Shariah decision-making and emphasis on the role of the board of directors in recognising the independence of the Shariah Committee.
Section IV – Competency. This section highlights requirements and expected competencies to ensure key functions are capable of implementing Shariah governance.
Section V - Confidentiality & consistency. This section outlines the minimum set of rules that emphasises the importance of observing and preserving confidentiality, and improving the level of consistency in decision-making by the Shariah Committee.
Section VI - Shariah compliance & research functions. This section prescribes the functions of the internal Shariah review, Shariah audit, Shariah risk management and Shariah research.

4. . FINDINGS

Ultimately, the researchers propose that alternate framework in favour of innovative Islamic governance as a target approach should be considered in the context of a holistic IMFIs policy framework. This will address all the other issues, such as general requirement of global context, oversight, accountability and responsibility, independence, competency, confidentiality and consistency and shariah compliance which support measures for the development of nascent entrepreneurs in their pursuit of any manner of business idea (BNM, 2011, IFSB,2006, M, 2002).

This paper proposed the following propositions:

Proposition 1: the higher the level of shariah compliance, the higher the innovative governance.
Proposition 2: Accountability significantly and positively influence innovative governance of Islamic microfinance performance.
Proposition 3: Independence significantly and positively influence innovative governance of Islamic microfinance performance.
Proposition 4: Competence significantly and positively influence innovative governance of Islamic microfinance performance.
Proposition 5: Confidentiality significantly and positively influence innovative governance of Islamic microfinance performance.
Proposition 6: Consistency significantly and positively influence innovative governance of Islamic microfinance performance.

5. CONCLUSION

This paper aims to form the innovation governance model in Islamic microfinance practices as a consequence of serious flaws in the current system based. Theory relating to innovative governance in Islamic micro finance approach appears to be not well-developed and even not fully emphasized. Innovative IMFIs policy framework can be implemented or utilized, so that the benefits from it can be reaped at its best for the successful model and framework. This necessitates the need for an investigation, and given these realizations, it is expected that this paper would help bridge the existing gap. It is imperative for the researchers to examine best practices around the globe and collate adequate information to initiate innovative IMFIs move at that sector. The IMFIs have been selected due to their high engagement in these activities particularly those related small entrepreneur of nascent entrepreneurs in the consumer products, industrial products and services industries. The fit between shariah compliance, entrepreneurship pursue and IMFIs best practices and strategy as strategic elements may have positive impact on organizational and contributes towards the innovative IMFIs development in the country. In assessing the innovative governance framework for global MFIs, the concept of innovative governance (IG) will adapt the literature on Grameen Bank model and Islamic approach of corporate entrepreneurship and Malaysia existing practices as a lens through which the expanded mission of IMFIs can be better understood. In this framework, innovative governance refers to the collection of internal governance structure, policies and practices that interact to shape innovative governance agendas within shariah compliance.

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Please add your biographies here.

Table 1: Differences between Islamic Banking and Conventional Banking

Conventional banking	**Islamic banking**
1. The functions and operating modes of conventional banks are based on man-made principles.	1. The functions and operating modes of Islamic banks are based on the principles of Islamic *Shariah.*
2. The investor is assured of a predetermined rate of interest.	2. In contrast, it promotes risk sharing between provider of capital (investor) and the user of funds (entrepreneur).
3. It aims at maximizing profit without any restriction.	3. It also aims at maximising profit but subject to *Shariah* restrictions.
4. It does not deal with zakah.	4. In the modern Islamic banking system, it has become one of the service-oriented functions of the Islamic banks to collect and distribute zakah.
5. Lending money and getting it back with interest is the fundamental function of the conventional banks.	5. Participation in partnership business is the fundamental function of the Islamic banks.
6. Its scope of activities is narrower when compared with an Islamic bank.	6. Its scope of activities is wider when compared with a conventional bank. It is, in effect, a multi-purpose institution.
7. It can charge additional money (compound rate of interest) in case of defaulters.	7. The Islamic banks have no provision to charge any extra money from the defaulters.
8. In it very often, bank's own interest becomes prominent. It makes no effort to ensure growth with equity.	8. It gives due importance to the public interest. Its ultimate aim is to ensure growth with equity.
9. For interest-based commercial banks, borrowing from the money market is relatively easier.	9. For Islamic banks, it is comparatively difficult to borrow money from the money market.
10. Since income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations.	10. Since it shares profit and loss, Islamic banks pay greater attention to developing project appraisal and evaluations.
11. Conventional banks give greater emphasis on credit-worthiness of the clients.	11. Islamic banks, on the other hand, give greater emphasis on the viability of the projects.
12. The status of a conventional bank, in relation to its clients, is that of creditor and debtors.	12. The status of Islamic bank in relation to its clients is that of partners, investors and trader.
13. A conventional bank has to guarantee all its deposits.	13. Strictly speaking, an Islamic bank cannot guarantee all its deposits.

Source-(Ahmed & Hassan, 2013).

Table 2: Islamic Finance and their Monetary and Regulatory Authorities

Bahrain	Regulated by the Bahrain Monetary Agency (BMA)
Gambia	Regulated by the Central Bank of Gambia(CBG)
Indonesia	Regulated by the Central Bank of Indonesia (Bank Sentral Republik Indonesia –BSRI)
Iran	Regulated by the Central Bank of Iran (Bank Jamhuri Islami Iran)
Jordan	Regulated by the Central Bank of Jordan (CBJ) Separate regulatory bodies for banks and securities firms
Kuwait	Supervised by the Central Bank of Kuwait (CBK)
Qatar	Regulated by the Central Bank of Qatar (CBQ)
Sudan	Regulated by the Central Bank of Sudan (CBS)
Turkey	Regulated by the Central Bank of Turkey (Turkeyi Cumhuriyet Merkez Bankasi –TCMB) Banks and securities firms regulated by separate bodies
UAE	Regulated by the Central Bank of UAE
Yemen	Regulated by the Central Bank of Yemen (CBY)

Appendix 1

Summary of Salient Features of Islamic Banking and SupervisorySystems in Some Idb. Member Countries

Country	**Salient Features of Islamic Banking Supervisory Systems**
Bahrain	Regulated by the Bahrain Monetary Agency (BMA) ♦ BMA regulates both commercial banks and investment banks (securities firms); insurance companies are under separate regulatory authority ♦ Dual banking (Islamic and conventional) banking system; Basel capital requirements and core principles adopted for both groups, ♦ Four Islamic banking groups: a) Islamic commercial banks, b) Islamic investment banks, c) Islamic Offshore banks, and d) Islamic banking windows in conventional banks ♦ Consolidated supervision ♦International Accounting Standards adopted, ♦ Each Islamic bank must have a *Sharī'ah* board ♦ Compliance with AAOIFI standards under active consideration♦ Investment deposits, current accounts and capital allocation for assets must be declared, ♦ Mandatory liquidity management by adopting the standardized
Gambia	Dual system ♦ Separate *Sharī'ah* board required ♦ Compliance with Basel capital requirements and core principles and International Accounting Standards not clear
Indonesia	Regulated by the Central Bank of Indonesia (Bank Sentral Republik Indonesia –BSRI) ♦Separate regulatory bodies for banks and securities firms♦ Separate Islamic banking law does not exist; Islamic (*Sharī'ah*) banking is covered by added section in the banking law (Act No. 10 1998 and Act No. 23 1999)♦ Separate *Sharī'ah* board required ♦ Islamic windows allowed ♦Consolidated supervision♦Basel capital requirements and core principles adopted ♦ International Accounting Standards adopted ♦Major financial transformation in process to strengthen bank capital and solvency ♦ Active *Sharī'ah* bank development strategy in place by themgovernment.
Iran	Regulated by the Central Bank of Iran (Bank Jamhuri Islami Iran) ♦ All banks in the public sector with a plan for minority privatisation ♦ Bank regulation and supervision is strongly effected by monetary as well as fiscal and other government policies ♦ Single (Islamic) banking system under the 1983 Usury Free Banking Law ♦ Modes of finance are defined by this Law ♦ Recent policy orientation towards adopting the Basel capital and supervisory standards and International Accounting Standards ♦No *Sharī'ah* board for individual banks ♦Onsite and offsite supervisory methods and objectives defined and applied ♦ Banks and insurance companies are supervised by different regulatory authorities.

Summary of Salient Features of Islamic Banking and SupervisorySystems in Some Idb. Member Countries (continued)

Country	Salient Features of Islamic Banking Supervisory Systems
Jordan	Regulated by the Central Bank of Jordan (CBJ) ♦Separate regulatory bodies for banks and securities firms♦ Islamic banking law exists ♦ Dual system ♦ Separate *Sharī'ah* board required ♦ Consolidated supervision♦ Basel capital requirements and core principles adopted ♦ International Accounting Standards adopted.
Kuwait	Supervised by the Central Bank of Kuwait (CBK) ♦ CBK regulates both commercial banks and investment banks (securities firms); insurance companies are under separate regulatory authority ♦ Dual banking system ♦ Two Islamic banking groups: a) Islamic commercial banks, and b) Islamic investment banks.Conventional banks not allowed to have Islamic banking windows. ♦ Consolidated supervision ♦ Basel capital requirements and supervisory standards adopted ♦International Accounting Standards adopted ♦ Separate Islamic banking law under active consideration ♦ Separate *Sharī'ah* board for each bank necessary
Malaysia	Regulated by the Central Bank of Malaysia (Bank Nagara Malaysia – BNM) ♦Insurance companies and banks under same regulatory authority; securities firms under separate authority ♦ Private banks ♦ Dual banking system ♦ Islamic windows allowed in conventional banks ♦ Consolidated supervision♦ Basel capital requirements and core principles adopted ♦ International Accounting Standards adopted ♦ CAMELS rating system adopted ♦ Onsite and offsite supervision well defined with clear objectives ♦ Separate *Sharī'ah* boards at institutional level in the BNM and Securities Exchange Commission ♦Islamic money market and liquidity arrangement exists ♦ Ministry of Finance closely associated with the supervision of Islamic banks.
Pakistan	Regulated by the Central Bank of Pakistan (State Bank of Pakistan-SBP) ♦Securities firms, and Insurance Companies are regulated by separate regulatory bodies ♦ Major banks in the Public Sector; bank regulation and supervision effected by government policies ♦ Islamic banking law does not exist ♦*Mudārabah* Companies Law exists ♦*Sharī'ah* board concept does not exist ♦Islamic banks are not identified distinctly ♦ Basel capital requirements and supervisory standards adopted ♦ Bank merger is on cards to strengthen capital ♦Concept of onsite and offsite supervision exists ♦ Major financial transformation is called for by the Supreme Court of Pakistan to introduce Islamic banking and financial system; a Financial Services Transformation Committee has been established by the SBP.

Summary of Salient Features of Islamic Banking and SupervisorySystems in Some Idb. Member Countries (continued)

Country	Salient Features of Islamic Banking Supervisory Systems
Qatar	Regulated by the Central Bank of Qatar (CBQ) ♦ Dual banking and separate regulatory system ♦No separate Islamic banking law exists ♦Islamic banks supervised by special directives of CBQ ♦ Separate *Sharī'ah* boards for banks required ♦ Standardised transparency requirements for Islamic banks exist
Sudan	Regulated by the Central Bank of Sudan (CBS) ♦ Single (Islamic) system ♦Islamic banking law in place♦Separate *Sharī'ah* boards for banks required, also the Central Bank has a *Sharī'ah* Supervisory Board♦ Substantial public sector control; supervision and regulation is effected by other government policies ♦Evolution of financial instruments underway ♦Compliance with the capital adequacy and supervisory oversight standards of the Basel Committee not clear ♦Major bank merger is planned to strengthen bank capital
Turkey	Regulated by the Central Bank of Turkey (Turkeyi Cumhuriyet Merkez Bankasi – TCMB) ♦ Banks and securities firms regulated by separate bodies ♦ Law about Special Finance Houses covers Islamic banks ♦ Dual system; no Islamic windows allowed ♦ Basel Committee capital adequacy requirements and supervisory standards recently introduced ♦ Major financial transformation underway ♦ Onsite and offsite supervision concepts and methods exist
UAE	Regulated by the Central Bank of UAE ♦ Islamic banking law exists ♦ Dual system ♦ Islamic banking windows allowed ♦Separate *Sharī'ah* boards required ♦ Basel Committee capital adequacy requirements and supervisory standards in place ♦ International Accounting Standards in place
Yemen	Regulated by the Central Bank of Yemen (CBY) ♦ Islamic banking law exists ♦ Dual system ♦ Islamic banking windows allowed ♦ Separate *Sharī'ah* board required ♦ Major policies and standards set by the CBY are equally applicable to all banks ♦ Separate supervisory office for Islamic banks inside the CBY under active consideration ♦ Compliance with the Basel standards not clear

Source-(Chpra&Khan, 2000)